THE RELATIONSHIP BETWEEN OWNERSHIP STRUCTURE AND BANK PERFORMANCE: A MALAYSIAN CASE

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ABSTRAK

Kajian ini menganalisis hubungan antara struktur pemilikan dan prestasi bank di Malaysia. Kajian ini adalah terhad kepada Bank Perdagangan Malaysia dalam tahun 2001 hingga 2011. Objektif utama kajian ini adalah untuk mengkaji hubungan antara struktur pemilikan dan prestasi dalam bank komersial di Malaysia.

Kesan kepada prestasi bank menunjukkan bahawa ada kesan tersendiri berdasarkan kepada jenis pemilikan dalam perbankan. Hasil kajian juga menunjukkan bahawa pemilikan asing mempunyai kesan terbesar kepada prestasi bank berbanding dengan struktur pemilikan lain. Pemilikan yang tinggi daripada pemilikan institusi cenderung kepada pengawalan yang besar iaitu memimpin kepada prestasi yang lebih baik kepada bank.

Walau bagaimanapun, hasil kajian menunjukkan bahawa pemilikan dalaman dan pemilikan keluarga akan menyebabkan peningkatan masalah agensi kepada bank. Pemilikan Kerajaan didapati tidak mempunyai sebarang kesan dalam prestasi bank.

ABSTRACT

This study analyzes the relationship between ownership structure and bank performance in Malaysia. The empirical analysis of this study is restricted to Malaysian Commercial Banks during the period of 2001- 2011. The main objective of this study is to examine the relationship between ownership structure and performance in commercial bank in Malaysia.

The results show that different types of ownership have different impact on bank performance. The result also shows that foreign ownership had largest impact to bank performance compared to other types of ownership structure. Higher shares by institutional tend to induce larger monitoring which leads to better performance of the banks.

However, the results indicate that higher insider ownership and family ownership would increase agency problem in the banks. Government ownership is found to have no impact on the banks performance.

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Thank you

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CHAPTER ONE

BACKGROUND OF THE STUDY

1.0 Introduction

This chapter provides a brief discussion on the relationship between ownership structure and bank performance. This chapter starts with explanations on corporate governance and ownership structure and followed by explanations about the relation between bank's ownership structure and performance on section 1.2. Then, it continues with section 1.3 provides the problem statement and briefly explanation from where that problem generated from. Section 1.4 and 1.5 provides the research question and objective of this study. The significant of the study is discussed in section 1.6. Finally, section 1.7 explained the organization of the study.

1.1 Corporate Governance and Ownership Structure

Corporate governance describes a range of issues relating to the ways in which companies may be directed and controlled. It is a system and process for ensuring proper accountability, honesty, and openness in the conduct of an organization's business (Investopedia, 2013). Usually, good corporate governance involves management judgment and is essentially voluntary in nature. However, in the context of the Financial Services and Markets Act 2000, provisions for certain *"corporate governance rules"* are made at Section 890(1). The act relate to the task of implementing, facilitating the implementation of, or handling issues had requested or approved admission to trading of their securities.

Good corporate governance is very important for the growth and survival of Modern Corporation (Karpoff *et al.*, 1996). They show that distant from helping corporations' moderate conflicts of interests and meet legal requirements; good corporate governance makes corporations attractive to wealthy and institutional investors. It also makes a corporation an attractive business alliance partner, which helps the corporation obtain profitable investment opportunities. Corporate governance also increases accountability, reliability, and predictability of decision-making (Bertrand *et al.*, 2002). The standard definition of corporate governance among economists and legal scholars refer to the protection of shareholders interest (Jean, 2001).

Ownership structure is usually seen to be determined by country level corporate governance characteristics such as the development of the stock market and the nature of state intervention and regulation (La Porta *et al.*, 1998). Besides, its affects the scale of a firm's agency costs (Jensen & Meckling, 1976). Ownership structure of an economic unit is explained through two main dimensions. First, the degree of ownership concentration: units may be different because their ownership is more or less isolated. Second, the kind of owners: given the same degree of concentration (Iannotta *et al.*, 2007).

Jensen and Meckling (1976) in their study on the connection between ownership structure and corporate performance divided the company shareholders into internal and external shareholders. Ownership structure is known as the distribution of equity with relation to voting rights, capital and the identity of equity owners (Holderness *et al.*, 1999). Ownership structure served as an important element in the corporate governance because they will affect the managers' performance by influencing the type of incentives receives from the firm.

The classical theory of managerial firm highlighted that the management-controlled firm exhibit different results as compared to owner controlled firm due to the differences in the interest between managers and owners (Williamson, 1985). The main objective of the owners is to maximize the market value of the share of the firms while the managers choose to maximize utility in terms of power, security, status and income. Shleifer and Vishny (1986) noted that outside shareholders would reduced the administrator opportunism, to a large scope to avoid the conflict of interest between managers and shareholders and also to increased the company performance.

Ownership structure is considered as an important factor that affects a firm's health (Zeitun & Tian, 2007). Ownership structure is like the hard core of corporate governance, a firm's *"owners,"* is those persons who share two formal rights: the right to control the firm and the right to appropriate the firm's profits, could be separated and held by different classes of persons (Hansmann, 2000). According to Nora Azureen (2012), bank ownership structure is divided into five types of ownership which are insider, family, government, institution and foreign ownership.

1.2 Bank's Ownership Structure and Performance.

The banking system in Malaysia started in 1959 with the establishment of the Central Bank or Bank Negara Malaysia. Since the early 1960s, the main priority of the Central Bank was to develop a truly Malaysian oriented banking system. This led to expansion of the domestic banking network and reorientation of operation of the foreign banks toward meeting and catering for domestic needs (Mahadzir, 2004). The ownership of the banks can also be broadly divided into dispersed and concentrated ownership based on the amount of shareholdings of the inside and outside shareholders. The forms of concentration take place in terms of large shareholders, takeovers, and large creditors.

The concentrated ownership exhibits superior in monitoring the managers' performance in maximizing the shareholder value. It is believed that the higher concentration or large shareholders resulted in substantial voting control that exert pressure on the management or even to drive out the management through fight or takeover (Shleifer & Vishny, 1986). Hence, large shareholders are manipulated to address the agency problem since they have enough control over the assets of the firm. Besides that, they also served as the sources of external financing for the firm (Shleifer & Vishny, 1997).

Nevertheless, according to Demsetz and Lehn (1985) large shareholders might result in conflict of interest between the firms, employees and managers when they pursued their own interest at the expense of other investors and employees. Hence, it might not serve as the best way to reduce the agency problem and increase firm performance. Furthermore, the performance of the firms also depends on the share owned by the outside shareholders and inside shareholders.

1.3 Problem Statement

Performance evaluation is an important pre-requisite for sustained growth and development of any situation. It is customary in banks to evaluate the pre-determined goals and objectives, with the changing goals and objectives, the criteria of evaluation of banks have undergone changes overtime (Hasan, 2009). Performance analysis of banks can be done in many different ways, depending on the type of analysis and the specific needs of the user. One of them is through the ratio analysis method. Ratio analysis consists of the quantitative and qualitative aspects of measuring the relative financial position of banks among them and among industries (Akkas, 1996).

Thomsen and Pedersen (1998) conclude that ownership categories are functional factors with regards to asymmetric information, transaction cost economies and others variable. Market forces in certain industries will tend to produce an efficient match between company and ownership. The path theory (Bebchuk & Roe, 1999) argues that if a particular ownership mode were associated with inferior financial performance, firms belonging to it would decline, exit the industry or change their ownership category.

