

Controlling Shareholder Ownership Structure and Conflict-Related Party Transactions

SITI HAJAR ASMAH ALI, MOHD MOHID RAHMAT, NOOR IDAYU ISMAIL & NORMAN MOHD SALEH

ABSTRACT

Concentrated companies offer various types of shareholding structures either direct, indirect, or pyramidal ownership. The opportunist controlling shareholders may intend to utilize the complex nature of indirect and pyramidal shareholding to engage in related party transactions (RPT) by concealing or hiding their related party identity. We examine the association between controlling shareholder's shareholding structure (direct shareholding (DCS), indirect shareholding (INDCS), and pyramid shareholding (PYRCS)) and RPT in Malaysia. Based on a sample of 580 companies listed on Bursa Malaysia from 2013 to 2017, we found that the controlling shareholders utilize all types of shareholding (DCS, INDCS, and PYRCS) to engage with RPT. These findings support the argument that the controlling shareholder is at the privilege to manipulate the various type of shareholding to get personal benefit through RPT. The findings also indicate that controlling shareholders with INDCS or PYRCS disclose a lower magnitude of RPT-conflict rather than controlling shareholders with DCS. We provide an important implication for capital market regulators to strengthen approval procedures or guidelines for RPT, especially upon the concentrated ownership. Also, regulators such as the MSWG may increase minority shareholder's awareness of the possibility of conflict-RPT behind the RPT among related party companies. The findings might be helpful for users to understand the relationship between controlling shareholders and RPT in other developing countries with similar governance and culture attributes to Malaysia.

Keywords: Related party transaction; ownership; controlling shareholder; personal benefit; pyramidal ownership.

INTRODUCTION

We aim to investigate the associations between various shareholding structures hold by the controlling shareholder and their engagement in conflict related party transactions (hereinafter RPT). Although RPT might be useful to serve as financial aid and help any related companies in need, past studies revealed the controlling shareholder used RPT in an abusive way to maximize personal benefit (Ariff & Hashim 2013; Dahya, Dimitrov & McConnell 2008; Kang, Lee, Lee, & Chool 2014; Villalonga & Amit 2006). In a recent local case, The Edge in the year of 2019 has reported that Genting Malaysia Berhad (GenM) acquired Empire Resorts Inc. for RM538 million which on the date of acquisition, the Empire Resorts Inc. is suffering huge losses that could be delisted from stock exchanges. The two companies are related by virtue of the same controlling shareholder. This transaction shows that the controlling shareholder could easily use RPT to transfer wealth from one company to another company, especially if both companies are controlled by the same shareholder (Amzaleg & Barak 2013; Bertrand, Mullainathan, Banerjee, Johnson, & Khanna 2002; Kang et al. 2014; Maigoshi, Latif, & Kamardin 2016; Juliarto, Tower, Zahn, & Rusmin 2013). Nevertheless, the controlling shareholder may have a personal objective behind the commencement of RPT (Louwers, Henry, Reed, & Gordon 2008). Therefore, RPT increased the controlling shareholder's wealth but has caused the minority shareholders in the most harmful position (Jian & Wong 2010; Nekhili & Cherif 2013; Ying & Wang 2013).

Overall, the market reacts negatively towards companies engaged with the RPT (Bona-Sánchez, Fernández-Senra, & Pérez-Alemán 2016; Kohlbeck & Mayhew 2010; Nekhili & Cherif 2013; Rahmat, Ahmed & Lobo 2020; Tsai 2015) because they perceived the controlling shareholders were taking advantage over their position to legitimate the RPT that brings personal benefit (Dahya et al. 2008; Rahmat, Mohd Amin, & Mohd Saleh 2018). The market poor valuation may encourage the controlling shareholder to hide or conceal the RPT engagement opportunistically by utilizing ownership shareholding structures (Mindzak & Zeng 2018; Nekhili & Cherif 2013; Riyanto & Toolsema 2008). In a concentrated company, instead of a direct shareholding, the controlling shareholder also often hold substantial shares to exercise top-down control over the chain of companies either through an indirect shareholding or pyramid shareholding (Paligorova & Xu 2012). Through indirect and pyramid structure, shareholders may be seen holding insignificant shareholding but still having substantial control over related companies. Therefore, the controlling shareholder may be able to conceal their ownership subsequently hide their conflict of interest in RPTs (Riyanto & Toolsema 2008; Mindzak & Zeng 2018). This concern motivates our study to incorporate various types of shareholding structure (direct, indirect, and pyramid) in understanding controlling shareholders' involvement towards RPT (conflict-RPT).

