THE DETERMINANTS OF OWNERSHIP STRUCTURE IN MALAYSIA

Ei Yet Chu
Universiti Malaysia Sarawak
eychu@feb.unimas.my

and

Kooi Guan Cheah
Universiti Sains Malaysia
kgcheah@usm.my

1

THE DETERMINANTS OF OWNERSHIP STRUCTURE IN MALAYSIA

ABSTRACT

The paper examines the determinants of ownership structure characteristics of the 147 main board firms listed on the Kuala Lumpur Stock Exchange (KLSE). We apply nature of the firm theory :- asymmetric information, agency conflicts and risk as discussed in Putterman (1993). Ownership concentration is divided into dispersed, dominant minority, and majority controlled firms. In addition we introduce ownership identities- family controlled, conglomerate, others institution, state, foreign and dispersed firms in explaining above variables. We partially prove that ownership structures are able to extract cost and benefits of governance issues. We further provide evidence of the influences of ownership identities on asymmetric information, and risk. In terms of performance, family controlled firms appear to be pursuing maximization of sales and shareholder's value objectives well. Conglomerate firms are found to exploit firm's value but declare high dividend. However, dispersed structure does not seem to conform to maximization of sales, and maximization of shareholders hypotheses.

THE DETERMINANTS OF OWNERSHIP STRUCTURE IN MALAYSIA

INTRODUCTION

The separation of owner (financial provider) from decision maker (manager) creates agency problem between these two entities in the firm. Agency problem arises when shareholders yearn for capital return while the later may misappropriate shareholders' investment. The exploitation can stem from large concentrated structure where large shareholders exploit minority shareholders or from dispersed structure where the management takes advantage of external shareholders (Fama and Jensen, 1983 ; Shleifer and Vishny, 1997). The implications of misalignment structure are far-reaching wide as it influences financial market activeness and firms' performance. First, ownership structures have an effect on the development and performance of capital and debt market, as high concentration structure distracts capital allocation efficacy in an economy. Conversely, a dispersed ownership structure in an economy can promote capital market activeness due to the ease of entry and exit of investors (Maher and Anderson, 1999) ; Ownership and control also influence debt market as managers can adjust the proportion of debt and equity to their best interest (Agrawal and Nagarajan, 1990). These affect firm's cost of capital eventually. Second, ownership structure plays an important role in the governance and performance of firms. It functions as monitoring and governance mechanism for the board and further enhance firm's performance. The proposition of this view comes from, among others Fama and Jensen (1983) and Short et al (2002)

Three dimensions of ownership structure in literature have attracted numerous studies. Firstly, dispersion 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 dispersed structure conflicts and draws on the work of Jensen and Meckling's (1976), who call for managerial incentives to reduce misalignments between controlling managers and dispersed shareholders. Pertaining to this, Morck et al (1988) and Gedajkovic and Shapiro (1998) substantiate Jensen and Meckling's argument by comparing managerial controlled firms and owner controlled firm's performance. Thirdly, Shleifer and Vishny (1986) , Zeckauser and Pound (1990), Agrawal and Knoeber (1996), Gugler (2001a) and others address the issue of large shareholders. This ownership structure issue is profoundly found in non Anglo-Saxon economies as compared to Anglo Saxon's dispersion model. Demsetz (1983) argues theoretically 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 block of economies simply reflect 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) .

Although the issue of equity identity is important, it is often neglected in the literature/economic research. This dimension of ownership structure has its strategic implications for their objectives and the way management exercises power upon firm's economic activities and performance. Some papers in this area are Hansman (1988) , Gugler (2001b), Thomsen and Pedersen (1998; 2000), Gursoy and Aydogan (2002). Apart of share concentration, generally the papers

incorporate owners' objectives and institutional economics arguments to discuss the emergence of corporate ownership structure in different economies. Gugler for instance, review literately the role of banks and state ownership and firm characteristics in European market. Thomsen and Pedersen, on the other hand discuss the formation of ownership structure based on identities against institutional economics arguments for European large economies

Malaysia attempts to liberalise its capital market for further economic development and growth. Generally, Malaysian firms as reported by La Porta, Lopoz and Shleifer (1999) are highly concentrated[i]. By and large, the owners are also usually the directors of the company. The founder family and descendents are also strongly in control of the firm (Claessens, Djankov and Lang, 1998) . With this large shareholder structure, it often allows cross holdings and pyramid structure to exist and control other firms without high financial outlays. This method also allows large shareholders to exploit minority shareholders. In this regard, Claessens, Fan and Lang (1999) found no substantial proof of large shareholders using cross holdings and pyramid structure to exploit minority interest in Malaysia[ii]. On the other hand, Lemmon and Lins (2003) substantiate that exploitation through this structure only occur during shock period. During economic prosperity, the expected amount of expropriation will be relatively small and will be already capitalised into current price. Firms in a small emerging and relatively young market, also indicate strong entrepreneurial characteristics. Enhancing firm's value and market share are their main objectives, where founding family members and descendent retain intact control of the firm. In Malaysia, state[iii] participation in equity ownership represent an important socio-political agenda due to government policy to rationalise the distribution of economic resources among different races. Theoretically, state controlled firms may pursue distribution of residual return to their shareholders. The establishment and listing of foreign subsidiary reflects different corporate agenda as compared to other local firms. In Malaysia, Hui (1981), studies the largest firms ownership and control formation during the 1970s, Ling (1982) discusses ownership structure from the social economic income distribution perspective for the relatively same period. Noor, Said and Redzuan (1999) and Ali (2001) focused on the issues of insider share ownership and performance. Noor et. al. conclude that firms' performance follows a non linear relationship with insider(director) ownership. However, there is a lack of literature that discusses the determinants of ownership structure based on ownership and nature of the firm's theory on the Malaysian economy. The understanding of ownership structure theory is essential as it affects capital market policy planning, and enhances our knowledge of the ways in which firms allocate the sources of external funding.

Roe (1994; 2001) construes that ownership structure follows a path dependency that allows a given ownership structure to reinforce itself by developing a network of complementary institutions. Thomsen and Pedersen (1996) concede that different histories, cultures and paths of economic development better explain the differing structures than economic theories alone. In light of this discourse and the brief explanation of Malaysian ownership structure above, Malaysia market offers a different perspective of corporate governance schemes to be compared. In this paper, we follow the theory of the nature of the firm as discussed in Putterman (1993) by looking at the cost and benefits of firms in dealing with various firm's governance issues:- specific asymmetric information, agency conflicts as well as risks in different types of ownership structure along its ownership concentration. McConaughy, Walker, Henderson et al.(1998) concede that inconclusive result in ownership studies is due to limitation of ownership

concentration which does not address the issues of shareholders' identities. Thus, apart of measuring firm's specific characteristic according to governance issues, we also partition the owners' identities- family, conglomerate affiliation, state, and foreign controlled structure. We are interested in looking at how different ownership structure and their identities are formed given different degree of asymmetric information, agency conflicts and risk perceived.

The paper is structured as follows. Section II explains the ownership structure framework used in this study. Section III reviews the theoretical framework. Section IV discusses the hypotheses and methodology. Section V reports the empirical findings, and Section VI concludes.

OWNERSHIP STRUCTURE FRAMEWORK

The inconclusive studies of ownership structure make it necessary to study the identity of owners and shareholder concentration in a firm. Thomsen and Pedersen (1996) divide ownership concentration into dispersed structure (< 20 percentage), dominant minority structure (20 – 50 percentage) and majority (> 50 percentage). They cite that the study of ownership concentration is meaningful only when we can compare the efficacy of these structures in extracting cost and benefits from a firm's economic function. In addition to that, they also conclude that different countries posit different controlling identities such as government and cooperatives which need to be addressed separately due to their different objectives in firms (Pedersen and Thomsen, 1997; 2000) .

Dispersed structure as highlighted by Berle and Means (1932) has a role in separation and specialisation of risk bearing and management (Fama and Jensen, 1983). Theoretically, this structure stands largely in firms where risk is too much to be concentrated in a single large shareholder. Dominant minority control firms, illustrate an intermediate share concentration where costs and benefits of governance issues are significant, but not overwhelming. Lastly, majority controlled illustrates firms that are less risk averse where a single owner is able to bear higher risk and less degree of separation between owner and decision maker.