The assumption is the prevailing structure may be interpreted as efficient or there is no systematic difference in performance. Apparently, ownership identities are able to influence the governance issues- asymmetric information, agency conflicts and risk. The following section looks at ownership structure and performance with the influence of asymmetric information, agency conflicts and risk perceived. Therefore, it's expecting the different ownership structure to show different degrees of performance.

For example, La Porta *et al.,* (2002) find that higher government ownership of banks associated with slower subsequent financial development and lower economic growth. Barth *et al.,* (2004) discover that government ownership of banks is negatively related to favorable banking outcomes, and positively related with corruption. Micco *et al.,* (2004) determine that in developing countries, state-owned banks have lower profitability, higher costs, higher employment ratios, and poorer asset quality than their domestic counterparts. Claessens *et al.,* (2001) document that foreign banks are more profitable than their domestic counterparts. Demirguc-Kunt and Huizinga (1999) also find that foreign banks have higher margins and profits than domestic banks in developing countries.

Recently, there are abundant of studies on the relationship between ownership structure and bank performance (e.g., Pennathur *et al.,* 2012; Belkhir, 2009; Ianotta *et al.,* 2007; Morck *et al.,* 2005; Alejandro, 2004; Hao *et al.,* & Sathye, 2001; Avkiran, 1997; Zhuang 1999; Williamson, 1985). However, the results on the relationship between ownership structure and bank performance are found to be inconsistent.

Furthermore, most studies were done on developed countries and very limited studies on developing countries such as Malaysia. As developed and developing countries are characterized with different characteristics, the results of the studies may not be applicable to the developing countries such as Malaysia. Realizing this situation, this study tries to examine the relationship between ownership structure and performance of Malaysian banks.

1.4 Research Questions

The study sought to answer the following questions:

a) Does insider ownership affect bank performance?

b) Does family ownership affect bank performance?

c) Does government ownership affect bank performance?

d) Does institutional ownership affect bank performance?

e) Does foreign ownership affect bank performance?

1.5 Research Objectives

The general objective of this study is to examine the relationship between ownership structure and performance of Malaysian banks. The specific objectives of the study are:

a) To examine the impact of insider ownership on bank performance.
b) To investigate the impact of family ownership to bank performance.
c) To analyze the impact of government ownership on bank performance.
d) To examine the impact of institutional ownership on bank performance.
e) To investigate the impact of foreign ownership to bank performance.

1.6 Significant of the Study

The effects of ownership concentrations on banks performance are theoretically complex and empirically ambiguous. This study will contribute to the banking literature on the impact of the different types of ownership structure to performance of Malaysian banks. This study also identified that each types of ownership structure which are insider ownership, family ownership, government ownership, institutional ownership and foreign ownership have their own effect on banks performance in Malaysian Commercial banks. Therefore, this study is expected to extend the boundary of knowledge, specifically in the ownership structure on bank performance literature in Malaysian banks.

This approach allows to measures the dispersion of ownership and also to analyze the influence of different combinations of shareholders on bank performance. It also enables to measure relation for possible combinations among different categories of shareholders. The result from this study will provide insights to the policy maker in formulating new rules on ownership structure of banking system in Malaysia such as the percentages allowed to own by ownership structure. According to Becht *et al.*, (2005), in a gap to improve stock market liquidity and limit the potential violence of minority shareholders some countries' corporate law severely curbs the authority of large shareholders.

1.7 Organization of the Study

The study is organized into five chapters. Chapter One outlines the introduction of the study such as background of the study, problem statement, research questions and research objectives. These chapters also describe the significant of the study.

Chapters Two is about the literature reviews of the study. It is a critical review of the literatures and theories related to ownership structure on bank performance. It is also covers the foundation theory and prior empirical evidences that are related to the scope of the study.

Chapter Three is methodology which describes the methods and techniques used in the study. The chapter begins with explanations on the research framework, research design, and measurements of variables, sources of data and the process of data collection. The chapter presents regression models test that are conducted in order to answer the research questions and objectives of the study.

Chapter four in this study shows empirical results and discussions on the relationship between ownership structure and bank performance. The consistent and differences of the result in comparison with the underpinning theory and prior empirical evidences are highlighted.

Finally, Chapter five is a conclusion according to the research objectives. This chapter highlighted the contributions of the study and also explains limitations that should be noted. Further, suggestions for future research are also presented.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter discusses on the theories and literature for ownership structure and bank performance. It is also discusses about theories and evidences on types on ownership on bank performance from previous studies. Section 2.1 discussed about literature on ownership and bank performance. Section 2.2 explained literature on insider ownership and section 2.3 literature on family ownership. Section 2.4 presents the literature on government ownership and section 2.5 on institutional ownership. Finally, section 2.6 provides the literature on foreign ownership.

2.1 Ownership and Bank Performance

A corporate governance system is the system of monitoring devices, internal and external, specific to each organization, that defines how these mechanisms are set up and how each will accomplish its monitoring role. Corporate governance systems are defined in a variety of contexts. Farinha (2003) defines corporate governance as conflicts of interest between insiders and outsiders over the generation of value by a firm that cannot be resolved effectively by contracting.

It is important to understand that the governance system is specific to each company, and that different ownership structures may result in different structures, cultures, and outcomes based on their unique governance objectives (Berle & Means, 1932). Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every area of management, from action plans and internal controls to performance measurement and corporate disclosure.

A systematic assessment of the evidence relating ownership concentration with the performance of firms suggests a positive and significant correlation, especially if compared with state-owned enterprises (Gordon *et al.*, 2005). Although there are various measures of *"firm performance"* relevant to this issue, most studies of the relationship appear to focus on net profit, the rate of return on invested capital, and cash flow. In effect, *"performance"* is measured by the income generated by a firm and available for distribution as investment, salaries, wages, and dividends among the various claimants to the firm managers, shareholders, and stakeholder.

Performance evaluation is an important pre-requisite for sustained growth and development of any situation on banking development (Hassan, 2005). It is customary in banks to evaluate the pre-determined goals and objectives, with the changing goals and objectives, the criteria of evaluation of banks have undergone changes overtime.

Three dimensions of ownership structure in literature have concerned several studies. Firstly, distribution of ownership and conflict are addressed by Berle and Means (1932), Cubbin and Leech (1983) and Leech and Leahy (1991). The second dimension is largely based on the above isolated structure conflicts and draws on the labor of Jensen and Meckling's (1976), who call for administrative incentives to decrease misalignments between controlling managers and dispersed shareholders. Thirdly, Gugler (2001a), Agrawal and Knoeber (1996), Zeckhauser and Pound (1990) and Shleifer and Vishny (1986) address the issue of large shareholders.

Demsetz (1983) argues that ownership structure is an endogenous outcome balancing the costs (e.g. risk) and benefits (e.g. monitoring) of ownership. The differences of ownership structure between different types of economies simply reveal different costs and benefits of institutional economic structure explanation in each economic system. However, the above mentioned three dimensions have not considered the more complex issues of firm's ownership theory such as owners' identities and objectives, cross holdings and other institutional transaction costs economies issues as raised by Williamson (1985).

The change in ownership structure after financial reform creates new opportunities for the researchers to conduct their valuable studies. Since then a large number of researches have been concentrating on the impact of both foreign and domestic private ownership on bank performance (e.g. Uddin & Suzuki, 2011; Claessens *et al.,* & Hao *et al.,* 2001; Clarke *et al.,* 2000; Demirguc & Huizinga, 1999; Gilbert & Wilson, 1998). Thierno *et al.,* (2005) investigate the impact of changing ownership structure on Data Envelopment Analysis (DEA) grounded bank efficiency on commercial banks from Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, and Thailand during the post Asian crisis. They report that banks with minority domestic private ownership and foreign ownership perform better than state-owned banks and banks with concentrated ownership.