Generally, the RPT is legal and the nature is similar to a normal business transaction, except that the RPT is only among those who meet the definition of a related

party. A unique feature about RPT is on the consent given by *FRS124* to violate the arm's length assumption. Therefore, any selling or buying contract among related parties at lower or higher than the market price is allowable. It has been argued that violation of the arm's-length assumption could impair minority shareholders' for the benefit of the controlling shareholder who controls both entities (Rahmat et al. 2020; Wang and Yuan 2012). It is consistent with Aharony, Wang, and Yuan (2010), Hwang and Kim (2016), Tsai (2015), and Weifeng, Zhaoguo, and Shasha (2008), that find RPT will only be executed if the business contracts benefited to the controlling shareholder or to secure the control rights remain in controlling shareholder's hand. Additionally, the controlling shareholders' opportunity to exert personal wealth by abusing RPT increase (Ariff & Hashim 2013) since they have the capability to hide the related party identity via indirect or pyramid shareholding. Thus, it is not surprising that the auditors may fail to detect hidden RPT as detecting the existence of a related party is not an easy task (Louwers et al. 2008; Rahmat & Ali, 2016). To date, however, there is either limited or no systematic evidence discussed on the association of shareholding structure (i.e., direct, indirect, and pyramid) and RPT. Additionally, past studies on controlling shareholder-RPT relationships focus on direct shareholding.

We analyze 580 companies listed in Bursa Malaysia from 2013 to 2017 which consists of 2,900 observations by using fixed effect panel data. Malaysia is chosen as a sample under study because of a few factors creates Malaysia as a conducive for RPTs. First, most of the companies in Malaysia were formed in concentrated companies that are controlled by the controlling shareholders. Second, it is Malaysian culture and norms to accept inequality by not challenging those in power (Peng & Jiang 2010; Satkunasingam & Shanmugam 2006). Therefore, the minority rarely fight for their right despite knowing that the controlling shareholder manipulating business transaction for self-benefit through RPT (Sakinah Azizan & Ameer, 2012). Third, the enforcement of corporate governance in Malaysia is still weak (El-Helaly, Georgiou, & Lowe 2018; Peng & Jiang 2010) although there were many steps taken by the government. For example, the Malaysian Code on Corporate Governance (MCCG) has been regularly revised since its introduction in the year 2000. The formation of Minority Shareholder Watchdog Group (MSWG) was also unsatisfactory in protecting minorities' rights (Aguilera & Cuervo-Cazurra 2009; Al-Hiyari 2017; Htay, Salman, & Shaugee 2013; Sakinah Azizan & Ameer 2012).

We find evidence that the controlling shareholder engaged in RPT by utilizing all types of ownership structure either direct, indirect, or pyramidal ownerships, which increases the potential of the minority's wealth expropriation. These findings provide further evidence in support of the Agency Conflict Type II, that is a conflict between controlling and minority shareholders. The evidence also indicates that the controlling shareholders'

engagement in RPT is lower for pyramidal ownership and followed by indirect ownership. It is consistent with our argument that an indirect and pyramid shareholding structure provides an opportunity for controlling shareholders to hide their ability to control companies and easier to conceal their engagement. Overall, it is suggesting that the controlling shareholder may exercise their ownership, power, and position to opportunistically misuse RPT for personal benefit (Rahmat et al. 2018; Barclay et al. 2007; Lim, How, & Verhoeven 2014).

We contribute new insights to the existing literature in a few ways. First, we provide an in-depth understanding of various shareholding structure that could be misused by the controlling shareholder to engage in conflict-RPT. Second, this finding shed some light that RPT among RP companies may not be genuinely executed to help RP companies in financial difficulties but the RPT could bring personal benefit to the controlling shareholder. Furthermore, our findings could be generalizing into other developing countries with similar governance and cultural attributes to Malaysia.

We organize the rest of the paper as follows. Following the introduction, we describe the background of institutional settings and the nature of RPTs in Section 2. We review the relevant literature and develop the hypotheses in Section 3, followed by data collection and research methods in Section 4. We present empirical results in Section 5, and in Section 6, we conclude the major themes covered in our study.