Gursoy and Aydogan (2002) separate ownership into family and conglomerate affiliation ownership along with other structure -- state and foreign ownership. They posit that firms in which an individual directly controls or through private limited firms where the owners still operate and control as family controlled firms. In terms of degree of share concentration, this structure is mostly found in dominant minority structure and retains their initial thrust of entrepreneurship despite having raised funds from external market. Therefore, firms in this structure appear to be more risk averse.

A more complex structure is conglomerate affiliation where a public listed firm is controlled by another public listed firm Gursoy and Aydogan (2002). Although some may still be controlled by the initial founder, their objectives have already diverted from family controlled structure whose owners are entrepreneurial in nature. Conglomerate affiliation firms are held to achieve empire building and economic growth through inter-corporation's equity holdings. By doing so, this gives them opportunities to create "tunnelling benefits " which benefit them as a relatively small enables them to control a pyramid group of public listed companies (Morck and Yeung, 2003). Often, this structure adversely affects the firm's value (Claessens et al, 1999)

5

Theoretically, state investment aims to serve the purpose of social welfare economics. They tend to invest in larger size and risky firms due to the availability of larger pool of state funds and undertake the risk which the private sector finds too risky . State ownership has been criticised as weak governance mechanism as public portfolio exacerbates tendencies to free ride in the monitoring of funds management (Putterman, 1993). Wurgler (2000) compares financial market development over 65 countries and concludes that state owned firms are jeopardised by soft budget, poor monitoring, political motives. He also finds a negative relationship between the efficiency of capital allocation with the extent of state ownership. In addition, shareholders expect government-controlled firms to be governed by their own set of laws. Literature mostly suggests that state owned firms are likely to perform sub optimally. Theoretically, however, state controlled firms are expected to correct market failure by acting differently from private firms (Shepherd, 1989) . State owned firms are also perceived to be big and wealthy due to their easier access to economic opportunities and also resources such as credit and capital.

Dunning (1981) states that foreigner ownership emphasises the advantages of localization to serve its market from local rather than export from their home countries. Local establishments allow them to internalise the physically separated units into one single corporation. Economically, foreign subsidiaries reduce transaction costs, and enhance competencies and performances. Foreign controlled firms are usually found in particular specific industries such as industries in which natural endowment is scarce (oil), or where the international brand name has been well established (tobacco and retail trading). Other factors that require wider foreign participation may be due to highly specific assets and technology requirements which locals are unable to establish and operate. From the ownership and control perspective, foreign ownership rationales are aligned with transaction economics arguments (Williamson 1985), which emphasize the importance of economies of scale and scope (Chandler, 1990). Foreign branch is consistent with the hypothesis that multinational companies often internalise vertically integrated activities. Since the main objectives are to serve the home shareholders, this structure basically aims to maximize shareholder value.

THEORETICAL FRAMEWORK

The locus of ownership structure lies between the specialisation of risk bearing, provision of finance and decision-making functions of a firm (Fama and Jensen, 1983). Although these functions as embodied in the Modern Corporation as proposed by Berle and Means (1932), are separable, they are usually found together in the firms of market economies (Putterman, 1993). In this circumstance, moral hazard arises when the cost of risk bearing is inversely proportional to the degree of control the risk bearer exercises over the risks taken. To ameliorate this problem, Jensen and Meckling (1976) advocate the use of debt and equity to alleviate the potential of moral hazard as a result of the separation between owner and control, and to some degree of control which the risk bearer exercises over the risks taken. This proposal has drawn different strands of views and findings in view of different debate in managerial ownership and also large block shareholders.

Agency Conflicts: Leverage

There are two outcomes in debt or equity utilisation. This depends on the degree of control the risk taker has and the juggling of power with the existing manager. For instance, large shareholders may misuse the debt to invest sub optimally in risky projects. Jensen and Meckling (1976), and Harris (1991) view this tendency of debt holding as 'shifting to risky projects' or asset substitution. Therefore, shareholders may welcome the use of debt to invest sub optimally, as the risk faced by equity holders is lesser. More specifically, if an investment yields large returns well above the debt's face value, it is the debtors' resources that are at risk if the investment fails, as the firm defaults on the terms promised. Shareholders have more to gain in view of their limited liability. The loss in value of the equity from the poor investment can be more than offset by the gain in equity captured at the expense of debt holders. This argument is consistent with Berglof's (1990) incomplete contracting framework, that debt levels should be higher in firms with a concentrated ownership structure compared to when ownership is widely held. Similarly Friend and Lang (1988) conclude that a positive relationship exists between debt holdings and large share ownership.

Jensen (1986) postulates the argument that large shareholders may prefer to utilise debt as a disciplinary mechanism. This is due to the fact that debt bonding provides less discretion for management to engage in non-profit maximising behaviour by reducing the amount of free cash flow under their control. Firth (1995) and Berger (1997) substantiate this argument with the positive relationship between debt and large external shareholders in US market. By engaging in debt, firms are obliged to pre-commit or bond themselves to achieve the levels of cash flow necessary to meet the debt repayment. Bonding and debt covenant also reduces management discretion to consume perquisites to the detriment of other shareholders.

However, the relationship in owner manager controlled firms is the opposite. Owner manager controlled firms are more risk averse. Their incentives to engage in asset substitution is likely to be reduced. Correspondingly, debt holdings decrease (Jensen and Meckling, 1976). Friend and Lang (1988) establish empirically the negative relationship between managerial ownership and debt portion. Short et al (2002) corroborate these findings as owner managerial firms have built up their own specific indivisible firm specific human and wealth capital, which they preserve for firms' development and expansion. By virtue of this, owner-managers become risk averse, and reduce the incentives for debt financing, as a higher proportion of debt increases the chances of bankruptcy. Therefore, a family controlled firm with insider ownership particularly is more cautious to avoid moral hazard and tend to engage in lower portion of debt.

Conglomerate affiliation firms characterise a different picture towards leverage. Williamson (1985) argues that the advantages of risk reduction that conglomerate may have in allocating capital could be subject to diminishing returns. The risk reduction benefits debt holders as the risk of bankruptcy has decreased. This, however, work against shareholders as rate of return has declined. Subsequently, the firm may issue more debt and correspondingly retire equity to neutralise the above effect, with consequent tax advantages to the shareholders. This benefit could provide significant incentives for the formation of conglomerate firms in situations where risk reduction is important. Likewise, Jensen and Meckling (1976) note that in industries where the freedom of management to take riskier projects is severely constrained, debt financing will be more intensive.

Less empirical literature reports on the agency cost of debt in state control firms. However, it is conceivable to argue that state controlled firms are able to access cheaper debt such as sourcing funds internally through allocation of funding and subsidies from government. For instance, Suto (2003) reports Malaysian government learns from the Japanese major banking system, and encourages firms to enter relationship with banks. Pertaining to multinational firms, Peyer (2001) argues that multinational firms tend to rely on internal funding from their home head quarter rather than external capital when pursuing international diversification strategies. Similarly, Booth, Aivazian, Demirguc and et. al (2003) concede that multinational firms from developed nations apply internal funds more than firms from developing countries.

Contrary to leverage, dividend is the residual income, which is to be distributed to residual claimants if not utilised for firms' future expansion and growth. Jensen (1986) suggests that in the diffused ownership structure, the manager is reluctant in paying out this 'free cash flow' as extra dividends to their shareholders. Instead, these firms may engage in unprofitable expenditures, particularly upon preferred diversifications and R&D. In contrast to dispersed structure, Anderson and Reeb (2003) note that family and conglomerate affiliation controlled firms are also capable of expropriating wealth through special dividends. Family desires for special dividends can afflict firm's capital expansion plans, leading to poor operating and stock price performance. The state ownership in Malaysia aims to distribute dividend income to the indigenous (Bumiputra) unit holders, as part of the national policy to encourage the indigenous group to participate in the equity market. Multinational companies emphasise distribution of dividend to maximise shareholder's value. Foreign firms also depend on their own internal capital and do not have the conflicts between distribution of cash flow and capital financing.