Alejandro *et al.,* (2004) found a positive relationship between ownership and bank performance in developing countries and no relationship in developed or industrialized from developed countries and the rest are from developing countries. Demirguc-Kunt and Huizinga (2000) also agree that in developing countries foreign banks lead the banking sector by obtaining higher spread and profits compared to developed countries.

Few other researches concentrating on a particular country correspond with the ownership and performance findings. More specifically, Gilbert and Wilson (1998) and Hao *et al.,* (2001) reported a positive association between foreign ownership and bank efficiency and a negative association between bank efficiency and state ownership in Korea. Besides, Sathye (2001) and Avkiran (1997) notice superior performance of domestic commercial banks compared to their foreign counterparts in Australia.

De Young and Nolle (1996) find that income efficiency of foreign commercial banks in the US is lower than domestic US banks and Clarke *et al,.* (2000) investigate the effect of foreign bank entry in Argentina and indicate that foreign banks are more capable of generating income compared to domestic banks. Zhuang (1999) identified two essential aspects of corporate ownership structure as concentration and composition. According to him, the degree of ownership concentration in a firm determines how power is spread between its shareholders and managers. When ownership is dispersed, shareholding control tends to be weak because of poor shareholder monitoring.

Ownership structure and board structure in monitoring the management and improving the firm performance has been largely investigated in empirical corporate governance literature (Bhagat & Black, 2002). According to Morck *et al.,* (2005), the differences in ownership structure have two obvious consequences for corporate governance. Main shareholders have both the incentive and the power to control management.

On the other hand, concentrated ownership can create conditions for a new problem, because the interests of controlling and minority shareholders are not united. Therefore, it will be an economic image for minority shareholders to look for interests' protection through broad of directors. Jensen and Meckling (1976), argue that improve the share involvement for insider controllers may decrease agency cost and increase firm performance. However, Holderness and Sheehan (1999) and Himmelberg *et al*., (1999) found concentrated ownership is not associated with better operating performance or higher valuation.

2.2 Insider Ownership

Jensen and Meckling's (1976) showed a framework which explained that the value of a firm is depends on the fraction of shares held by insiders (i.e. managers). When managers own an important portion of shares, they have the incentive to adopt financial policies that benefit themselves at the expense of the outside shareholders; this misalignment of interest narrows down as the portion of shares owned by managers' increases. This convergence of interest hypothesis predicts a positive relationship between the proportion of shares owned by insiders and the value of the firm.

Smith and Stulz (1985) showed that entrenchment effects exist as insider ownership increases, insider become increasingly cost averse and pursue hedging. This is because insiders may not hold well-diversified portfolios and therefore have incentives to reduce cost of the firms return. Banks whose managers hold a relatively large proportion of the banks stocks have incentives take higher problem than banks whose managers hold a relatively small proportion of the banks stocks (Saunders *et al.,* 1990).

Belkhir (2009) found statistically significant relationships between performance and insider ownership and block holder ownership. The less insider and block holder ownership leading to better performance. Poor firm performance may lead insiders and block holders to reduce their equity ownership in the bank. He examines the interrelations among ownership structure and board characteristics in a sample of 260 banks and Savings-and-Loan Holding Companies (SLHCs) available in the Research Insight database of Standard & Poor's in 2002.

2.3 Family Ownership

The ownership by an important individual (or the members of the founding family) is often associated with the right to control the resources of the firm. According to Demsetz and Lehn (1985), the combining ownership and management is advantageous because the presence of large shareholders who are also the managers mitigates the problem of wealth expropriation by management. Also, such investors have a strong incentive to monitor managers since their wealth is closely associated with the economic performance of the firm (Anderson & Reeb, 2003).

These investors are motivated to maintain a long-term perspective in their firms because they often make firm-specific investment in human capital and view the firm as an asset that needs to be protected to pass on to their descendants (Casson, 1999; Thomsen & Pedersen, 2000). If the largest investor is a member of the founding family, their entrepreneurial ability may be a value-increasing asset, in particular for a young and fast-growing firm (Short, 1994). Morck *et al.,* (1988) hypothesized that founding family members become entrenched at much lower levels of ownership than other managers who acquire an equity stake in the firm.

2.4 Government Ownership

Government ownership is associated with political influence and bureaucratic sectored interest, which is represent at times governance failure, incompetence and corruption and high probability of crisis (Shleifer & Vishny, 1997). Barry *et al.,* (2008) found that government ownership has a significant and positive impact on bank revenue. The government tend to involved in financing projects that would not privately financed and acquires control of banks in order to provided employment, subsidies and other benefits to supporters.

La Porta *et al.,* (2002) found that government ownership of banks is associated with lower subsequent growth of per capita income, and in particular with lower productivity growth rather than slower factor accumulation. This evidence supports *"political"* theories of the effects of government ownership of firms. The data show that such ownership is large and pervasive, and higher in countries with low levels of per capita income, backward financial systems, interventionist and inefficient governments, and poor protection of property rights.

Sensarma (2008) found that public banks had higher profit efficiency than private banks in the pre-deregulation period; the difference was insignificant after deregulation. They argue that before the banking sector reforms, public banks were heavily protected by the government whereas the private banks had to face many restrictions in their operations. This may have led the public banks to be more profit efficient than the private banks. However, Pennathur *et al.,* (2012) found that public sector bank with higher levels of government ownership are significantly less possible to chase non-interest income sources.

2.5 Institutional Ownership

According to Pound's (1988) *"efficient monitoring"* hypothesis, institutional investors possess a greater monitoring capability than individual investors as they are bright with a great deal of power and resources and incur a lower marginal cost when collecting information. They are more likely to be actively involved in a firm's decisions because of the sizable equity stake that they own in the firm (Brickley *et al.*, 1997).

These arguments postulate a positive relationship between institutional ownership and firm performance. Institutional investors may be motivated to sacrifice their responsibility to monitor management in order to carry out business operations with the firm and to work co-operatively with the management; thus inefficient monitoring and related party dealings can have a negative effect on a firm's performance.

2.6 Foreign Ownership

The foreign ownership has a favorable impact on the governance and performance of the firm (Micco *et al.,* 2004); such evidence is more distinct in newly liberalized economies. It is argued that, compared to their domestic investor counterparts, foreign investors are in a better position to exploit imperfections in capital, labor and technological markets, and thereby to influence firm performance positively. Also, companies with foreign corporate ownership are empowered with superior financial, technological and organizational (Khanna & Palepu, 1999).

In addition, according to Dhar (1988) the companies with significant foreign ownership are liable to have strong business links with their overseas investors which give them a competitive advantage in the market. However, the ownership of some foreign investors can be limited to large, well-established companies whose shares are actively traded on the market (Falkenstein, 1996; Kang & Stultz, 1997). Similarly, foreign investors are much more likely to sell the shares of underperforming firms rather than investing time and energy to institute a process of corporate restructuring (Douma *et al.,* 2006).

Choi and Hasan (2005) found a statistically strong positive relationship between foreign ownership and bank performance. Using data of Korean commercial banks over the 1998 to 2002, they found that there is a positive and significant association between the foreign ownership variables with bank performance. They observed that the extent of foreign ownership level had a positive and statistically significant impact on bank performance.

