DOES OWNERSHIP STRUCTURE MATTER? EVIDENCE FROM MALAYSIAN EQUITY MARKET

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Abstract

The paper examines the determinants of ownership structure characteristics of the 147 firms listed on main board of the Kuala Lumpur Stock Exchange (KLSE). Three dimensions of governance issues in firm theory:- asymmetric information, agency conflicts and risk as discussed in Putterman (1993) are used to assess the effects of ownership concentration. Ownership concentration is divided into dispersed, dominant minority, and majority controlled firms, while ownership identities are classified as family controlled, conglomerate, others institution, state, foreign and dispersed firms in explaining the above determinants of firm's ownership. With the exception of leverage and year effects, we prove that ownership structure is able to extract cost and benefits from governance structure. We further provide evidence that ownership identities influence asymmetric information and risk.

Keywords: ownership structure, corporate control, governance.

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Introduction

Agency problem arises when shareholders yearn for capital return while managers may misappropriate shareholders' investment. This misalignment causes entrenchment and expropriation especially at the expense of minority shareholders. The implications of misalignment are far-reaching wide as it influences financial market activeness and firms' performance. First, ownership structures influences the development and performance of capital and debt markets, 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 entries and exits of investors (Maher and Anderson, 1999). Ownership and control also influence debt market as managers may adjust the proportion of debt and equity to their best interest (Agrawal and Nagarajan, 1990). These eventually affect firm's cost of capital. Various discussions have been offered on ownership structure and performance, but empirical works on general theory on the formation of ownership structure is limited (Thomsen and Pedersen, 1996). In addition, 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;1998) concede that different histories, cultures and paths of economic development better explain the differing ownership structures than economic theories alone. In light of this, Malaysia market offers a different perspective of corporate governance schemes to be compared. Malaysia ownership structure is unique as it is largely affected by national economic agenda.

Since early 1990s, Malaysia has liberalised its capital market for further economic development and growth. Generally, Malaysian firms as reported by La Porta, Lopez and Shleifer (1999) as highly concentrated.[1] 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, Fan and Lang, 1999). In Malaysia, state participation in equity ownership represents an important socio-political agenda due to government policy to rationalise economic resources distribution among different races. The New Economic Policy (NEP) established in 1970 aims to achieve 30% for indigenous (bumiputera) equity participation. Under this policy, the listed firms in Malaysia are required to reserve pre-emptively 30% equity stake for the indigenous group. Ultimately this influences ownership structure

[1] On average, the three largest stockholders own 54% of the voting stock in the 10 largest firms in Malaysia.

and the role of governance in the firms. Various state agencies are also established to facilitate the achievement of this national agenda. As in 1996, government linked corporations and state owned (Bumiputera's shares inclusive) 34.8% of corporate shares as compared to other Malaysian firms of 42.6% (Classens, Djankov and et al, 1999), while foreigners control 19.2% (Suto, 2003)[2]. In addition, NEP has also attributed to the establishment of conglomerate firms by family-control owners and political parties who fear loses their controlling rights (Searle, 1999).

The 1997/1998 financial crisis exposes various weaknesses of the Malaysian ownership structure which lead to poor performance. The corporate firms are largely portrayed as highly leveraged (Pomerleano, 1998; Claessens, Djankov and Xu, 2000) due to financial rents (Hellman, Murdock and Stiglitz (1996). The firms are therefore risk inclined and invest unscrupulously (Suto, 2003). The capabilities of government-linked corporation and state-owned firms are often cited for poor performances, while family controlled firms tend to misappropriate firms' resources. Nonetheless, the benchmark of poor performance is largely based on dispersed ownership structure- agency conflict argument, which is less relevant in this economy.