Asymmetric Information

Fama and Jensen (1983) construe that ownership structure depends on the issue of whether specific information or knowledge can be shared with other dispersed shareholders. They argue that smaller firms are more effective with higher concentration as this ownership structure results in higher degree of association between decision management and decision control. Therefore, this reduces the cost of monitoring. Furthermore, in a smaller firm, the risk sharing benefits foregone are less serious than in a large organisation, as the total risk of net cash flows to be shared is generally smaller in a small organisation. Similarly, family ownership should have a higher concentration structure to reduce the cost of separation of decision management and control, and hence a more effective management. In larger firms, the information asymmetry problem is more serious. This increases risks and cost of monitoring correspondingly. Hence, a dispersed structure is expected to share the cost and risks with others.

Clarke (1987) notes that the emergence of conglomerate affiliation firm helps to reduce information asymmetry. This structure reduces the problems associated with efforts to obtain information from the capital market. This conjecture is consistent with Williamson's (1985) transaction cost economics argument that conglomerate affiliation has special advantages in allocating capital to high value uses compared to the normal capital allocation process. Similarly, the setting up of large multinational branches (by foreign companies) reduces the need to subcontract the activity to host country indigenous firm. This serves to considerably reduce information asymmetry problem in multinational firms (Casson, 1987) .

Risk

The risk preference profile of different ownership structure depends on the degree of risk the owner (as a risk bearer) is willing to bear. The theory of ownership structure cites that dispersed owner with diversified portfolios is least averse to firm's specific risk (Fama 1980). As shareholders have diversified their investment they are more willing to bear a higher firm specific risk.

Two strands of view appear in the relationship between risk and large shareholder. First, owners investing a significant share of their wealth in a single company are more likely to advocate low risk company strategies. Therefore, majority controlled firms tend to be risk averse due to their large personal investment. Commensurate with this view, family controlled firms tend to be more defensive in their strategies too. Second, in contrast to the above, Gursoy and Aydogan (2002) cite that, to the extent a firm can diversify, owners tend to take relatively higher risks than managers. This is especially true in a larger shareholder concentration firm, where owners have the incentive to take higher risks at the expense of creditor, by applying higher debt to fund risky project. Similarly, Demsetz and Lehn (1985) suggest that in a volatile environment, a firm will enjoy better payoff in maintaining tighter control. Hence, a risky environment should give rise to more concentrated ownership structure.

Pertaining to conglomerate firm, Clarke (1987) concludes that conglomerate firms would forgo risky investments, as conglomerate firms will be less able to diversify their risks compared to the market. This is due to the fact that the owner constitutes a large voting right in firm's residual claims, and hence attempts to avoid any risk which it is unable to bear.

Life Cycle and Objectives

Firm's objectives are dependent on their ownership structure and firm's life cycle (Putterman, 1993). Dispersed structure as compared to majority control firm often finds their managers pursuing objective of maximization of sales growth in lieu of maximizing of shareholder's value. In contrast large shareholder controlled firms pursue the maximization of shareholder value, as they own a large portion of equity in it. Morck, Stangeland and Yeung (2000) note that the entrepreneur characteristic is strongly found in majority controlled structure as they have not lost control to other shareholders despite years of public floatation of the companies' shares. In view of this, such firms may pursue maximisation of owner's profit - that is to maximise shareholder value since they stand to gain the most as the largest owners of the firms. On the contrary, a firm which lacks entrepreneurial characteristics would have failed to defend their controlling interest. The initial family/founder controlling stake has been diluted.

However, while entrepreneurial characteristics may wear thin, the controlling family may link up with other firms and enter into a pyramid structure, in the hope of seeking out "tunnelling benefits". While they pursue this objective, managers may act for the controlling family, but not for shareholders. They pursue strategies that are detrimental to public investors. This might lead them to over expand and lead to marginal growth in a country's economy (Morck and Yeung, 2003).

METHODOLOGY AND HYPOTHESES

The sample data are compiled from Kuala Lumpur Stock Exchange (KLSE) Annual Companies Handbook Volume 21 various issues for the year of 1996. We focus on the explanatory variables of firms listed on main board only for 1996, the year before the regional economic crisis, to avoid any unnecessary shock impacts. However, performance may come after a year, to capture this effect, market performance variables are measured using 1997 data with the presumption that 1996's explanatory variables are constant. Banking and finance, and insurance sectors are left out due to its highly regulated characteristics[iv]. Some firms' financial data were not consistently available as at financial year stipulated. Some industries have too few observations to have any meaningful analysis. Thus, we are satisfied with only 147 firms drawn from seven industries- Property (n=31), industry (n=22), plantation (n=21), trading (n=20), consumer (n=15), food (n=12), building materials (n=26). The total sample represents an average of 32% of the main board companies between 1995-2001. Firm's specific variables that determine the formation of ownership structure, and hypotheses for corporate governance issues attributable to the influence of the financial provider and decision management are summarised in Table 1. We employ multinominal logistic regressions to examine the association of each variable with the described structure.

The main advantage of applying multinominal logistic regression in the study of ownership structure is that we can compare the degree of differences of each explanatory variable on each ownership structure. This gives us a fair view on the variables that influence ownership structure greatly.

We use logarithm of firm size, cash flow as well as age of firms as proxies to measure the problem of asymmetric information. In larger-sized firms, the problem of asymmetric information is more serious; this corresponds to the incremental risk that needs to be shared with more shareholders. Hence, dispersed structure is expected. Large firm size also indicates less asset specificity which may be shared between the firm's founder and the widely spread shareholders to share the risk together. In contrast, smaller firm size and net cash flow are associated with large concentrated ownership as the risk sharing benefits and total risk of net cash flow foregone are less serious than in a large organisation. Cash flow is defined as cash flow from operations- profit/(loss) before tax plus depreciation adjusted for share of results of associated and exceptional items. The cash flow data was obtained from Corporate Hand Book published by Singapore Corporate Data Source Pte Ltd. The older firms with large controlling stake in particular large shareholders signify a higher degree of asymmetric information, which would not like to be share with others. In order to reduce the problem of agency cost created by information asymmetry, the establishment of family ownership helps in alleviating the monitoring cost, while conglomerate firms reduce asymmetric information through internalisation of vertical integration activities in large firms. Multinational firms serve the purpose of reducing asymmetric information in large firms across countries.

We hypothesize that larger concentration structure posits a higher leverage by virtue of higher benefits obtained relatively to debt holder as debt portion increases. In contrast, dispersed structure engages in lower debt structure. We conjecture that multinational and state controlled

10

firms prefer internal capital as discussed in literature. The leverage ratio is measured as total debt over total equity.

Majority, foreign and state controlled firms are expected to establish the goals of maximization of shareholder value by returning residual income to shareholders. Those structures also emphasize firm's market and economic performance. Majority controlled firms may be concerned with retaining dividends for personal benefits. In contrast, dispersed structure is presumed to declare less dividend as Jensen (1986) posited. Dividend is measured as gross dividend per share declared and paid out for the financial year.

Pertaining to performance, Demsetz and Lehn (1985) contend that controlling managers in dispersed structure would sacrifice owner profit for increased output. Larger output and sales generally enhance manager's salary compensation. However, diffuseness of ownership render free rider problem to constrain such managers' objective. Conversely, large shareholders are more concerned about profits as they hold a large portion of the residual interest. We employ Tobin's q and price earning ratio (PE) for the measurement of market performance, return of asset (ROA) for accounting performance and logarithm of sales for sales growth. We use Tobin's q calculation as applied by Chung and Pruitt's (1994) Chen and Steiner (2000) and Chen and Ho (2000) . The Tobin's q is computed as (Book value of total assets - book value of equity + market value of equity) divided by book value of total assets.

We employ standard deviation of firm's sales over total asset as business risk and beta as capital market risk to measure different ownership structure perceptions of risk as in Gursoy and Aydogan (2002). We expect that higher concentration structure is receptive to risk averse investment. As their equity wealth is highly associated with the risk they undertake. Hence, majority control structure tends to be more defensive. Capital risk is measured by using beta, obtained from Corporate Hand Book 1999 published by Singapore Corporate Data Source Pte Ltd. It is calculated as natural log of weekly returns of the stock price against the weekly returns of the KLSE-EMAS index. Dispersed structure is regarded as the least averse to capital market risk as dispersed shareholders are presumed to diversify their investment and willing to undertake higher capital market risk. Similarly, they tend to support risky business investment due to their small portion of residual interest in the firms.