Mang'unyi (2011) explored ownership structure and corporate governance and the effects on performance of firms in Kenya with reference to banks. A semi-structured questionnaire consisting of both closed and open-ended questions was used. The results revealed that foreign-owned banks had slightly better performance than domestically-owned banks. Lensink and Naaborg (2007) found that a rise in foreign ownership negatively affects bank performance. They noted that the effect of foreign ownership on bank performance does not depend on the income per capita of the host countries. The results strongly support banks with a low degree of foreign ownership are more profitable and able to raise more net interest revenues than banks with a high degree of foreign ownership.

Uddin and Suzuki (2011) found that foreign ownership has a statistically significant positive impact on bank performance. Private ownership also have a statistically significant positive impact on income efficiency and return on assets, whereas negative effect on cost efficiency. A bank with private ownership, longer period of operations, excessive diversification activities, and higher amount of unutilized funds tends to become less cost efficient and non-performing loan increases with the rise of diversification activities and periods of operation and decreases with foreign or private ownership.

Micco *et al., (*2004) found that foreign-owned banks located in developing countries tend to be characterized by higher profitability, lower overhead costs, and lower non-performing loans compared to stated-owned banks. Isik (2007) found that publicly owned banks shows the slowest productivity growth and foreign banks shows the fastest. Thus, foreign banks represent the best practice banks in the industry, whose actions are closely followed by domestic banks.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter explains about the methods used to conduct this study. The chapter organized as follows: in section 3.1 discusses about research framework developed based on literature review. Section 3.2 is hypotheses development according to Agency Theory framework. Section 3.3 explains about measurement variables: independent and dependent variables of the study. Section 3.4 present the population and data collection for the study. Finally, section 3.5 discussed about how the data will be analyzed for this study.

3.1 Research Framework

The research framework depicted in Figure 3.1 is developed based on literature review and research problems. The framework focuses on the relationship between ownership structure and bank performance. Banks performance which is measured by return on equity (ROE) is the dependent variable, while ownership structure which includes variables such as insider ownership, family ownership; government ownership, institutional ownership and foreign ownership are the independent variables.

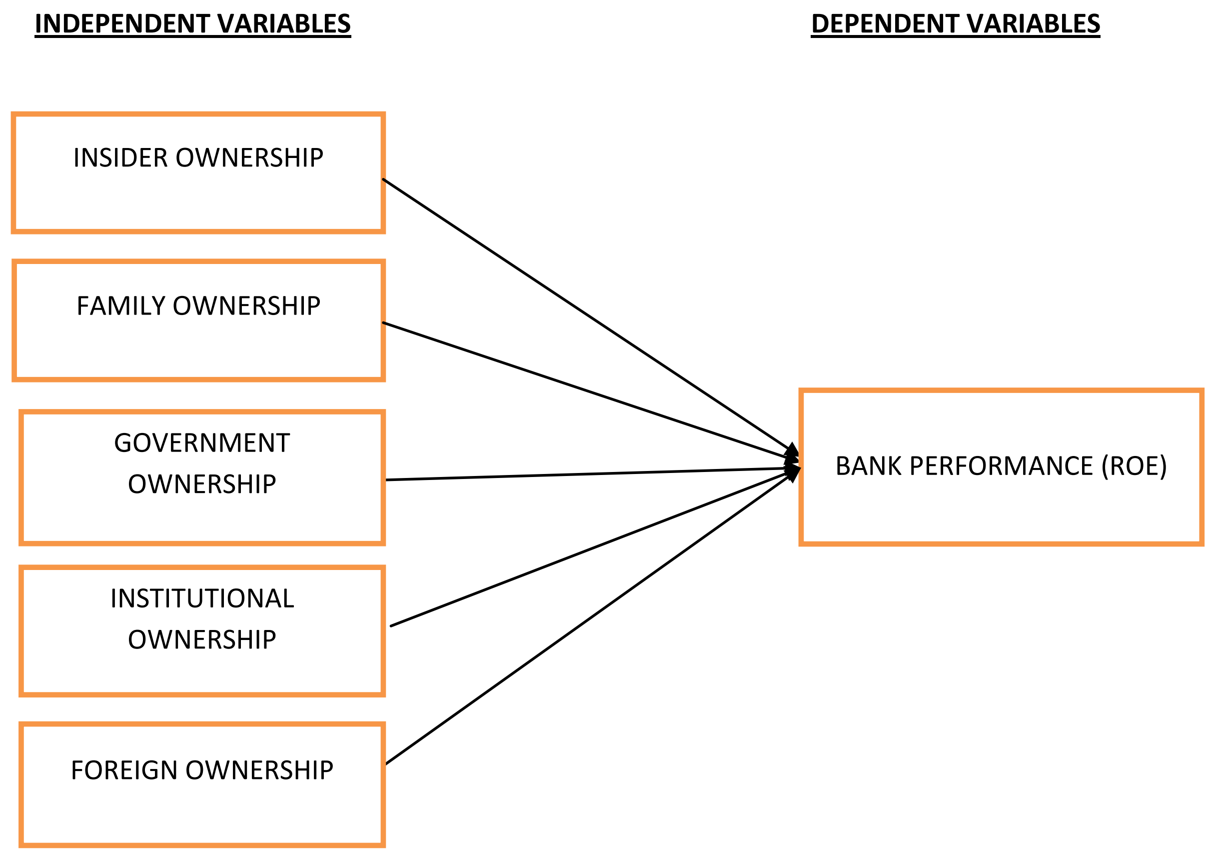

Figure 3.1:
Research Framework

3.2 Hypotheses Development

The hypothesis development of this study is essentially based on Agency Theory framework. According to Agency theory, problems exist in a firm when there are conflict in the accomplishment of goals between principal and agents and when asymmetric information constraints principal from verifying the agent's behavior (Eisenhardt, 1989). In a higher concentrated firm where there are large shareholders, agency problems exist between large shareholders and minority shareholders (Shleifer & Vishny, 1997).

The different goals and objectives of managers and shareholders as suggested by Agency Theory, created agency problem where managers may not act at the best interest of shareholders (Jensen & Meckling, 1976). Less insider ownership held share leading a better performance to the bank (Belkhir, 2009). Managers hold a relatively large proportion of the bank stocks have intensive take higher problem on bank performance. Thus, this study hypothesized the relationship between insider ownership and bank performance is as follows:

Hypothesis 1

H1: There is a negative relationship between insider ownership and bank performance.

Family-owned bank is normally managed by either a family member or a manager who has close ties with the family. The cause of alliance interest between managers and owner of the bank could reduce agency conflict (Gursoy & Aydogan, 2002). In addition, family-owned bank also have high interest in the long term endurance and the reputation of the firm. Large wealth tied up in the firm and a direct impact of their decision and behavior because family-owned banks to behave in the risk reluctant approach. Thus, the second hypothesis of this study is as follows:

Hypothesis 2

H1: There is a positive relationship between family ownership and bank performance.

Government ownership of banks is seen as podium for the government to finance government related projects even though the return from the project is uncertainty. In general, the government's role as a bank owner and regulator will increase agency problem in a bank. Their decision might not only base on a commercial basis but also on development and political agenda. Government acquired control of banks in order to finance projects that would not get privately financed, provide employment, subsidies and others benefits to supporter (La Porta *et al*, 2002). Thus, the third hypothesis of this study is as follows:

Hypothesis 3

H1: There is a negative relationship between government ownership and bank performance.

Institutional investors tend to promote shareholder-driven corporate strategies, which is enlarging their benefits even though it means transferring cost to the creditors (Mikkelson & Ruback, 1991). They are tending to actively involved in a firm's decision in order to perform well on bank performance. Institutional ownership motivated to sacrifice to monitor good management in order to make more profitable to bank. Thus, the forth hypothesis of this study is as follows:

Hypothesis 4

H1: There is a positive relationship between institutional ownership and bank performance.