Claessens, Djankov et al (1999) and Claessens, Djankov and Lang (2000a) highlight the issues of ownership structure on firms' value, but confine to cross country analysis. Specific country analysis on Malaysia corporate control and performance is still limited. In particular, firms ownership structure that responses to various external financial and economic factors, tend to differ from standard agency theory explanations. For instance, Jensen and Meckling (1976) posit that introduction of managerial share ownership may reduce the agency problem, but a higher concentration may even deteriorate firm performance in this economy. Furthermore, the efficacy of ownership structures in extracting the cost and benefits from a governance structure variable are still vague in this economy. This is due to the lack of an utterly free market to determine the level of voting control. For instance, the 30% allocation right for Bumiputera shares might distort the real costs and benefits of the governance mechanism, i.e largely due to passive behaviour in monitoring. The identities of shareholder such as family ownership further complicate the standard analysis on agency conflict. This is compounded by the presence of state controlled firms where protectionism prevails in accordance to the redistribution of social economic resources.

Demsetz (1983) argues that ownership structure is an endogenous outcome balancing the costs and benefits of ownership. Various establishment of ownership structures simply reflect different costs and benefits that owners could gain. As NEP influences Malaysia ownership structure ex ante, therefore, it is essential to understand whether the benefits of the existing ownership structure outweighs its costs. The understanding is essential as it affects capital market policy planning, and enhances our knowledge so that investor could mobilise economic resources more effectively.

Thus far, the understanding of the determinants of ownership structure is limited. Therefore, this study seek to employ nature of the firm theory (Putterman, 1993) to discuss the costs and benefits related to governance issues:- specific asymmetric information, agency conflicts as well as risks in different types of ownership structure along with its ownership concentration. In addition, 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 from measuring firm's specific characteristic relating to governance structure, 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.

Our findings show that, ownership concentration is able to extract costs and benefits from business risk and capital market risk, cash flow (information asymmetry) but not so for age and size (information asymmetry) and agency conflicts-leverage, the locus of agency theory. Therefore, ownership concentration portray differences in terms of sales, profitability as well as price earning ratio could be observed in different ownership structure. These inefficiencies also allow ownership identities' objectives prevails over ownership concentration. The study further confirms that, as a result of New Economic Policy, conglomerate and state control firms consistently under perform family controlled firms.

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

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

[2] Under NEP, foreign equity interest is in the dwindling trend since 1970 of 63.40%. Bumiputera equity interest was a low 2% while Non-Bumi Malaysian control a 33.40% stake (Malaysia, various issues).

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 firms which need to be addressed separately due to their different objectives in firms (Pedersen and Thomsen, 1997; 2000) .

Fama and Jensen (1983) cite that dispersed structure assume a role in separation and specialisation of risk bearing and management. Theoretically, this structure stands largely in firms where risk is too much to be concentrated in a single large shareholder. On the other hand, 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, state and foreign. They posit that firms in which an individual controls directly or through private limited firms as family controlled firms. In terms of degree of share concentration, in family controlled firms, dominant minority structure 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. Although some firms 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" as a relatively small number if shares enables them to control a pyramid group of public listed companies (Morck and Yeung, 2003). Often, this structure adversely affects firm's value (Claessens, Djankov et al, 1999)

Theoretically, state investment aims to serve the purpose of social welfare economics. They tend to invest in larger size and riskier firms due to the availability of a 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 and political motives. He also finds a negative relationship between the efficiency of capital allocation and 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 foreign 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 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 country shareholders, this structure basically aims to maximize shareholder value.

Theoretical Framework Agency Conflicts: Leverage

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. This proposal has drawn different strands of views and studies in managerial ownership and also large block shareholders. The relationship is uncertain when ownership identities is considered in the analysis.