We classified firms' structure according to substantial shareholders as reported in Kuala Lumpur Stock Exchange Handbook. The classification was based on substantial shareholding disclosure as required by Section 69D(1), Companies Act 1965. The act stipulates the mandatory disclosure of substantial shareholders who hold more than five percent of equity in any firm irrespective of their direct or indirect control interest. This includes their investment through nominees' institutions and others means. Using substantial shareholders to classify ownership structure gives us an advantage over the use of largest shareholders. In Malaysia, many firms are controlled by certain parties via nominee names to remain anonymous[v]. Hence, using largest shareholders as practiced in other countries will not be very meaningful in Malaysia. We use the first single largest substantial shareholder to classify ownership structure. We find that the first substantial shareholder exerts de facto control in a large number of our sample firms. This is shown by share concentration difference between the first largest substantial shareholder (mean= 38.74%), and the second largest shareholder (mean=19.75%) at the significance level of $p < 0.01$.

The use of 20 percentage as the base line of dispersed structure approximately conforms to La Porta's (Porta, Lopez-de-Silanes, A. Shleifer et al, 1998) argument that Malaysian effective control stood around 18.11%. In addition, Cheang (1996) notes that a 15% to 25% control over voting rights is sufficient for control. The majority control of 50% is in accordance to de jure control in this economy.

In the second step, follow Gursoy and Aydogan (2002), we separate firms with more than 20 percentage of substantial shareholdings with individual and private limited holdings control as family control. Firms which are controlled via other public listed firms, are classified as conglomerate firms. In addition to that, we regard the remaining firms whose identities can't be identified as institutional. These include firms whose largest substantial shareholders are trustee and nominees companies.

[Insert Table 1 about here]

[Insert Table 2 about here]

Table 2 (panel A) presents the descriptive statistic of variables applied in this study, while panel B summarizes the distribution of firms in different type of ownership structure and ownership identities.

Basically Malaysian firms share distribution is highly concentrated in between dominant minority (n= 58, 35.37%) and majority structure (n=32, 21.77%) (table 2 panel B). There were 25 state controlled firms with the means concentration of 42.97% as compared to 22 firms with the means concentration of 11.75% in dispersed structure. Foreign controlled firms constitute 6.12% from this sample with the average share concentration of 50.42%. In terms of identities, there are 57 family controlled and 33 conglomerate affiliation controlled firms respectively.

The model below shows the full model of multinominal logistic analysis with chi-square value in our study.

Ownership structure= Leverage (=4.518) +Dividend (36.25)**+ FirmSize (5.937)+ Cash (17.395)***+ Bus.Risk (13.263)***+ Cap. Risk(9.688)**+ Yrs.Est (2.371)+ Yrs List(3.545) Pseudo-R^2= 55.95%. *$p<0.10$; ** $p<0.05$; *** $p< 0.01$

Clearly, all variables except leverage, firm size, and years of establishment and listing show significant differences between structures at $p< 0.05$ and above. We proceed with the multinominal logistic analysis to analyze the effect of each individual explanatory variables on each ownership structure.

[Insert Table 3 about here]

12

Dispersed structure is used as the baseline (co-efficient=0) for our analysis (Table 3). The table clearly shows that majority and dominant minority control structure mitigate the problem in separation of ownership and control. Dividend declarations in both structures are higher than dispersed structure. This conforms to Jensen's (1986) misappropriation of cash flow by managerial controlled firm's argument. However, we are uncertain whether high dividend declaration in majority and dominant minority is truly in the form of "special personal dividend". State and foreign controlled firms clearly set out to maximize shareholder value as they distribute the highest dividend. The findings are consistent with our hypotheses. The agency conflict between debt and equity remains vague, as there are no significant differences between these five structures. The issues of insider ownership and identity's objectives may have affected this issue. This necessitates us to study the identity of owner in dispersed, dominant and majority structure.

Dispersed structure shows the largest value in terms of firm's size. However, it is not significantly different from other structure, except for state control. It is against the hypothesis as we expected state controlled firms to be associated with higher firm's size[vi]. The result is believed to be caused by the presence of firms owned by state investment arms as well as state economic development corporations, which invest in a firm to get short term return.

Nonetheless, cash flow addresses the issue of asymmetric information clearly. Negative difference in cash flow for majority controlled firms illustrates that the firms have specificity of asset (smaller cash flow) which do not share with other shareholder. Likewise, less cash flow in foreign controlled firm shows the same scenario as internalization of operation reduces the problem of asymmetric information. Both findings conform to our hypotheses. Inversely, state and dispersed structure have higher cash flow, which need to be shared with others to reduce the risk. This also implies that both structures have less firm specificity. All these findings conform to our hypotheses.

Dispersed structure firms appear to be greater risk taker compared to dominant minority control firms. However, as share concentration increases, the risk receptive behavior increases. This is contradictory to our hypothesis that majority controlled firms are risk averse. The risk reception behavior in majority-controlled firms suggests firms may apply other less costly means to achieve their personal objectives. However, this requires further study in terms of firms' identities. By nature of their investment and objectives, state controlled firms in Malaysia appear to be risk averse

Dispersed structure also shows a highest perception towards capital market risk as compared to other structures. Although the difference is not significant as compared to dominant and majority control structure, the significant differences can be observed in state controlled and foreign controlled structures, which illustrates the most risk averse toward capital market risk. These findings are in line with our hypotheses that dispersed structure is more risk favorable due to their dispersed shareholdings.

Finally, despite dispersed structure showing an older age of listing relative to majority structure, the difference is not significant. The older age of listing indicates the controlling stake of entrepreneur has been diluted. Interestingly, state controlled firms appear to control younger

firms. This exemplifies that younger firms are easier to be taken over if the owner loses the thrust to pursue business entrepreneurship. There are no differences in firm's age of listing between dispersed structure and foreign controlled as in our hypotheses. We observe no significant differences between age of establishment between ownership structure as well. This could be due to Malaysian firms are relatively young as compared to developed economies.

Ownership Identities

As some issues are vague, we further separate ownership concentration into owner identities. Table 4 summarizes the differences of the variables according to ownership identities.

[Insert Table 4 about here]

Apparently, leverage ratio is indifferent between different ownership identities (table 4). Family ownership firms pursue higher debt policy, which indicates the possibility of transferring risk that benefits them more. This financing policy does not seem to differ from others, except significantly higher than foreign controlled firms. Interestingly, dispersed structure utilizes as much debt as conglomerate. Firms controlled by institutional investors also experience higher leverage than expected, this reflects the serious problem of monitoring by institutional investors. Nevertheless, indifferent level of leverage during the period is consistent with Polerleano's (1998) argument that Malaysian micro policy has encouraged more credit allocation in the market as corporate debt securities market was actively introduced to the market since the end of 1980s. Similarly, Suto (2003) concedes that corporate bonds issuance was preferred compared to public offering during the period before the crisis of 1997. This inevitably transfers the risk from equity holders to debt holders, which significantly increases the chances of bankruptcy.

Table 4 also reflects that conglomerate firms show the possibility of expropriating wealth through special dividends that conforms to Anderson and Reed's (2003) argument. Foreign and state controlled firms declare more dividend than family controlled firms. Overall, the findings comply with our hypothesis.

Again, firm size, a variable for the problem of asymmetric information does not significantly reflect firm's characteristic. Although it is not significantly different from others, conglomerate's highest size indicate the internalization of the organization structure to reduce the problem of asymmetric information. State ownership firm size is lower than dispersed, conglomerate and foreign structure. This finding is consistent with our finding in Table 3. The insignificant difference between ownership identities can possibly be thus explained: firms in the relatively small Malaysian economy are in the growing stage, where firms are fast expanding. Nevertheless, the use of proxy for firm size is always a debatable issue (Chan, 1985).

Consistent with the finding in table 3, state controlled firms show higher value of cash flow which can be shared with more shareholders. With the exception of conglomerate firms, dispersed structure cash flow is relatively higher than others. The findings are consistent with our hypotheses. On the other hand, align with Willismson's (1985) argument, we find high cash flow in conglomerate firms. This suggests that the structure could well be created to reduce

14

asymmetric information problem. In addition, this structure has special advantages in allocating capital to high value uses compared to the normal capital allocation process.