Foreign banks operating in developing countries tend to be characterized by superior management practices, good management of risks, advance technology, high operational efficiency and large profitability (Williams & Nguyen, 2005). Foreign banks are also connected with high bank capital and better regulation and supervision from their parent company (Falkenstein, 1996). This characteristics and the ability to raise capital or liquid funds from the international markets and supports from their parent bank in term of financial, management, skills and expertise increased the stability of the foreign banks. Thus, the fifth hypothesis of this study is as follows:

Hypothesis 5

H_1: There is a positive relationship between foreign ownership to bank performance.

3.3 Measurement of Variables

The dependent variable of the study is bank performance which is measured by using return on equity (ROE). ROE have been most common used by previous researchers in measuring bank performance as it indicates the real financial conditions of banks (Lin & Zhang, 2007). Return on Equity measures how beneficially a company employs its equity, that is, the money raised from shareholders. A higher ROE means that the company is efficient in using its equity.

Ownership variables of this study comprise of insider, family, government, institutional and foreign ownership. Insider ownership refers to members of the board that are also members of the current management that hold certain percentages of shares in the bank. Insider ownership is measured as total number of shares held by directors of the bank in period t to total number of shares in period t (Prowse, 1997; Belkhir, 2005).

As for family, government, institutional and foreign ownership, each of the ownership categories is defined and measured according to their shareholdings in banks. For example, foreign ownership is defined as shares held by foreigner in period t to total number of shares in period t. The definition of ownership in this study rely on voting rights rather than cash flow rights as this study intends to investigate the existence of controlling shareholders and its effect on bank performance. The voting rights enable shareholders to control the bank by influencing the decisions making in the banks (Nora Azureen, 2012).

The existence of large shareholders affects bank's management and control (Nam, 2004). Large shareholding provides the shareholders with power to control the banks whereby large shareholders are able to determine the directional and strategies of banks and also influences the board decisions. The greater ability to control the banks through bigger voting rights may persuade large shareholders to perform in a self serving behavior by making decision that could maximize their own benefits.

Table 3.1 presents the summary of the variables, the measurement for each variables and previous studies that used the same measurements.

Table 3.1:
Summary of variables and measurements

<table>
<tr><th>VARIABLES</th><th>MEASUREMENTS</th><th>SOURCES</th></tr>
<tr><td>INSIDER</td><td>Total number of shares held by board of directors in period t / total number of shares in period t</td><td>Prowse (1997)
Belkhir (2005)</td></tr>
<tr><td>FAMOWN</td><td>Total number of shares held by family in period t / total number of shares in period t</td><td rowspan="3">Wiwattanakantang (2001)
Gursoy & Aydogan (2002)
Laeven & Levine (2009)
Barry, Lepetit & Tarazi (2010)</td></tr>
<tr><td>GOVOWN</td><td>Total number of shares held by government in period t / total number of shares in period t</td></tr>
<tr><td>INSOWN</td><td>Total number of shares held by institution in period t / total number of shares in period t</td></tr>
<tr><td>FOROWN</td><td>Total number of shares held by foreigner in period t / total number of shares in period t</td><td>Detragiache & Gupta (2006)</td></tr>
<tr><td>PERFORMANCE</td><td>ROE = net income /book value of equity</td><td>Lin & Zhang (2007)</td></tr>
</table>

3.4 Population and Data Collection

The commercial banks in Malaysia as at 2011 consist of 9 domestic banks and 19 foreign banks. However, due to problems of data availability, two of the foreign banks (India International Bank (Malaysia) Berhad and National Bank of Abu Dhabi Malaysia Berhad) had been dropped because both of them are incorporated in Malaysia in early 2010. In order to examine the relationship of variables in the research framework, secondary data comprising of financial ratios extracted from annual reports of 9 domestics commercial banks and 17 foreign commercial banks over the 2001-2011 period are collected. The list of commercial banks used in the study is provided in Appendix I.

The annual reports are obtained from the individual bank, Bank Negara Malaysia library, University Utara Malaysia library and Bursa Malaysia library. A data is constructed based on selected balance sheet and income statement items, director's report and notes to the financial statement. Panel data, which is a combination of time series and cross sectional data, are used in this study. This study covers the entire population of commercial banks in Malaysia. The commercial banks are selected as units of analysis of this study because commercial banks are the most important financial intermediaries in Malaysia and provide the largest range of products and services to banks customers (Shamsudin, 2003). All the banks in this study are locally incorporated and have commenced operations in Malaysia since the year 2001.

Following Nora Azureen (2012) in collecting ownership data, the ultimate owner of the sample banks as stated in their annual report under 'Ultimate Holding Company' titled are examined. The analysis of ultimate ownership provided advance insights into how to corporate risk taking is contingent upon the presence of the ultimate owners' shares and their types. After ultimate owner of the banks has been identified, substantial shareholders in the ultimate owners' company are examined. In determining substantial shareholders, this study examined all shareholders that own at least 5 percent of votes in the company (Gadhoum & Ayadi, 2003). This percentage is ability to the definition of substantial shareholders under Company Act 1995. Demsetz and Lehn (1985) contend that the ownership position of 5 percent is sufficient to influence corporate outcomes.

After the names of substantial shareholders and their percentage of shares are composed, the information is divided into different types of ownership according to the largest holding of shares. The ownership types are divided into insider ownership, family ownership, government ownership, institutional ownership and foreign ownership. Identify the largest shareholders among the substantial shareholders and separating the ownership into categories either as insider ownership, family ownership, government ownership, institutional ownership or foreign ownership (Gursoy & Aydogan, 2002).

Surname or individual name of the largest percentages shareholders is used to identify the family ownership on substantial shareholders list of the banks is examined. A bank that has list government link Company on substantial shareholder is identifying as government ownership. Also the bank is categorized as institutional ownership if the major shareholder in the substantial ownership bank is an institution.

A bank is categorized as foreign ownership if bank shareholders are huge hold by foreign company or bank. Insider ownership is categorized if the bank is owned by member on board is owned the largest shares of bank. The separation into different types of ownership is done with intention to get more vigorous and comprehensive finding and based on the argument that different types of ownership have different influences on bank decision and management.

Table 3.2 present the summary of ownership structure and shareholding of domestic banks in Malaysia.

Table 3.2:
Ownership structure of the domestic banks and shareholding

Banks	Mean	Maximum
Family owned banks	0.4998	0.7740
Ambank	0.4666	0.7700
Hong Leong	0.6526	0.7170
Public Bank	0.3666	0.4680
RHB bank	0.5574	0.6490
Government owned banks	0.4740	1.0000
Affin Bank Berhad	0.4746	0.6210
CIMB Bank Berhad	0.4791	1.0000
Maybank Berhad	0.5679	0.6170
Institutional Owned Banks	0.6077	1.0000
Alliance Bank Berhad	0.9720	1.0000
EON Bank Berhad	0.2434	0.3370

Based on the finding by Nora Azureen (2012), Table 3.2 shows the ownership structure in Malaysia over 1995-2008. The table showed that banking ownership system is highly concentrated ownership structured in Malaysian banks. The subsistence of huge shareholders affects bank's management and control.

Large shareholders provided the shareholders with right to control the bank and ability to verify the strategies and influences board decision making of the banks. Malaysia banks carry on having shareholders with high shareholdings constant after the financial crises and consolidated of banking sector during direct bank merger. The merger exercised of the entire domestic banks did not appear to change the ownership structure of the Malaysian banks.