INSTITUTIONAL BACKGROUND

CONTROLLING SHAREHOLDER IN MALAYSIA

Among the East Asian countries, Malaysia has a very high percentage of companies formed in a concentrated type of ownership (Claessens, Djankov, & Lang 2000). In concentrated companies, the controlling shareholder holds substantial shares which depict that the control right and cash flow rights were in the controlling shareholder's hand. An excessive percentage of shareholding may encourage the controlling shareholder to commit to a conflict-RPT (Munir, Saleh, Jaffar, & Yatim 2013). The controlling shareholder is associated with unique altruism attributed. Hence, RPT is not only used by the controlling shareholder to extract the company's wealth but also to secure the entire group of companies that could be inherited to the next generations (Anderson, Mansi, & Reeb 2003; Schulze, Lubatkin, & Dino 2003). Moreover, the expropriation activities become more prominent after companies were inherited to the next generations (Blanco-Mazagatos, Quevedo-Puente, & Delgado-Garca, 2016).

As suggested by the Agency Theory in relation to separation between shareholders (principle) and managers (agent) (Jensen & Meckling, 1976), management's appointment could limit RPT activities by the controlling shareholder. However, most of the controlling shareholder

(Choi 2008) and family members (Bertrand et al. 2008; Miller, Minichilli, & Corbetta 2013) were appointed as part of top management that could ease the execution of RPT. In certain circumstances, a professional manager sometimes is also been appointed but this manager perceived as an employee and still incapable to limit controlling shareholder's involvement in the RPT conflict (DeAngelo & DeAngelo, 2000). Therefore, expropriation of companies' wealth is unavoidable especially if the controlling shareholder holds an excessive percentage of shareholding. Various types of shareholding structure also served as an advantage to hide controlling shareholder's ability to control companies subsequently conceal engagement in RPT.

After the amendment of MCCG in 2012, Liew, Alfian, & Devi (2015) found that an increase in the percentage of ownership reduces controlling shareholder's involvement in the RPT conflict. However, the focus of Liew et al. (2015) is on direct shareholding. As compared to the other shareholding (indirect and pyramid shareholding), the direct shareholding is easy to be traced hence RPTs engagement through direct shareholding by the controlling

shareholder could easily be detected and disclosed by the auditor. We argue that controlling shareholders may continuously engage in RPT but the magnitude of RPT engagement would be lower when the controlling shareholders exercise control through an indirect and pyramid shareholding (Mindzak & Zeng 2018; Riyanto & Toolsema 2008). As indirect and pyramid shareholding is a complex shareholding structure thus auditors might have difficulties in identifying the identity of related parties (Louwers et al. 2008; Rahmat & Ali, 2016).

An indirect shareholding allows the controlling shareholder to hide their substantial control. The controlling shareholders usually do not have substantial shareholding over one entity but this entity has substantial control over another entity. Therefore, the controlling shareholder was able to control the second entity through insignificant shareholding. Meanwhile, through a pyramidal shareholding, the controlling shareholder is holding direct and indirect shareholding concurrently. An example of each of this variety shareholding is presented below.