In contrast to Clarke's (1987) argument, family and conglomerate firms are found to be business risk inclined. This may due to two reasons. First, this conforms to Demsetz and Lehn (1985) suggestion that family and conglomerate firms enjoy better payoff in maintaining tighter control in a risky environment. Secondly, it may be involved in risk-transfer activities – transferring risks to the debt holder as suggested in Jensen and Meckling (1976). Foreign firms and institutional controlled firms illustrate the highest business risk behavior. In contrast to the hypotheses, state controlled and dispersed structure are business risk averse. In terms of capital market risk, as expected, dispersed structure respond positively to market volatility. Conglomerate firms and state controlled firms and institutional structures are less responsive to the capital market risk, consistent with our hypotheses.

Clearly, our study discovers some inconsistencies in the structure of ownership in Malaysia. We also observed the influence of the objectives of ownership identities in dividend distribution as well as information asymmetry. Firm size does not appear to be different with each other since Malaysia is an emerging economy where firms are mostly in the growing stage. However, all clearly reflect that ownership structure does not extract cost and benefits effectively from the governance issues in this study.

Ownership Structure and Performance

Thomsen and Pedersen (1996) 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 and 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 thus, the prevailing structure may be interpreted as efficient or there are no systematic differences in performance. However as shown in the previous discussion, firms in Malaysia do not efficiently extract and distribute resources according to the economic theory of ownership structure. 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. We expect different structure to show different degrees of performance.

We applied log sales as maximization of sales objectives, ROA as accounting performance, PE ratio and Tobin's q value as measurement for market performance. We treat governance issues-agency conflicts, asymmetric information and risk as controlled variables. As dividend and cash are associated with the problem of unequal variances, we exclude these two variables from our analysis. Years effect are also dropped due to insignificant result in the analysis above. We exclude foreign controlled firms in the model to avoid auto-correlation problem.

According to the results presented in table 5, we can assert that ownership classification based on concentration is related to accounting and market based measures of performance. Dispersed

15

structure shows a negative relationship with sales value, which does not conform to Demsetz and Lehn's (1985) and our hypotheses. In additional, it does not pursue maximization of shareholder's value as shown by the negative significant relationship with ROA and Tobin's q value in 1996 and 1997 respectively.

Majority controlled firms are more profound in profit efficiency as compared to others which signify the role of large shareholder in governing companies, whilst negative performance in dispersed structure illustrates the problem of free rider problem in this structure. Nonetheless, the positive relationship of large shareholders does not tell us the actual problem of firms controlled by large shareholders, as many large shareholders controlled firms failed during the crisis.

Majority controlled firms and dominant minority controlled firms do not seem to have influenced firm's value significantly. Similarly in 1997, dispersed and dominant structure suffered significantly during the first period of the crisis. Tobin's q for Majority controlled firms was found to be negative in value, but not significantly. Pertaining to this, majority controlled firms appear to be the only one structure that maintains a positive value for PE ratio in 1996 and 1997. Others structures do not show any significant influences on PE value. Although majority controlled firms show a positive value, we are uncertain which identities could enhance market performance.

Table 6 clearly illustrates that family controlled, conglomerate affiliation, state and institutional controlled firms are less efficient as compared to foreign owned firms. This is shown in the significantly negative ROA results. Family and conglomerate firms may not be that efficient due to consumption of perquisite in the firms (Morck and Yeung, 2003), while state and financial institutions investment structure firms face free ride problem in monitoring firm's performance (Putterman, 1993; Short & Keasey, 1997).

Insignificant result in firm value- Tobin's q 1996 between ownership identities is in accordance with Lemmon and Lins' argument that any misalignment of ownership structure will only shown during crisis as any minor misappropriation will be easily captured into share price during good period. Instead, they conclude that a shock period give good opportunities for firms to expropriate other shareholders. Obviously, conglomerate firms show a significantly negative adverse result in firms' value as compared to the other structures. This indicates the possibility of expropriating shareholders as dividend has increased (table 5) but firm's value deteriorates at the same time. Despite being insignificant, comparatively, family and state controlled firms' exhibit a stronger firm's value.

Interestingly, even though family and controlled firms show up poorly in accounting performance, their performances are significantly better in terms of PE ratio in 1996, especially family firms. Family controlled firms seem to suffer the least from the adverse impacts the economic crisis (Tobin's q 1997) compared to other structures. Family controlled firms are also found to pursue sales expansion (log sales) objectives. The difference from other structures is at a significant level. Therefore, we can conclude that principally family controlled firm still maintains the passion of entrepreneurship, which focus on firms output efficiency- expansion as well as maximization of shareholders' value.

Although their performance has been moderately fair in firm's value, firms controlled by other institutional investment trust firms are not impressive in operating efficiency ratio. Its PE (1997) ratio, as shown in Tobin's q statistics;. Dispersed structure, on the other hand does not seem to exert significant influence on PE performance..

[Insert Table 5 about here]

[Insert Table 6 about here]

CONCLUDING REMARKS

Although preliminary, our study has uncovered some salient features of share ownership among Malaysian listed corporations. First, using leverage to mitigate agency conflicts may not be efficient due to the influence of Malaysian government micro policy as all Malaysian firms record a higher leverage ratio to foreign firms. The dividend declaration is consistent with our hypotheses, but conglomerate firms are found to declare more special dividend as compared to others. Second, Firm size as a measurement of asymmetric information does not significantly differ from one another, except that state controlled firms are found to be the smallest in terms of assets. However, dispersed structure and state controlled firms illustrate the need to share the firm's information as highlighted by high cash flow. Through vertical integration, conglomerate firms are found to internalize the asymmetric information problem. Lastly, majority controlled, as well as family and conglomerate firms are business risk inclined, in contrast to our hypothesis. On the other hand, dispersed structure firms are less risk averse towards capital market risk, while majority as well as family and conglomerate firms are more capital market risk averse. The difference in these two risks perception between family and conglomerate firms, suggests that they have transferred business risk to debt holders.

In terms of performance, we have shown that dispersed structure performs sub optimally as compared to majority controlled firms. However, our attempts in classifying ownership by substantial shareholder identities help to throw more lights on the problem of agency conflict Family controlled appear to be more outstanding in terms of maximisation of sales as well as shareholders' value. The influence of microenvironment factors where higher debt strategies are observed in all structure and identities is found to have affected our analysis. With higher debt, risk has been transferred to debt holders. Conglomerate firms appear to act irrationally by declaring higher dividend, This seems to have compromised the firm's overall value. Nevertheless, a separate study on capital structure is deemed essential.

The limitations of this paper, however, lie greatly on the fact that it has not critically examined the issue of industrial factors and market competition. The competition of each industry highlights the market attractiveness as it determines the entry and exit of shareholders funds into the capital market. Malaysian industry is profoundly monopolistic and oligopolistic, are large shareholding structure mostly found in certain industries? This is an interesting issue to address as industry structures indirectly determine the flow of funds in the capital market.

17

REFERENCES

Agrawal, A., & Knoeber, C. R. (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. *Journal of Financial and Quantitative Analysis*, Vol 31 No 3, pp.377-397.

Agrawal, A., & Nagarajan, N. J. (1990). Corporate capital structure, agency costs and ownership control: The case of All-equity firms. *Journal of Finance*, Vol XLV No (4), pp1325-1331.

Ali, R. (2001). Further evidence on the relationship between board membership and firm performance in Malaysia. *Capital Markets Review*, Vol 9 No1 & 2, pp. 111-124.

Anderson, R. C., & Reeb, D. M. (2003). Founding family ownership and firm performance: evidence from the S&P 500. *Journal of Finance*, Vol 58 No3, pp.1301-1327.

Bebchuk, L. A., & Roe, M. J. (1999). A theory path dependence in corporate governance and ownership. *Columbia Law School. The Center of Law and Economic Studies. Working Paper No. 131.*

Berger, P., Ofek, E., & Yermack, D. (1997). Managerial entrenchment and capital structure decisions. *Journal of Finance*, Vol 52 No 4, pp.1411-1438.

Berglof, E. (1990). Capital structure as a mechanism for control: A comparison of financial system. In M. Akoi, B. Gustafseori, & O. E. Williamson (Eds.), The Firm As A Nexus of Treaties pp. 237-262. London: Sage.

Berle, A., & Means, G. (1932). The Modern Corporation and Private Property . New York: Commerce Clearing House.

Booth, L., Aivazian, V., Demirguc-Kunt, A., & Maksimovic, V. (2003). Capital structures in developing countries. *Journal of Finance*, Vol 56 No1, pp. 87-131

Casson, M. (1987). Multinational Firms. In R. Clarke & T. McGuinness (Eds.), The Economics of the Firm pp. 133-164. Oxford: Basil Blackwell.