3.5 Techniques of Data Analysis

In this section, techniques of data analysis used to answer the research question are normality, heteroscedasticity, auto-correlation, regression analysis and panel data test. Panel data test describe the analysis on fixed effect model (FEM), random effect model (REM) and Hausman test.

3.5.1 Normality

Normality test refers to the scale which the distribution of the sample data correspondents to a normal distribution. Normality test is the most fundamental assumption in multivariate analysis. Residual plots and statistical test are used to check the normality test of the data based on Kolmogorov-Smirnov test and Skewness and Kurtosis test (Hair *et al.*, 2006).

3.5.2 Heteroscedasticity

This study used Breusch-Pagan-Godfrey test to detect the existence of heteroscedasticity problem in the model. Gujarati (2003) noted that Breusch-Pagan-Godfrey is appropriate for large sample test and is not sensitive to the assumption that the distribution μi are not normally distributed.

3.5.3 Auto-correlation

Auto-correlation refers to correlation between members of the series of observations ordered in time or space (Gujarati, 2003). In detecting the existing of auto-correlation in the model, Largrange Multiple test is used. Hayashi (2000) and Gujarati (2003) indicate that Largrange Multiple test is the most useful test for detecting auto-correlation problem in small and large sample.

3.5.4 Regression Analysis

The regression analysis for this study is conducted by using GLS (General Least Square) estimation. GLS method is found to be more suitable as it helps to decrease the normality issue in the model. GLS is a transformed model of OLS and it is more appropriate than OLS in the case of non-normal data (Gujarati, 2003). White's General Hetersocedasticity and AR (1) are conducted as to solve heteroscedasticity and auto-correlation problems, while fixed effects model is used for the most appropriate model and it is found from the Hausman test.

3.5.5 Panel Data Test

Panel data test is an analysis to choose the most appropriate panel data model for the study is conducted. According to Gujarati and Greene (2003), two most famous panel data model are random effects model (REM) and fixed effects model (FEM).

The random effects model (REM) to treats intercept among individual differently than the fixed effects model. The approach contend that the firm included as sample are drawing from a much larger universe of such companies and they have a common mean value for the intercept and the individual differences in the intercept values of each company are reflected in the error term (Gujarati, 2003). Thus, estimation random effects model is as follows:

$$\mathbf{Y_{it} = \beta_0+\beta_1\, X_{1it} + \beta_2X_{2it} + \beta_3X_{3it} + \beta_4X_{4it+}\, \beta_5X_{5it} +\acute{\varepsilon}_i+ \mu_{it}}$$

$$\mathbf{= \beta_0+\beta_1 + \beta_2X_{2it} + \beta_3X_{3it} + w_{it}}$$

Where:

$w_{it\,=}\ \acute{\varepsilon}_i+ \mu_{it}$

$\acute{\varepsilon}$ $_=$ cross-sectional or individual specific error component

$\mu_{it\,=}$ the combined time series and cross sectional error component

The fixed effect model (FEM) takes the "individually" of each cross-sectional unit. It lets the intercept to vary for each firm but still assume that the slope coefficients of the general regression equation are as follows:

The general regression estimation:

$$\mathbf{Y_{it} = \beta_1 + \beta_2X_{2it} + \beta_3X_{3it} + \mu_{it}}$$

Where:

i = *i*th cross-sectional unit

t = *t*th time period

Then, Hausman test is conducted sequentially to choose the most appropriate model for this study. The null hypothesis underlying the Hausman test is that fixed effects model and random effects model estimators do not differ substantially. Thus, if the null hypothesis is rejected, the conclusion is that random effects model is not appropriate and fixed effects model should be used.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Introduction

This chapter provides analysis and result on the relationship between ownership structure and bank performance. Section 4.1 indicates descriptive analysis result of the study. Section 4.2 present the normality test and section 4.3 discusses the panel data analysis result of the study. Section 4.4 indicated the discussion on summary of the result ownership structure and bank performance.

4.1 Descriptive Statistics of Variables

Descriptive statistics analysis describes the basic features of the data in the study. The goal of this statistics is simply to summarize a data set. Table 4.1 present the descriptive results of the variables used in the study.

Table 4.1:
Descriptive Statistic Analysis

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
ROE	286	-.79	.86	.2541	.20600	.042
INSDOWN	286	.00	.10	.0052	.01940	.000
FAMOWN	286	.00	1.00	.1047	.26329	.069
GOVOWN	286	.00	.99	.1047	.26091	.068
INSTOWN	286	.00	1.09	.1411	.33379	.111
FOROWN	286	.00	1.00	.5679	.48211	.232
Valid N (listwise)	286					

The ownership result found that on average 56.79 percent (0.5679) of shares in Malaysia Banking industry is controlled by foreign banks (FOROWN). The large foreign ownership in Malaysian banking industry is influenced by the large number of foreign ownership shares in Malaysia banks. The percentage is higher compared to Goldstein and Turner (1996) who reported the average of foreign ownership in Malaysia as 15.9 percent as at 1995.

The results also show that mean of INSTOWN is 0.1411, FAMOWN and GOVOWN is 0.1047 and INSDOWN is 0.0052. The result indicates that the institutional owned the higher ownership of banks with 14.11 percent, followed by family and government owned with the same percentage 10.47 percent and insider ownership with 0.52 percent owned.

4.2 Normality Test

Table 4.2 present the result of Kolmogrove-Smirnov which assess the normality distribution of the data on the study. The result of the normality test is as follows:

Table 4.2 :
Normality Test Result

		Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	INSD	Statistic	df	Sig.	Statistic	df	Sig.
ROE	.0000	.078	266	.000	.965	266	.000
	.0510	.260	2	.			
	.0580	.260	2	.			
	.0700	.260	2	.			
	.0920	.260	2	.			
	.0930	.229	3	.	.981	3	.738