The outcome of the relationship is dependent on the degree of control the risk taker has and the juggling of power with the existing manager. For instance, large shareholders may misuse debt to invest in risky projects. Jensen and Meckling (1976), and Harris and Raviv (1991) view this tendency of debt holding as 'shifting to risky projects' or asset substitution. The upshot of this is controlling owner

could invest over optimally in risky project as debt holder shares the risk. Moreover, when the risky investment succeeds, all gains accrue to the controlling shareholder, while the debt holder only earns the loan interest under the covenant agreement. 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. More importantly, issuance of debt does not dilute the controlling equity interest in the firm (Stulz, 1988). Empirical works on these are substantiated in the empirical findings by Kim and Sorenson (1986), Agrawal and Knoeber (1996), Agrawal and Mandelkar (1987), Friend and Lang (1988) and Short, Keasey and Duxbury (2002). These findings suggest that debt is used to reduce agency cost of equity, but shift the agency cost to debt holder as the level of leverage increases.

On the other hand, debt could be utilised as a disciplinary mechanism (Jensen, 1986). Apparently 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, Ofek and Yermark (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. Ultimately, this reduces management discretion to consume perquisites to the detriment of firms' value. In corresponding to this, to avoid monitoring, entrenched managers are found to avoid debt so that they could pursue their personal interest. Grier and Zychowicz (1994), Berger, Ofel and Yermack (1997), De Jong and Veld (2001) substantiate this finding.

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 are likely to be reduced. Friend and Lang (1988) establish empirically the negative relationship between managerial ownership and debt portion. Short, Keasey et al (2002) corroborate these findings as owner managerial firms have built up their own specific indivisible firm specific human and wealth capital and preserve it 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 the debt holders as the risk of bankruptcy decreases. This, however, work against shareholders as the rate of return would decline. Subsequently, 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.

Less empirical literature reports on the agency cost of debt in state controlled firms. However, it is conceivable to argue that state controlled firms are able to access to cheaper debt such as sourcing funds internally through allocation of funds and subsidies from government. State controlled firms are also easier in obtaining loan due to implicit guarantee contained. 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, manager are reluctant in paying out this 'free cash flow' as extra dividends to their shareholders. Instead, these firms may engage in unprofitable investments, 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. The desires for special dividends can afflict a firm's capital expansion plans, leading to poor operating and stock price performance. 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 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 structures depends on the degree of risk the owner (as a risk bearer) is willing to bear. The theory of ownership structure cites that dispersed owners with diversified portfolios are least averse to a firm's specific risk (Fama 1980). As shareholders have diversify 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 a 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 the firm's residual claims, and hence attempts to avoid any risk that is unable to bear.

Life Cycle and Objectives

Firm's objectives are dependent on its ownership structure and its 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. Consequently, the initial family/founder controlling stake might be 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 may 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. We focus on the explanatory variables of firms listed on main board only for 1996, the year before the regional economic crisis, to avoid unnecessary shock impacts. The sample year 1996 is chosen as it highlights the period where financial policies was relatively lenient prior to the crisis. The post crisis period, see the foreign exchange control and other market reforms policies which have reduced the capital market vigorous. Banking and finance, and insurance sectors are excluded due to its highly regulated characteristics. We are satisfied with 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 in 1996. We employ multinominal logistic regressions to examine

the association of each independent variable with the described ownership structure. The method also allows us to compare the degree of differences between the explanatory variables and the described ownership structure. This gives us a fair view on the variables that influence ownership structure greatly.

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. The hypotheses present the expected ownership structure and identities. The sign indicates the relationship between the proxy variables and ownership structure and identities. In view that various contending views are put forward in explaining ownership structure, we set our hypotheses that the explanatory variables are able to reduce agency cost. The hypotheses on the determinants of ownership concentration is based on costs and benefits of the variable, while the hypotheses on the understanding of identities is based on the control owner objectives.

Logarithms of firm size, cash flow as well as age of firms are proxies used to measure the problem of asymmetric information. In firms with large size and cash flow, 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 preferred. Large firm size also indicates less asset specificity which may be shared between the firm's founder and the widely spread shareholders. In contrast, smaller firm size and net cash flow firms 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.

In terms of ownership identities, state control firms and foreign control firms are able to bear the risk of large information asymmetry problem. We use log of total asset as proxy for firm size. Cash flow is defined as cash flow from operations-profit/(loss) before tax plus depreciation.