Chan, K. (1985). An exploration investigation of the firm size effect. *Journal of Financial Economics*, 14, pp.451-471.

Chandler, A. (1990). Scale and Scope. The Dynamics of Industrial Enterprise. A History 1880s-1940s . Cambridge, MA: Harvard University Press.

Cheang, L. S. (1996). Corporate Powers: Control, Remedies and Decision Making. Kuala Lumpur: Malaysia Law Journal Sdn Bhd.

18

Chen, C. R., & Steiner, T. L. (2000). Tobin's Q, managerial ownership, and analyst Coverage. *Journal of Economics and Business*, Vol 52, pp. 365-382.

Chen, S.-S., & Ho, K. W. (2000). Corporate diversification, ownership structure and firm value. The Singapore evidence. *International Review of Financial Analysis*, Vol 9, pp. 315-326.

Chung, K. H., & Pruitt, S. W. (1994). A simple approximation of Tobin's Q. *Financial Management*, Vol 23 No3, pp. 70-74.

Claessens, S., Djankov, S., & Lang, L. H. (1998). Who controls East Asian corporations. *World Bank Working Paper No 2054*.

Claessens, S., Djankov, S., Fan, J., & Lang, L. (1999). Expropriation of minority shareholders in East Asia. *World Bank Working Paper*

Clarke, R. (1987). Conglomerate Firms. In R. Clarke & T. McGuinness (Eds.), The Economics of the Firm pp. 107-132. Oxford: Basil Blackwell.

Cubbin, J., & Leech, D. (1983). The effect of shareholding dispersion on the degree of control in British companies: Theory and measurement. *Economic Journal*, Vol 93, pp.351-369.

Demsetz, H. (1983). The structure of ownership and the theory of the firm. *Journal of Law and Economics*, Vol 16, pp.375-390.

Demsetz, H., & Lehn, K. (1985). The structure of corporate ownership: Causes and consequences. *Journal of Political Economy*, Vol 93 No 6, pp. 1155-1437.

Dunning, J. (1981). International Production and the Multinational Enterprise Concord MA: Allen and Umwin.

Fama, E. F. (1980). Agency problems and the theory of the firm. *Journal of Political Economy*, Vol 88 No 2, pp. 288-307.

Fama, E. F., & Jensen, M. C. (1983). Agency problems and residual claims. *Journal of Law and Economics*, Vol VI, pp.327-349

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics*, Vol XXVI., pp.301-325

Firth, M. (1995). The impact of institutional stockholders and managerial interests on the capital structures of firms. *Managerial and Decision Economics*, Vol 16 No 2, pp167-175.

Friend, I., & Lang,.H.P (1988). An empirical test of the impact of managerial self-interest on corporate capital structure. *Journal of Finance*, Vol 43 No 2, pp.271-281.

Gedajlovic, E. R., & Shapiro, D. M. (1998). Management and ownership effects: Evidence from five countries. *Strategic Management Journal*, Vol 19, pp.533-553.

Gugler, K. (2001a). Direct monitoring and profitability: Are large shareholders beneficial? In K. Gugler (Ed.), Corporate Governance and Economic Performance. pp.12-25. UK: Oxford University Press.

Gugler, K. (2001b). The identity of owners. In K. Gugler (Ed.), Corporate Governance and Economic Performance pp. 47-67. UK: Oxford University Press.

Gursoy, G., & Aydogan, K. (2002). Equity ownership structure. risk taking and performance: An empirical investigation in Turkish listed companies. *Emerging Market Finance and Trade*, Vol 38 No 6, pp.6-25.

Hansmann, H. (1988). Ownership of the firm. *Journal of Law, Economics and Organisation*, Vol 4 No 2, pp.267-305.

Harris, M., & Raviv, A. (1991). The theory of capital structure. *Journal of Finance*, Vol XLVI No 1, pp.297-355.

Hui, L. M. (1981). Ownership and Control of The One Hundred Largest Corporations in Malaysia. Oxford: Oxford University Press.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance and takeovers. *American Economic Review*, Vol 76 No 2, pp.323-329.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, Vol 3, pp. 305-360.

Leech, D., & Leahy, J. (1991). Ownership structure, control type classifications and the performance of large British companies. *Economic Journal*, Vol 101, pp.1418-1437.

Lemmon, M. L., & Lins, K. V. (2003). Ownership structure, corporate governance and firm value: Evidence from the East Asian financial crisis. *Journal of Finance*, Vol. 58 No.4, pp. 1445-1468.

Ling, S. L. (1982). Ownership and Control of Malaysian Manufacturing Corporations. Kuala Lumpur: UMCB Publications.

Maher, M., & Anderson, T. (1999). Corporate governance: effects on firm performance and economic growth. *Organisation for Economic Co-operation and Development*.

McConaughy, D. L., Walker, M. C., Henderson, G. V., & Mishra, C. S. (1998). Founding family controlled firms: Efficiency and value. *Review of Financial Economics*, Vol 7 No 1, pp.1-19.

Morck, R., & Yeung, B. (2003). Agency problems in large family business groups. *Entrepreneurship Theory and Practice*, Summer, pp. 367-382.

Morck, R., Shelifer, A., & Vishny, R. (1988). Management ownership and corporate performance: An empirical analysis. *Journal of Financial Economics*, Vol 20, pp.293-315.

Morck, R., Stangeland, D. A., & Yeung, B. (2000). Inherited wealth, corporate control and economic growth: The Canadian Disease. In R. Morck (Ed.), Concentrated Corporated Ownership pp. 319-369. Chicago: University of Chicago Press.

Mueller, D. C. (1972). A life cycle theory of the firm. *Journal of Industrial Economics*, Vol 21, pp. 199-219.

Noor, F. M., Said, R. M., & Redzuan, H. (1999). Structure of ownership and corporate financial performance: A Malaysia case. *Malaysian Management Review*, pp. 44-48

Pedersen, T., & Thomsen, S. (1997). European patterns of corporate ownership: A Twenty-country study. *Journal of International Business Studies*, Vol 4, pp. 759-778.

Peyer, U. (2001).The 14th Australasin Finance and Banking Conference's Keynote Address. Internal and External Capital Markets. 17-19 December . Sydney.

Pomerleano, M. (1998). The East Asia Crisis and Corporate Finances: The untold micro story. *World Bank Policy Research Working Paper 1990*.

Porta, R. L., Lopez-De-Silanes, F., & Shleifer, A. (1999). Corporate ownership around the world. *Journal of Finance*, Vol. LIV No 2, pp.471-517.

Porta, R. L., Lopez-de-Silanes, F., A.Shleifer, & R.Vishny (1998). Law and Finance. *Journal of Finance*, Vol 106, pp.1113-1155.

Putterman, L. (1993). Ownership and the nature of the firm. *Journal of Comparative Economics*, Vol 17, pp. 243-263.
Roe, M. J. (1994). Strong Managers Weak Owners: The Political Roots of Amerian Corporate Finance. Princeton: Princeton University Press.

Roe, M. J. (2001). The sharhodler wealth maximisation norm and industrial organisation. *Harvard Law School Public Law Working Paper No. 019*.

Shepherd, G. S. (1989). Public enterprise: Criteria and cases. In H. d. Jong (Ed.), The Structure of European Industry. Dordrecht: Kluwer Academic Publishers.

Shleifer, A., & Vishny, R. W. (1986). Large shareholders and corporate control. *Journal of Political Economy*, Vol 94 No3, pp. 461-489.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *Journal of Finance*, Vol LII No 2, pp.737-783.

Short, H., & Keasey, K. (1997). Institutional shareholders and corporate governance in the United Kingdom. In K. Keasey, S. Thompson, & M. Wright (Eds.), Corporate Governance: Economic and Financial Issues pp. 18-53. UK: Oxford University Press.

Short, H., Keasey, K., & Duxbury, D. (2002). Capital structure, management ownership and large external shareholders: A UK analysis. *International Journal of the Economics of Business*, Vol 9 No 3, pp. 375-399.

Singh, B. (2003). Losing Trust. Malaysian Business. July 1st-15th , pp 30-31.

Suto, M. (2003). Capital structure and investment behaviour of Malaysian firms in the 1990s: a study of corporate governance before the crisis. *Corporate Governance: An International Review*, Vol 11 No1, pp. 25-39.