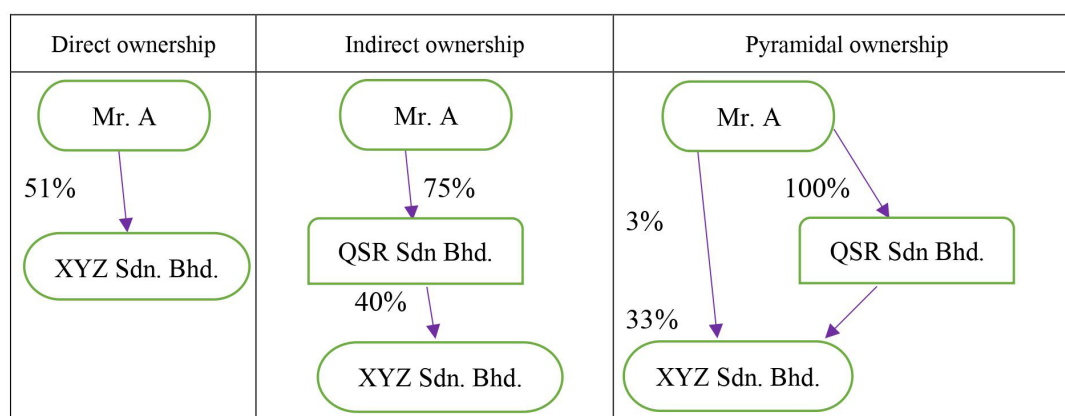


FIGURE 1. Concentrated ownership structure

Figure 1 illustrates the structure of direct shareholding, indirect, and pyramidal structures. Mr. A is the controlling shareholder of XYZ Sdn Bhd. through 51% of the direct shareholding and the auditor can easily identify Mr. A as a related party. Meanwhile, an indirect shareholding shows that Mr. A controls XYZ Sdn Bhd through QSR Sdn Bhd. Hence, the identity of Mr. A as a related party may not be identified easily unless the auditors receive all ownership information of QSR Sdn Bhd. Thus, any RPT between QRS Sdn Bhd and XYZ Sdn Bhd may result to conflict-RPT since the transaction prominently benefited to the controlling shareholder, Mr. A. Additionally, the pyramidal shareholding shows the controlling shareholder, Mr. A, is having only a small portion of a direct shareholding, 3% in which the auditors may not consider Mr. A as a substantial controlling shareholder. However, Mr. A's indirect shareholding over XYZ Sdn Bhd through the QSR Sdn Bhd entitles Mr. A to become a substantial related

party that may control and influence XYZ Sdn Bhd. The small portion of direct ownership may be used as a signal to indicate that he, not a substantial shareholder.

In Malaysia, there are different thresholds been used by different regulations i.e. the Bursa Malaysia, and Malaysia Accounting Standard Board (MASB) in deciding the controlling shareholder. While Bursa Malaysia requires more than 33 percent as a benchmark to be categorized as the controlling, the MASB through MFRS 101 calls for more than 50 percent shareholding to depicts a control. On the other hand, past literature suggests around 23 percent will qualify shareholders as the controlling shareholder.

RPT IN MALAYSIA

In Malaysia, Bursa Malaysia requires RPT to be declared in detail in Part E of the Listing Requirements immediately.

While the Companies Act 2016 (Act 777) stipulates any substantial property transaction with an individual related party must be attached with shareholder approval before the commencement of the transaction. In the most recent development, the Bursa Malaysia announced the Practice Note 12 on Recurrent Related Party Transaction requires the disclosure on any recurring RPT incurred once in every three years to be declared accordingly. Meanwhile, MFRS 124 Related Party Disclosures requires RPT disclosure to be segregated into three categories. The three categories are either RPT involved directly between entities and any individual related party, RPT engaged among related party entities or RPT between entities where both entities are controlled by the individual related party.

Past studies summarised RPTs into two streams. First, RPT is used as a sound business transaction that allows the sharing of resources among entities. This type of RPT commonly be used to prop up underperforming related party's companies (Jian & Wong 2010; Ying & Wang 2013), to help companies getting listed in the stock exchange (Aharony et al. 2010) or to assist companies to maintain higher share prices (Tsai 2015). From this perspective, past studies categorized RPT as an RPT efficient transaction that associates with a higher market valuation (Wong & Kim 2015). However, the more extensive past discussion focused on the second category of RPT. An opportunist related parties, specifically the controlling shareholder, may use RPT in an abusive way by creating a self-dealing transaction to tunnel out companies' wealth and turn into a personal benefit (Johnson, La Porta, Lopez-De-Silanes, & Shleifer 2000; Rahmat et al. 2018). As a result, the minority shareholders of companies where resources have been tunnel out will receive a lower profit distribution. This RPT is known as the RPT conflict. Subsequent to this, the market reacts negatively towards the RPT conflict (Gordon, Henry, & Palia 2004; Kohlbeck & Mayhew 2010; Lin & Liu 2010; Nekhili & Cherif 2013). We argue that although RPT among RP companies may be seen as an RPT-efficient, however, the RPT might be benefited to the controlling shareholder if both companies are controlled by the same controlling shareholder. It should not be longer known as RPT-efficient but the RPT-conflict instead. Nevertheless, it is not easy to determine a genuine objective of RPT's implementation (Louwers et al. 2008).