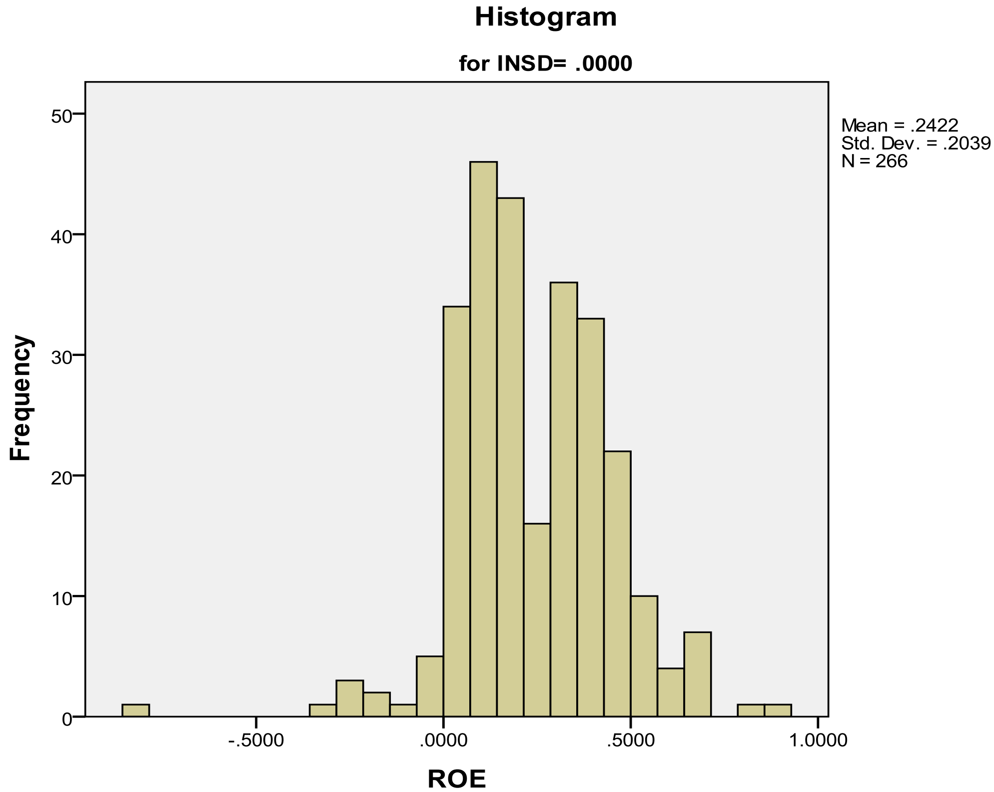

Figure 4.1:
Histogram Insider Ownership and Performance

The result is significant indicated Kolmogorov-Smirnov test with value is 0.00, but the sample is not normal. However, as the sample size of this study is considered as large (N=286), the violation of normality assumption is not become a serious problem. Pallant (2007) indicated that in a large sample size, violation of normality assumption should not cause any major problems because normality assumption will not affect many of the results obtained in multiple regression analysis and generalize ability of the result.

Pallant (2007) and Hair *et al.*, (2006) defined large sample size as more than100 observations, while Tabachnik and Fidell (2007) explain large sample as more than 200 observations. Therefore, the sample size with 286 samples of this study is considered as large based from the definitions of large sample above and the normality assumption is not a serious problem in this study.

4.3 Panel Data Analysis

The regression analysis for this study is conducted by using GLS (General Least Square) estimation. GLS method is found to be more appropriate as it helps to reduce the normality issue in the model. GLS is a transformed model of OLS and it is more appropriate than OLS in the case of non-normal data (Gujarati, 2003). White's General Hetersocedasticity and AR (1) are conducted as to solve heteroscedasticity and auto-correlation problems, while fixed effects model is used for the most appropriate model and it is found from the Hausman test.

Table 4.3 showed the regression result for this study. The result describes based on beta coefficient, significant value and so on.

Table 4.3:
Ownership Structure and Bank Performance

Variable	Beta Coefficient	t-statistics	p-value
INSDOWN	-1.090102	-2.794591	0.0056
FAMOWN	-0.455695	-12.64664	0.0000
GOVOWN	0.036522	0.211182	0.8329
INSTOWN	0.282892	7.676853	0.0000
FOROWN	0.444926	2.517927	0.0125
AR (1)	0.353769	6.787864	0.0000
R-squared	0.765814		
Adjusted R-squared	0.733973		
F-statistic	563.2996		
Sig F-statistic	0.0000		
Durbin-Watson stat	2.026213		
N	286		

According to Table 4.3, the result indicates a relationship between all of the independent variables and ROE. The adjusted R-squared of the study is 73.4 percent variation in ROE. The result also found that INSDOWN, FAMOWN, INSOWN and FOROWN are significant in explaining variations in ROE, while only GOVOWN is found to be insignificant. It is show that insider, family, institution and foreign ownership had influences on bank performance, while government ownership had no impact on bank performance.

Moreover, only INSOWN and FOROWN are had positive sign and INSDOWN and FAMOWN had negative sign. The positive sign of institutional and foreign ownership showed that, if institution and foreign ownership are increased, the performance also increased. It is indicated that the share that banks acquire from institution or foreign owners valuable and it is chance to increased their profit.

The negative sign of insider and family ownership indicated that, if the banks had higher insider or family shares in their ownership structure of the banks, performance may decreased. It is show that, the high managers or family relation hold bank shares, they had right to control the decision making of banks. The decision making unbalance because they may make the result only for individual or family manner and its can influences the bank performance in future.

The table also showed that FOROWN has the highest beta coefficient value with 44.49 percent compared to other independent variables. It’s indicating the strongest contribution in explaining the dependent variable. It is explain that the foreign ownership had higher concentrated ownership structure on Malaysian banks. It is also show the Durbin Watson statistics with 2.0262.

4.4 Discussions of Results

4.4.1 Insider Ownership and Bank Performance

Table 4.3 showed that the insider ownership and bank performance is significant to each other with the figure is below than 0.05 (0.0056). However, insider ownership and bank performance has negative impact to each other (β = -1.0901, t = -2.7946). It is show that the banking system with higher insider ownership would decrease bank performance. The higher shares managers owned the lower achieved in bank performance. Thus, the hypothesis which stated that the relationship between insider ownership and bank performance is negative is accepted.

The result is consistent with Belkhir (2009) who found that less insider and block holder ownership intensive to increased bank performance. If insiders hold higher shares, they can affect decision making of the bank and the decision may only for individual manner. The decision made is unfair to the bank and its can influences the agency problem. When managers owned higher shares, they had incentive to adopt financial policies that benefit themselves.

4.4.2 Family Ownership and Bank Performance

The result on relationship between family ownership and bank performance is significant with 0.000. However, family ownership and bank performance had negative impact to each other (β = -0.4557, t = -12.6466). It is show that the banking system with higher family ownership would decrease bank performance. The higher shares family members owned, the lower is the bank performance. Thus, the hypothesis which stated that the relationship between family ownership and bank performance is positive is rejected.

Family ownership can compose more agency problem on banking industry because the more family hold the shares, its intensive them to make decision based on family manner only and not considered on profit and employees. The result is consistent with Morck *et al.,* (1988) which show that family members become more entrenched at much lower level of ownership who acquires an equity stakeholder. Family ownership can influence the right to control the resources of the firm.

4.4.3 Government Ownership and Bank Performance

This study found that the government ownership has insignificant relationship with bank performance (0.8329). The result indicated that either government ownership owned bank shares increased or decreased, it's did not give influences on bank performances. Thus, the hypothesis which stated that the relationship between government ownership and bank performance is negative is rejected.

Government acquired control of banks in order to finance projects that may not get privately financed. The government acquires control of banks in order to provided employment, subsidies and other benefits to supported, who return the favor in the form of votes, political contribution and bribes only. It is not given any impact on bank performance.

4.4.4 Institutional Ownership and Bank Performance

Table 4.3 showed that the relationship between institutional ownership and banks performance is significant with 0.000. Besides, institutional ownership and bank performance have a positive sign to each other ($\beta = 0.2829$, $t = 7.6769$). It is assumed that the institutional ownership on banks share have better effect on bank performance.

Huge shareholding of institutional ownership might responsible attention behavior; as a managers who are had power to managed shareholders tend to use bank resources to generated better performance on banking businesses. Thus, the hypothesis which stated that the relationship between institutional ownership and bank performance is positive is accepted.

The result is consistent with Pound (1988) who postulates a positive relationship between institutional ownership and firm performance. Institutional investors may be motivated to sacrifice their responsibility to monitor management in order to carry out business operations with the firm and to work co-operatively with the management. Institutional investors possess a superior monitoring ability than individual investors as they are endowed with a great deal of power and resources and incur a lower marginal cost when collecting information.

They are more likely to be actively involved in a firm's decisions because of the sizable equity stake that they own in the banking system. The result also consistent with Barry *et al.,* (2010) who indicate about the institutional owned banks can give higher impact n performance. It is because the higher voting power enables institutional ownership to make decisions and structure the performance on bank to earn more profit.