Thomsen, S., & Pedersen, T. (1996). Nationality and ownership structures: The 100 largest companies in six European nations. *Management International Review*, Vol 36 No 2, pp. 149-166.

Thomsen, S., & Pedersen, T. (1998). Industry and ownership structure. *International Review of Law and Economics*, Vol 18, pp.385-402.

Thomsen, S., & Pedersen, T. (2000). Ownership structure and economic performance in the largest European companies. *Strategic Management Journal*, Vol 21, pp.689-705.

Williamson, O. E. (1985). The Economics Institutions of Capitalism: Firms, Markets, Relational Contracting. New York: The Free Press.

Wurgler, J. (2000). Financial markets and the allocation of capital. *Journal of Financial Economics*, Vol 58, pp.187-214.

Zeckhauser, R. J., & Pound, J. (1990). Are large shareholders effective monitors? An investigation of share ownership and corporate performance. In R. G. Hubbard (Ed.), Asymmetric Information, corporate finance and investment pp.149-180. Chicago: University of Chicago Press.

Zhuang, J., Edwards, D., & Capulong, M. V. (Eds.). (1998). Corporate Governance and Finance in East Asia: A study of Indonesia, Rep. of Korea, Malaysia, Phillipines and Thailand. (1). Asia Development Bank.

[i] On average, the three largest stockholders own 54% of the voting stock in the 10 largest firms in Malaysia, 49% in the case of Singapore and 46% in Thailand.

[ii] The research was based on cross sectional study on nine East Asian Countries. The sample size for Malaysian firm was 133 firms. Others countries which found no exploitation of minority interests are Singapore and Taiwan. The countries which found exploitation of minority shareholders are Japan, Korea, Hong Kong, Indonesia, Philippine, and Thai.

[iii] We define state ownership as institutions established under Parliament Act of Malaysia. Apart of Ministry of Finance investment arms- Khazanah Holdings Bhd. State agency such as State Economics Development Authority are considered state owned. We consider National Investment Corporation-Pemodalan Nasional Berhad (PNB) and its unit investment arms as state owned, others are such as, Employee Provident Fund (EPF), Armed Forces Fund (LTAT), and Muslim Pilgrim Saving and Management Authority (LUTH) and others government saving institutions such as Bank Industry, and etc.

[iv]. The industry is greatly regulated under The Banking and Financial Act, 1989. The Banking and Financial Act, 1989 allow Financial Institutions (FIs) to make portfolio investments in non-financial business up to a maximum of 20 percent of a Fis' shareholders' funds and up to 10 percent of the issued share capital of a company in which the investment is made. The FIs are not allowed to assume any management role to take up a board position.

[v] Zhuang, J., Edwards, D., & Capulong's (1998) report for Asia Development Bank (1998) that nominees companies as the largest investors among the top five shareholders in Malaysia. It stood as 45.6% in 1997.

[vi] This is opposing to the generic economic argument that state should invest in large firm especially utilities firms for welfare economic purposes. Malaysian state had privatised most of its large utilities plant. In fact, our sample shows that the identities of the state control firms are mainly from state agency and their state unit trust investment arms and not hold by the federal government. The result of our state structure was over shadowed by the influences from PNB and Petronas which hold substantial shareholdings. In fact Singh (2003) challenges the capabilities of these state agency and trust funds management. A separate study in this perspective is essential.

Table 1
Factors Explaining Ownership Structure

Governance Issues	Variables	(Proxies)	Hypotheses
Information Asymmetry	**Asset Specificity** -Firm size	Log Total Asset	Dispersed structure and state ownership tend to be bigger in size
	-Cash Flow	Operating Cash Flow	Majority and foreign have less cash flow (specific information) to be shared. Dispersed structure has more cash flow to be shared to reduce risk
	Firm life cycle -Years of establishment	Age Est.	Dispersed structure controlling stake is diluted through over the years (age).
	-Years of listing	Age Listing	The age of Foreign and majority control firms is positively related to their controlling stake to retain control.
Agency Conflicts	**Agency conflicts** Leverage	Debt/ Equity	Majority controlled firm has higher leverage.
	Dividend	Dividend	Majority, foreign and state firms declare higher dividend.
Risk	**Risk** Business risk	Standard deviation of total firms' sales/total assets	Dispersed structure is less risk averse towards Business risk
	Capital market risk	Beta	Dispersed structure is positively related to Beta.
Performance	**Maximization of Sales**	Log Sales	Dispersed structure pursues the objective of maximization of sales
	Maximization of Shareholder's value-		
	Operation efficiency	ROA	State, majority, and foreign pursue the objective of maximization of shareholder value
	Market Performance	Tobin's q PE ratio	

24

Table 2
Descriptive statistics

Panel A	Minimum	Maximum	Mean	Std. Deviation
Dividend	0.000	0.95	0.1085	0.1412
Debt/Equity	0.000	4.530	0.61	1.627
Log Total asset	3.60	7.37	5.54	0.51
Cash ('oo,ooo)	-1.867	20.018	0.929	1.993
Sd.sales/t.assets	0.014	2.872	0.353	0.418
Beta	0.011	2.007	0.944	0.583
Age establishment	8.000	94.000	34.878	16.449
Age of listing	7.000	42.000	23.068	10.940
Log sales	2	6.82	5.404	0.639
ROA 96	-0.753	0.664	0.095	0.163
Tobin q value96	-15.880	77.095	2.327	7.054
Tobin q value97	-47.659	4.977	0.548	4.419
PE ratio 1996	-571.63	4246	55.65	361.17
PE ratio 1997	-65.69	431.51	17.463	46.63

Panel B
Number of firms in each type of ownership structure.

Own. Share	Disp	Disp1	Inst	Dom. Min.	Fam	Maj.	Cong. Aff.	State	Forei.
<20	22 (11.75)	14 (10.88)	8 (9.45)					2 (19.05)	1 (14.8)
20-50				58 (32.92)	42 (33.02)		16 (42.77)	16 (38.51)	
>50					15 (56.45)	32 (57.75)	17 (59.39)	7 (60.01)	9 (54.87)
N	22	14	8	58	57	32	33	25	10
Mean	(11.75)	(10.88)	(9.45)	(32.92)	(39.18)	(57.75)	(50.85)	(42.97)	50.42
%	15.65%	9.52%	5.4%	35.37%	38.8%	21.77%	22.45%	17.01%	6.12%

Notes: Share concentration's means in parentheses
Disp= Dispersed structure; Dom Min= Dominant minority; Maj=majority; State= state; Forei= foreign; Inst= institutional; Fam= Family; Cong Aff= conglomerate affiliation
Ownership concentration= Disp+Dom.Min+Maj.+ State+ Forei=100%
Ownership identities= Disp1+ Inst+Fam+Cong.Aff+State+Forei

Table 3

The effects of asymmetric information, agency conflicts and risk on ownership
(Multinominal Logistic Analysis)

Own.Str.	Lev.	Div.	Size	Cash	Bus.Risk	Cap.Risk	Yrs.Est	Yrs List
Dispersed	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dominant	0.267	0.265	-1.039	-0.245	-2.18 (1.188)*	-0.483	-0.003	0.015
	(0.502)	(0.107)**	(0.908)	(0.366)	**	(0.613)	(0.026)	(0.043)
Majority	0.497	0.388 (0.113)**	-0.503	-1.184 (0.527)*	0.463	-0.954	0.031	-0.009
	(0.589)	*	(0.971)	*	(1.003)	(0.709)	(0.029)	(0.049)
State	-0.67	0.243	-2.546 (1.196)*	0.395	-3.03 (1.838)*	-1.644 (0.792)*	0.008	-0.017
	(0.828)	(0.114)**	*	(0.393)	**	*	(0.034)	(0.056)
Foreign	0.212	0.455 (0.117)**	-1.383	-1.727 (0.831)*	0.181	-2.406 (1.098)*	-0.015	0.06
	(0.899)	*	(1.315)	*	(1.110)	*	(0.043)	(0.06)

Notes:

The effect on dispersed ownership functions as a baseline

Lev =debt/equity; Div= dividend declared in 1996 Size= log firm total asset; Cash = is defined as cash flow from operations- profit/(loss) before tax plus depreciation adjusted for share of results of associated and exceptional items; Bus.Risk= Standard deviation of all firms sales/ total asset in the industry. Cap. Risk= beta, log of weakly returns of the stock price against the weakly returns of the KLSE-EMAS index.;Yrs.Est:=Years of establishment; Yrs List:=Years of listing Standard error value in parenthesis;
*p<0.10; ** p<0.05; *** p< 0.01

Table 4

Ownership effects on Leverage, Dividend, Size, Cash flow, Business and Capital market risks (means)

Own. Iden.	Leverage	Dividend#	Size	Cash#	Bus. Risk	Cap. Risk
Family	0.68 A	6.45 A	5.505 AB	0.75 A	0.443 C	1.096 AB
Conglomerate	0.59 AB	15.24 B	5.672 B	1.255 A	0.448 AC	0.794 C
State	0.51 AB	8.83 A	5.514 AB	1.856 B	0.34 B	0.726 CD
Foreign	0.31 B	29.34 B	5.437 AB	0.656 A	0.541 A	0.461 D
Institutional	0.84 A	7.93 B	5.293 A	0.369 A	0.441 ABC	0.581 CD
Dispersed	0.64 A	5.36 A	5.662 B	0.769 A	0.422 BC	1.319 AB
Levine test	1.329	14.113	0.991	3.945	1.213	1.102
Sig.	(0.255)	(0.00)	(0.426)	(0.002)	(0.316)	(0.411)

Notes:- # The variables variances are not equal. Dunnett's test is applied.
Figures with the same letter code are not significantly different at p<0.10

Table 5

Ownership Concentration and Performance

Performance = $\beta_o + \beta_1 Disp + \beta_2 Dom + \beta_3 Maj + \beta_4 State + \beta_5 Lev. + \beta_6 Size + \beta_7 Cap.Risk + \beta_8 Bus.Risk + \beta_9 Cash$

	Constant	Leverage	Size	Beta	Bus. Risk	Disp	Dom	Maj	State	RSq	FTest
Lg Sales											
	0.488	0.072	0.885	-0.023	0.418	-0.224	-0.191	-0.136	-0.223	0.782	43.877***
	(-1.296)	(1.77)*	(13.15)***	(-0.483)	(6.59)***	(-2.106)**	(-2.089)**	(-1.445)	(-2.065)**		
ROA96											
	-0.271	-0.074	0.064	-0.002	0.13	-0.051	0.028	0.048	0.029	0.257	34.13***
	(-4.327)***	(-10.817)***	(5.576)***	(-0.196)	(10.998)***	(-2.599)***	1.669*	(2.793)***	(1.477)		
Tobin's q 96											
	18.567	-0.675	-2.859	0.706	-0.463	-2.419	-0.406	-0.544	-1.399	0.052	5.465***
	(6.077)***	(-2.027)**	(-5.149)***	(1.487)	(-0.802)	(-2.504)**	(-0.499)	(-0.644)	(-1.463)		
Tobin's q 97											
	-15.220	-0.391	3.069	0.636	-0.246	-1.861	-1.990	-0.818	-0.223	0.113	12.526***
	(-8.247)***	(-1.944)**	(9.147)***	(2.215)**	(-0.706)	(-3.189)***	(-4.054)***	(0.413)	(-0.386)		
PE 96											
	135.08	-16.13	-231.75	32.43	-93.49	-35.979	-40.637	111.625	39.623	0.137	17.597**&
	(10.032)***	(-1.001)	(-10.193)**	(1.439)	(-3.237)***	(0.644)	(-0.799)	(2.153)**	(0.587)		
PE 97											
	171.35	-5.267	-29.656	13.567	-5.252	-5.277	-2.505	18.286	6.545	0.155	20.331***
	(9.946)***	(-2.549)**	(-10.174)**	(4.698)***	(-1.418)	(-0.736)	(-0.385)	(2.751)***	(0.756)		

Disp= Dispersed structure; Dom= dominant structure; Maj= Majority structure; State= State controlled as stipulated under Parliament Act of Malaysia
Size= Log total asset; Leverage= debt/equity; Bus.Risk= Standard deviation of sales/t.assets
Cash= Cash flow, cash flow from operations- profit/(loss) before tax plus depreciation adjusted for share of results of associated and exceptional items.
Beta= capital risk, log of weekly returns of the stock price against the weekly returns of the KLSE-EMAS index
Lg Sales= Logarithm of sales PE= Price earning ratio, Closing share price divided by the year's earnings per share; ROA= Return of asset;
Tobin's q= Tobin's q value (Book value of total assets + book value of debt + market value of equity)divided by book value of total assets
t value in parenthesis
* p< 0.10; ** p< 0.05; *** p< 0.01

Table 6

Ownership Identities and Performance

Performance= $\beta_0 + \beta_1 Fam + \beta_2 Con + \beta_3 State + \beta_4 Disp1. + \beta_5 Oth + \beta_6 Lev. + \beta_7 Size + \beta_8 CapRisk + \beta_9 BusRisk$ $\beta_{10}Cash$

Constant	Leverage	Size	Beta	Bus. Risk	Cash	Family	Cong.	State	Disp.	Others	R Sq.	F Test
Lg Sales												
-0.328	0.059	0.991	-0.093	0.572	0.002	0.078	0.048	-0.056	0.025	-0.106	0.723	231.34***
(-2.134)**	(3.652)***	(35.87)***	(-4.115)***	(10.276)***	0.246	(2.122)**	(1.130)	(-2.256)	(0.689)	(-1.498)		
ROA 96												
-0.112	-0.069	0.054	-0.029	0.050	-0.002	-0.033	-0.064	-0.056	-0.001	-0.144	0.145	15.072***
(-1.631)*	(-9.515)***	(4.371)***	(-2.908)***	(2.029)**	(-0.780)	(-2.01)**	(-3.406)***	(-2.567)**	(-0.076)	(-4.586)***		
Tobin's q 96												
18.536	-0.767	-2.967	0.305	-0.745	0.334	0.882	-0.108	0.883	-0.506	-2.719	0.052	4.901
(5.956)***	(-2.328)**	(-5.302)***	(0.668)	(-0.661)	(2.337)**	(1.187)	(-0.125)	(0.893)	(-0.697)	(-1.906)	0.052	4.901***
Tobin's q 97												
-16.502	-0.649	3.105	0.343	2.022	-0.362	-0.367	-2.43	0.112	-0.129	1.212	0.122	13.527***
(-8.877)***	(-3.300)***	(9.289)***	(1.255)	(3.003)***	(-4.242)***	(-0.828)	(-4.727)***	(0.189)	(-0.297)	(1.422)		
PE 96												
1579.87	-13.178	-278.303	9.093	-109.896	24.323	80.12	4.086	10.911	-11.927	-92.289	0.132	13.537***
(10.33)***	(-0.814)	(-10.115)***	(0.405)	(-1.984)**	(3.459)***	(2.193)**	(0.097)	(0.225)	(-0.334)	(-1.316)		
PE 97												
-0.112	-0.007	0.005	-0.003	0.005	-0.002	-0.003	-0.006	-0.006	-0.001	-0.144	0.136	13.972***
(-1.631)*	(-9.516)***	(4.370)***	(-2.908)***	(2.029)**	(-0.780)	(-2.011)**	(-3.406)***	(-2.568)**	(-0.077)	(-4.586)***		

Family= family controlled, defined as individually control or through a private limited firm. More than 20 percentage
Cong= Conglomerate affiliate firms= controlled through another public listed firms
State controlled firms= firms established under Parliament Act of Malaysia
Disp1. = Dispersed structure; substantial shareholding less than 20 percentage
Others= hold by other institutional investors - particularly financial institutions trust funds
Size= Log total asset; Leverage= debt/equity; Bus.Risk= Standard deviation of sales/t.assets
Cash= Cash flow; cash flow from operations- profit/(loss) before tax plus depreciation adjusted for share of results of associated and exceptional items.
Beta= capital risk; log of weekly returns of the stock price against the weekly returns of the KLSE-EMAS index
Lg Sales= Logarithm of sales PE= Price earning ratio, Closing share price divided by the year's earnings per share; ROA= Return of asset;
Tobin's q= Tobin's q value (Book value of total assets + book value of debt + market value of equity)divided by book value of total assets
t value in parenthesis
* p< 0.10; ** p< 0.05; *** p< 0.01