THEORY, PAST EVIDENCE, AND HYPOTHESES DEVELOPMENT

The agency theory explains the relationship between managers and shareholders in which the managers are appointed with a specific purpose to maximize the shareholders' interest (Jensen & Meckling 1976). However, due to an information asymmetry, the managers may opportunistically utilize their position to maximize their personal benefits rather than the shareholders. This manager and shareholders conflict of interest is renown as an agency conflict Type I (Jensen & Meckling 1976; Fama & Jensen 1981). In this circumstance, the managers may engage in RPT with intention to expropriate shareholders'

wealth (Dahya et al. 2008; Jian & Wong 2010; Kohlbeck & Mayhew 2010). However, in the premise of concentrated ownership, a conflict between shareholder and manager is at a minimum because most of the shareholder is also part of management (Hope, Christian, & Thomas 2012). Most of the controlling shareholder involves in managing the companies as a top management either chief executive officer or executive chairman (Choi 2008). The controlling shareholders also favour to appoint their family members (Bertrand et al. 2008; Miller, Minichilli, & Corbetta 2013) as part of top management. Nevertheless, the domination of controlling shareholders via concentrated ownership critically arises the agency conflict Type II, i.e., a conflict involving the controlling and minority shareholder. This company's environment could ease the execution of RPT. This is because, being part of management provide many advantages to the controlling shareholder such as chances to nominate a board of directors (Cullinan et al. 2012), ability to determine manager's remuneration, appointment, and dismissal (Conyon & He 2012), also able to influence auditor selection process (Almer, Philbrick, & Rupley 2014; Darmadi 2016; Ho & Kang 2013; Rahmat & Ali 2016). The controlling shareholder is also having more information about companies (Gilson 2006). Thus, we argue that controlling shareholders can easily design and manipulate the RPT by dominating the decision-making process as well as to hide the engagement or their identity (Hope et al. 2012).

Extensive past studies found strong evidence between controlling shareholders and their engagement in RPT that brings self-benefit to the controlling shareholder (Berkman et al. 2009; Cheung et al. 2009; Juliarto et al. 2013; Kang et al., 2014). The RPTs were done directly between companies and controlling shareholders such as by rendering personal loans to controlling shareholders (Gordon, Henry, & Palia 2004a) or issuing a guarantee of payment for loans made by the controlling shareholder (Berkman et al. 2009). However, some studies found that the controlling shareholder was also enjoying hidden personal benefit by executing the RPT among controlled companies. The controlling shareholder transferred wealth from a controlled company with a lower cash flow right to another controlled company that gives them higher cash flow rights (Bertrand et al. 2002; Chen & Wu 2010; Kang et al. 2014).

Past studies often determined controlling shareholders based on the percentage of direct shareholding (Munir et al. 2013; Rahmat et al. 2018). Overall, past studies documented evidence that controlling shareholders actively and opportunistically engage in RPT (Ariff & Hashim 2013; Dahya et al. 2008; Munir et al. 2013). The high percentage of shareholding encourages the controlling shareholder engaged in conflict-RPT. Aligned with the theory and past studies, we argue that controlling shareholders withholding direct ownership will also actively engage in RPT but they are willing to disclose the conflict-RPT appropriately following the MFRS 124. Since the ownership via direct shareholding is easy to

be traced hence RPTs engagement by the controlling shareholder through direct shareholding could easily be detected and disclosed by the auditor. Therefore, the controlling shareholders were presumed to always engage with the conflict-RPT, hence, the following hypothesis is suggested:

H_{1a}: There is a positive relationship between a direct shareholding by the controlling shareholders and conflict-RPT.

Additionally, the investors value RPTs negatively since they perceive that RPTs often used by the related parties as a tool to maximize personal benefits (Kohlbeck & Mayhew 2010; Nekhili & Cherif 2013; Rahmat et al. 2020). Therefore, a negative market reaction encourages the controlling shareholder to conceal their engagement in the conflict-RPT (Nekhili & Cherif 2013; Rahmat et al. 2020) by manipulating a complex ownership structure available in concentrated ownership. Although most of past studies found that RPT among RP companies were presumed to be an efficient transaction (RPT efficient) (Aharony et al. 2010; Tsai 2015; Yeh, Shu, & Su 2012; Ying & Wang 2013), these past studies ignored the shareholding structure of companies. The shareholding structure either direct, indirect, or pyramidal should not be neglected in discussing the RPT among controlled companies because there is a potential chance for the controlling shareholder to enjoy personal benefit especially if both companies are controlled by the same shareholder.

Therefore, any execution of RPT among controlled companies could also bring personal benefit to the controlling shareholder. The main concern is about to what extent the controlling shareholder willing to disclose the RPT appropriately. In contrast, the controlling shareholders tend to manipulate the shareholding structure which purposely to conceal the conflict-RPT from being identified. Thus, an indirect and pyramidal shareholding may serve as a tool for controlling shareholders to engage in RPT (Mindzak & Zeng 2018; Riyanto & Toolsema 2008).