4.4.5 Foreign Ownership and Bank Performance

The result of this study showed that the relationship between foreign ownership and bank performance is significant with 0.0125. Besides, foreign ownership and bank performance has a positive relationship to each other ($\beta = 0.4449$, $t = 2.5179$). It concludes that with the more foreign owner shares in the bank, the better performance that can they achieved in the future.

Foreign banks operating in developing countries have a tendency to be characterized by superior management practices, advance technology, high operational efficiency and large profitability (Kang & Stultz, 1997). Foreign banks are also associated with high bank capital and better regulation and supervision from their parent company (Dhar, 1988). This ability is to raise capital or liquid funds from the international markets and supports from their parent bank. Thus, the hypothesis which stated that the relationship between foreign ownership and bank performance is positive is accepted.

This result is consistent with Choi and Hasan (2005) who found a statistically strong positive relationship between foreign ownership and bank performance. Evidence indicates that there is a positive and significant association between the foreign ownership variables with bank performance. The result also consistent with Barry *et al.*, (2008) who found that foreign ownership has a significant and positive impact on bank revenue. The banks that owned by foreign investors appear to be higher efficient score on performance during post-crisis period.

Their findings imply that the entry and growing involvement of foreign investors is still beneficial for the efficiency of the banking industry. The results strongly support banks with a low degree of foreign ownership are more profitable and able to raise more net interest revenues than banks with a high degree of foreign ownership. The foreign-owned banks located in developing countries tend to be characterized by higher profitability, lower overhead costs, and lower non-performing loans compared to stated-owned banks. Thus, foreign banks represent the best practice banks in the industry, whose actions are closely followed by domestic banks.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter summarizes according to the research objectives of the study. Section 5.1 highlights the overview of the research process. Section 5.2 summarizes the conclusion of the study. Suggestion for future research is shown in section 5.3.

5.1 Overview of the Research Process

This study evaluates the effect of ownership structure on banks performance in Malaysia. The data of this study was including 26 banks (9 domestics and 17 foreign banks) from Malaysian Case during the period 2001-2011. A sample of eleven years annual reports from 2001 until 2011 gathered for each bank that generated 286 sample of observation.

This study used types of ownership structure (insider ownership, family ownership, government ownership, institutional ownership and foreign ownership) as independent variables and return on equity (ROE) as dependent variable. For this study, descriptive analysis, normality test, heteroscedasticity test, auto-correlation, regression analysis and panel data test used in order to analyze the relationship between dependent variable and independent variable.

5.2 Conclusion

The existence of large shareholders, beneficial owners and managers to reduce agency problems, when the controlling shareholder equity ratio is relatively large, its own interests are closely linked with the interests of the company, the controlling shareholder in the company's decision-making in the big event will give serious consideration to the company interests, and avoid opportunistic mentality. They will unconditionally pursue development of the company and controlling shareholders will reduce the behavior that is bad for the interests of company. It is beneficial to enhance the performance of banks.

In conclusion, the most important objective of this study is to examine the relationship between ownership structure and performance in commercial bank in Malaysia. The regression result on relationship between ownership structure and bank performance discovered that ownership structure has huge impact on performance based return on equity (ROE). The impact on bank performance is according to types of ownership of the banks. The impact of different types of ownership to bank performance shows that there have their own affect on performance of each banking performance.

The result also shows that the foreign ownership had largest impact to bank performance compared to other ownership structure. It is because foreign bank operating in developing countries had a superior management practices, advanced technology, high operational and large profitability. Institutional ownership also had a positive relationship on bank performance. Higher shares from institutional ownership tend to responsible attention behavior that is has power to used bank recourses to generated better performance on banking businesses.

However, insider ownership and family ownership has negative effect on bank performance. Insider and family ownership tend to compose more agency problem on bank performance because more family or insider owned the bank shares, its intensive them to make decision on their own manner only. They are also had incentive to adopt financial policies that advantage for themselves. Government ownership had no impact to bank performance. It is show that if government owned more or less shares of bank, there is no impact on the bank performance.

5.3 Contribution

5.3.1 Body of Knowledge

Ownership structure is an important element in the corporate governance because they will affect the managers' performance by influencing the type of incentives receives from the firm. Ownership structure of an economic unit is explained through two main dimensions. First, the degree of ownership concentration: units may be different because their ownership is more or less isolated. Second, the kind of owners: given the same degree of concentration (Iannotta *et al.,* 2007).

According to Nora Azureen (2012), bank ownership structure is divided into five types of ownership which is insider, family, government, institution and foreign ownership. Belkhir (2009) found statistically significant relationships between performance and insider ownership and block holder ownership. The less insider and block holder ownership leading to better performance. Morck *et* *al.,* (1988) hypothesized that founding family members become entrenched at much lower levels of ownership than other managers who acquire an equity stake in the firm.

La Porta *et al.,* (2002) found that government ownership of banks is associated with lower subsequent growth of per capita income, and in particular with lower productivity growth rather than slower factor accumulation. Brickley *et al.,* (1997) find a positive relationship between institutional ownership and performance. Choi and Hasan (2005) found a statistically strong positive relationship between foreign ownership and bank performance. According to Dhar (1988), the companies with significant foreign ownership are liable to have strong business links with their overseas investors which give them a competitive advantage in the market.

5.3.2 Policy Maker

The result from this study will provide insights to the policy maker in formulating new rules on ownership structure of banking system in Malaysia such as the percentages allowed to own by ownership structure. This approach allows to measures the dispersion of ownership and also to analyze the influence of different combinations of shareholders on bank performance. It also enables to measure relation for possible combinations among different categories of shareholders.

5.3.3 Practitioners

The results from this study show that there have different effects each ownership structure on banks performance in Malaysia. Family ownership have huge impact on bank performance with $\beta = -0.4557$ and $t = -12.6466$. This is show that if family owned more share on family banks; the performance of bank extremely decreases.

For practitioners, this study strongly recommended that the banks that are owned higher by family must have a policy maker on owned system to reduced agency problem caused by family owned. Family ownership can compose more agency problem on banking industry because the more family hold the shares, its intensive them to make decision based on family manner only and not considered on profit and employees. Family ownership can influence the right to control the resources of the firm.

5.4 Limitation

This study has some limitations that would be noted and which may lead to the direction of future research. Firstly, sources of literature on ownership structure and performance in Malaysian banks are very limited. The results that are found are not equivalent with literature that used in this study. Many of literature on this study are from developed countries and the results of this study may not be relevant to the developed countries. Another limitation is because of the time constraint with eight month only. This study must give more time to constructed more information from annual report and have time to compare the annual report every years for each commercial banks in Malaysia.

5.5 Suggestion for Future Research

There are few related areas that can be improved or considered for future research. Malaysian financial structure is made up with other financial institutional such as Islamic banks, corporative banks and investment banks. The future research can suggested the study of ownership structure and bank performance is extended to these areas. The purpose of this study is to collect information on performance of bank by using return on equity only. The future research can suggested the study to found the performance of bank can using other measure and approaches such as return on asset and so on.

Besides, it can give a more comprehensive result of banking institution performance in Malaysia. In general, in order to get more comprehensive analysis of the ownership and banks performance with other banks in developing countries is necessary. Future research can suggested that a cross country study is conducted to compare the result of Malaysian banks with other bank in developing country.

Another point that likes to mention here is that there is always concerns on the issue of endogeneity. Moreover, bank performance has been used as the dependent variable and the ownership structure as independent variables. But in a dynamic context it could be the case that both are endogenous variables. This is a technical problem beyond the scope of the present research. Therefore, in order to carry out a deeper analysis, it had to collect more data by extend the year of explore to reduce the sample limitations in future research.

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