Table 1. Hypotheses and Variables Definitions

Governance Issues	Variables	(Proxies)	Sign	Hypotheses (Expected Ownership Structure and Identities0
Information Asymmetry	Asset Specificity Firm size	Log Total Asset	+	Dispersed structure State, Conglomerate
	Cash Flow	Operating Cash Flow	+	State, Foreign, Conglomerate
	Firm life cycle Years of establishment	Age Est.	+	Dispersed structure
	Years of listing	Age Listing	+	Family, Foreign
Agency Conflicts	Agency conflicts Leverage	Debt/ Equity	+	Majority controlled firm
	Dividend		+	Conglomerate
		Dividend	+	Majority, foreign and state firms declare higher dividend.
Risk	Risk Business risk	Standard deviation of total firms' sales/total assets	+	Dispersed Structure
Performance	Maximization of Sales	Log Sales	+	Dispersed Structure
	Shareholder Value	Return on Assets Price Earning Ratio	+	Majority State, Foreign.

Naturally, the older firm reflects high asymmetric information. In order to reduce the problem of agency cost created by information asymmetry in older firms, 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. Assuming debt holder is effective, debt should function well as disciplinary mechanism in monitoring as well as reduce misappropriation of free cash flow. In regards to ownership identities, conglomerate firms may issue debt with consequent tax advantages to the shareholders (Williamson, 1985). We conjecture that multinational and state controlled 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. These 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. Due to NEP to encourage the indigenous group to participate in the equity market, state controlled firms is expected to distribute dividend income to the indigenous (Bumiputra) unit holders, Dividend is measured as gross dividend per share declared and paid out for the financial year. 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 risk levels. 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. Beta 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.

Performance

We applied log sales as maximization of sales objectives, Return on Asset-(ROA) for operating performance and Price Earning ratio (PE) market performance as measurement for maximization of shareholder value objective. Following firm's life cycle theory, dispersed structure managers who own lower equity interest is hypothesized to achieve maximization of sales objectives (Putterman, 1993, Demsetz and Lehn, 1985). This is in contrast to larger shareholder identities majority family owned group who posit entrepreneurial flair such that the utmost objective is to maximization of shareholder value (Morck, Stangeland and Yeung 2000). State and foreign firms pursue the same objective to enhance the confidence of their wide shareholders.

Ownership Structure

The classification of ownership structure is 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. Hence, using largest shareholders as practiced in other countries will not be very meaningful in Malaysia. 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 $p<0.01$.

We divide the measurement of ownership concentration into dispersed, dominant minority as well as majority shareholder. The use of 20 percentage as the base line of dispersed structure approximately conforms to Claessens, Djankov et al (1999) argument that Malaysian effective control stood around 18.11%, while 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. We extract state controlled and foreign controlled firms from ownership concentration measurement, as their appearance in Malaysia is largely affected by national and business objective respectively[3].

To measure ownership identities, 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 which are generally subsidiaries to the financial institutions.

[3] 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.

Table 2. Descriptive Statistics

Variables	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Dividend	0.000	0.95	0.108	0.1412
Debt/Equity	0.000	4.530	0.610	1.627
Log Total asset	3.600	7.37	5.540	0.510
Cash ('oo,ooo)	-1.867	20.018	0.929	1.993
Std.Dev.(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
PE Ratio 1996	-571.63	1150	55.65	362
PE Ratio 1997	-65.69	140.51	17.46	46.63

Table 3. Ownership Structure

Own. Share	Disp	Own. Identities		Dom. Min.	Maj.	Ownership Identities		State	Forei.
		Disp1	Inst			Fam	Cong.Aff.		
<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					32 (57.75)	15 (56.45)	17 (59.39)	7 (60.01)	9 (54.87)
N Mean %	22 (11.75) 14.97%	14 (10.88) 9.52%	8 (9.45) 5.4%	58 (32.92) 39.46%	32 (57.75) 21.77%	57 (39.18) 38.8%	33 (50.85) 22.45%	25 (42.97) 17.01%	10 50.42 6.8%

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=100%

Table 4. 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	-0.483	-0.003	0.015
	(0.502)	(0.107)**	(0.908)	(0.366)	(1.188)***	(0.613)	(0.026)	(0.043)
Majority	0.497	0.388	-0.503	-1.184	0.463	-0.954	0.031	-0.009
	(0.589)	(0.113)***	(0.971)	(0.527)**	(1.003)	(0.709)	(0.029)	(0.049)
State	-0.67	0.243	-2.546	0.395	-3.03	-1.644	0.008	-0.017
	(0.828)	(0.114)**	(1.196)**	(0.393)	(1.838)***	(0.792)**	(0.034)	(0.056)
Foreign	0.212	0.455	-1.383	-1.727	0.181	-2.406	-0.015	0.06
	(0.899)	(0.117)***	(1.315)	(0.831)**	(1.110)	(1.098)**	(0.043)	(0.06)

The effect on dispersed ownership functions as baseline analysis. 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 2 presents the descriptive statistic of variables applied in this study. Apparently the sample is drawn from a fair distribution of sample size from log total assets of 3.60 to 7.37. Debt equity ratio reflects the

higher leverage phenomenon in this economy, but the dispersion is within the manageable standard deviation. Both distributions of ages are wide, but central means of 35 years of age establishment and 23 years for the range of 8 to 94 and 7 and 42 respectively are nearly to the median of the distribution of these two variable data. PE ratio appears in the wide range reflecting different firm's performance during the volatile period in 1996 and 1997.

However, the maximum value of 1150 is not more than three standard deviation (362) from the mean value. Similarly, for PE ratio 1997, the range of maximum value is equal to nearly three standard deviation from the mean value. Both signify that the range is approximately within the normal distribution.

Table 3 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.

Findings

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. We proceed with the multinominal logistic analysis to analyze the effect of each individual explanatory variables on each ownership structure.

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[4]. 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 is more costly to be shared with the dispersed shareholders. 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, dispersed structure have higher cash flow, which need to be shared with others to reduce the risk, while state due to rich resources, is more beneficial to share the risk with fewer shareholder. 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

[4] 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.

Dispersed structure also shows the highest reception 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 that they are 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 is no difference in a firm's age of listing between dispersed structure and foreign controlled as in our hypotheses. We observe no significant difference 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

We further separate ownership concentration into owner identities. Table 4 summarizes the differences in means of the variables according to ownership identities.

Table 5. 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	A
Conglomerate	0.59	AB	15.24	B	5.672	B	1.255	A	0.448	AC	0.794	B
State	0.51	AB	8.83	A	5.514	AB	1.856	B	0.34	B	0.726	BC
Foreign	0.31	B	29.34	B	5.437	AB	0.656	A	0.541	A	0.461	C
Institutional	0.84	A	7.93	B	5.293	A	0.369	A	0.441	ABC	0.581	BC
Dispersed	0.64	A	5.36	A	5.662	B	0.769	A	0.422	BC	1.319	A
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)	

The variables variances are not equal. Dunnett's test is applied.

Figures with the same letter code are not significantly different at $p<0.10$

Apparently, leverage ratio is indifferent between different ownership identities (table 5). Family-owned 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 Pomerleano'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. In summary, alignment through debt and equity portion as suggested by Jensen and Meckling (1976) is less relevant in this economy as micro economics factor prevail.

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.

With the exception of conglomerate control firms and institutional owner firms, firm's size in our sample does not appear to be very much different from each other. Consistent with our hypothesis, dispersed, state and conglomerate firms are associated with bigger firm's size. Conglomerate shows the highest value indicates the internalization of the organization structure to reduce the problem of asymmetric information. 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 and the firms are fast expanding.

On the other hand, align with Williamson's (1985) argument, we find high cash flow in

conglomerate firms. This suggests that this structure could well be created to reduce asymmetric information problem. In addition, this structure has special advantages in allocating capital to high value uses compared to the normal capital allocation process.

Consistent with the finding in table 3, but in contrast to firm's size proxy, state controlled firms show higher value of cash flow, illustrate large asymmetric information in the firms which the firms could undertake. With the exception of conglomerate and state firms, although insignificant, dispersed structure cash flow is relatively higher than others. Consistent with the finding in table 3, foreign owned firms do not seem to illustrate high cash flow.

Foreign firms and conglomerate controlled firms illustrate the highest business risk behavior. In contrast to the hypotheses, state controlled and dispersed structures are business risk averse. We found that family and conglomerate firms are found to be business risk inclined, in contrast to Clarke's (1987) argument. These findings are consistent with table 4 findings. High business risk for family and conglomerate firms may due to two reasons. First, this conforms to the suggestion by 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). In terms of capital market risk, as expected, dispersed structure respond positively to market volatility as in table 4. 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. These inefficiencies would be reflected into firms' performance. The following section address this.

Ownership Structer and Performance

As shown in the previous section, with the exception of leverage variable, and firm's size and age, ownership concentration are able to explain its associated costs and benefits of nature of the firms. Similarly, ownership identities show that the objectives of the firms should cause the similar relationship. The path theory of ownership structure (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. 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 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. We exclude foreign controlled firms in the model as it exhibits auto-correlation problem. Market performance measurement- Price-Earning ratio for 1997 is included to control for the argument that exploitation of shareholder value is severe during shock period (Lemmon and Lins, 2003).

The result in table 5 shows significant negative relationship between sales value and profitability between dispersed structure firms. Corresponding to this, dispersed structure firms' price earning ratio also appears to be negatively related. The findings signify that dispersed structure does not conform to maximization of sales objectives or to maximization of shareholder value. The negative relationship also illustrates the problem of free rider problem in the structure.

Interestingly, majority controlled firms are more profound in profit efficiency which signify that large shareholder is able to reduce agency cost. The profitability is also reflected in price earning ratio for the year 1996 and 1997. Despite so, many majority controlled firms actually failed during the crisis, therefore, it is essential to investigate from the perspective of ownership identities. On the other hand, the roles of dominant minority control firms are less significant in the maximization of shareholder value objective vis-à-vis majority controlled firms.

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 excess perquisite in the firms (Morck and Yeung, 2003), while state and financial institutions investment structure firms face free rider problem in monitoring firm's performance (Putterman, 1993; Short & Keasey, 1997).

Interestingly, even though family and conglomerate 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 and dispersed structure also suffers the least from the adverse impacts the economic crisis (PE's 1997) compared to other structures. Others category, conglomerate and state control firms lead to the most significant negative impact on firm's market value in 1997. This conforms to our earlier argument that lackadaisical governance from state controlled firms which are largely established under NEP lead to poor performance, while conglomerate firms are widely established to protect their interest as the result of NEP tend to exploit firm's value. Family controlled firms are also found to pursue sales expansion (log sales) objectives. The difference from other structures is significant. 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. Dispersed structure, on the other hand does not seem to exert significant influence on PE performance.

Table 5.(1) Ownership Concentration and Performance

	Lg Sales		*ROA*		*PE 96*		*PE 97*	
	Model 1		*Model2*		*Model 3*		*Model 4*	
c	0.488	(-1.296)	-0.271	(-4.327)***	135.08	(10.032)***	171.35	(9.946)***
Lev	0.072	(1.77)*	-0.074	(-10.817)***	-16.13	(-1.001)	-5.267	(-2.549)**
Size	0.885	(13.15)***	0.064	(5.576)***	-231.75	(-10.193)**	-29.656	(-10.174)***
Cap.Risk	-0.023	(-0.483)	-0.002	(-0.196)	32.43	(1.439)	13.567	(4.698)***
Bus.Risk	0.418	(6.59)***	0.13	(10.998)***	-93.49	(-3.237)***	-5.252	(-1.418)
Disp	-0.224	(-2.106)**	-0.051	(-2.599)***	-35.979	(-0.644)	-5.277	(-0.736)
Dom	-0.191	(-2.089)**	0.028	(1.669)*	-40.637	(-0.799)	-2.505	(-0.385)
Maj	-0.136	(-1.445)	0.048	(2.793)***	111.625	(2.153)**	18.286	(2.751)***
State	-0.223	(-2.065)**	0.029	(1.477)	39.623	(0.587)	6.545	(0.756)
R	0.782		0.257		0.137		0.155	
F-Test	(43.877)***		(34.13)***		(17.597)***		(20.331)***	

Lev =debt/equity; Div= dividend declared in 1996 Size= log firm total asset; 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.;
Disp=Despersed structure; Dom=dominant structure; Maj= Majority structure; State=State controlled firms t value in parenthesis; *p<0.10; ** p<0.05; *** p< 0.01

Table 6. Ownership Identities and Performance

	Lg Sales		*ROA*		*PE 96*		*PE 97*	
	Model 1		*Model2*		*Model 3*		*Model 4*	
c	-0.328	(-2.134)**	-0.112	(-1.631)*	179.87	(10.33)***	-0.112	(-1.631)*
Lev	0.059	(3.652)***	-0.069	(-9.515)***	-13.178	(-0.814)	-0.007	(-9.516)***
Size	0.991	(35.87)***	0.054	(4.371)***	-278.303	(-10.115)***	0.005	(4.370)***
Cap.Risk	-0.093	(-4.115)***	-0.029	(-2.908)***	9.093	(0.405)	-0.003	(-2.908)***
Bus.Risk	0.572	(10.276)***	0.05	(2.029)**	-109.896	(-1.984)**	0.005	(2.029)**
Fam	0.078	(2.122)**	-0.033	(-2.01)**	80.12	(2.193)**	-0.003	(-2.011)**
Cong	0.048	(1.13)	-0.064	(-3.406)***	4.086	(0.097)	-0.006	(-3.406)***
State	-0.056	(-2.256)**	-0.056	(-2.567)**	10.911	(0.225)	-0.006	(-2.568)**
Disp	0.025	(0.689)	-0.001	(-0.076)	-11.927	(-0.334)	-0.001	(-0.077)
Others	-0.106	(-1.498)	-0.144	(-4.586)***	-92.289	(-1.316)	-0.144	(-4.586)***
R	0.723		0.145		0.132		0.136	
F-Test	(231.34)***		(15.072)***		(13.537)***		(13.972)***	

Lev =debt/equity; Div= dividend declared in 1996 Size= log firm total asset; 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.;
Disp=Despersed structure; Dom=dominant structure; Maj= Majority structure; State=State controlled firms t value in parenthesis; *p<0.10; ** p<0.05; *** p< 0.01

Concluding Remarks

This study has uncovered some salient features of share ownership among Malaysian listed corporations. Ownership concentration and identities are not found to be influenced by leverage, the locus analysis in agency theory. These inefficiencies could cause excess leverage for over borrowing which increase risk; and under borrowing which resulted in low firm's value. Different degrees of concentration also do not reflect the influences of firm size and age, proxies for information asymmetry which cause unmatched ownership structure and could bring fore to the problem of entrenchment and exploitation on firm's value.

These inefficiencies allow ownership identities' objectives prevails over ownership concentration which is based on voting power.

In order to address this, policy on leverage is essential as current firm's leverage is largely affected by micro policy which causes the inefficiency of firm financing. The second feature, the homogenous firm size could be due to life cycle of firms which is relatively short that controlling owner stake has not been really diluted. Therefore, an active and efficient capital market is essential to assert any significant impact on this.

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