The controlling shareholders may favor exercising control through indirect or pyramid shareholding since

the identity of the controlling shareholders (related party) may not easy to be traced. Hence, any RPTs engagement involving controlling shareholders through indirect or pyramidal shareholding could be considered as a normal transaction if the auditor miss to identify the presence of the related party, i.e., controlling shareholders. We concern that the controlling shareholders may continuously engage in RPT but the magnitude of RPT engagement and disclosure would be lower than the controlling shareholders with direct shareholdings (Mindzak & Zeng 2018; Riyanto & Toolsema 2008). As indirect and pyramid shareholding is a complex shareholding structure, and the auditors might have difficulties in identifying the identity of related parties (Louwers et al. 2008; Rahmat & Ali 2016), thus, we suggest the following hypotheses:

H_{1b}: The positive relationship between controlling shareholder and conflict-RPT is lower for indirect shareholding than direct shareholding.

H_{1c}: The positive relationship between controlling shareholder and conflict-RPT is lower for pyramidal shareholding than direct shareholding.

RESEARCH DESIGN

SAMPLE SELECTION

Our study uses a sample from companies listed in Bursa Malaysia during the period from 2013 to 2017. Listed companies in 2018 onwards were excluded due to a revised MCCG that took place in 2017 and effective starts on financial year-end 2018. Financial institutions were excluded from this sample because this sector is subject to more complex laws and regulations (Saad 2010). The total sample for this study is 580 companies with 2,900 observations. Table 1 below show detail for our sample selection. We downloaded annual reports from the Bursa Malaysia website, and hand-collected data manually through the annual report especially data on RPT, ownership structure, and corporate governance structure. Meanwhile, data for other control variables associated with the company's characteristics are extracted from DataStream.

TABLE 1. Sample selection

	Total samples
Total companies listed in Bursa Malaysia as at 6th November 2018	800
Less:	
The financial institution, insurance, and banking	(34)
Missing data	(186)
Total sample	580
The total years of observation are 5 years (from 2013 to 2017). Hence the number of observations is derived by 580 x 5 years.	2,900

REGRESSION MODEL AND VARIABLE MEASUREMENT

We used the Fixed Effect Model (FEM) to examine the hypotheses. The regression model used for this study is as follows:

$$RPT-conflict_{i,t} = \beta_0 + \beta_1 DCS_{i,t} + \beta_2 INDCS_{i,t} + \beta_3 PYRCS_{i,t} + \beta_4 CSIZE_{i,t} + \beta_5 CLEV_{i,t} + \beta_6 ROA_{i,t} + \beta_7 AudQ_{i,t} + \beta_8 ACIND_{i,t} + \beta_9 BDSIZE_{i,t} + \varepsilon_{i,t}$$

In which,

$RPT-conflict_{i,t}$	= RPT-conflict
$DCS_{i,t}$	= controlling shareholders via a direct shareholding
$INDCS_{i,t}$	= controlling shareholders via an indirect shareholding
$PYRCS_{i,t}$	= controlling shareholders via a pyramid shareholding
$CSIZE_{i,t}$	= a client size
$CLEV_{i,t}$	= company's leverage
$ROA_{i,t}$	= return on assets
$AudQ_{i,t}$	= audit quality
$ACIND_{i,t}$	= audit committee independence
$BDSIZE_{i,t}$	= board size
$\varepsilon_{i,t}$	= error term

We define RPT-conflict as RPT among related party entities with controlling shareholders holding interest over both entities (companies). Although previous studies categorized RPT among related party entities as a mechanism to increase the company's efficiency we argue that dual ownership on related-party companies may provide an opportunity for controlling shareholders to increase personal wealth. This transaction is more harmful to minority shareholders as compared to RPT with the individual related party (Nekhili & Cherif 2013). RPT-conflict is measured as a natural logarithm of total RPT-conflict i.e., RPT among related-party companies in which both companies are controlled by controlling shareholders (Gordon, Henry, & Palia 2004b; Habib, Jiang, & Zhou 2015; Utama & Utama 2012).

Additionally, we align with the Bursa Malaysia to use 33% of ownership as a benchmark to categorize the controlling shareholder. We use a binary variable for various type of shareholding named as *DCS*, *INDCS*, and *PYRCS*. *DCS* represents companies controlled by the controlling shareholder through direct shareholding. Any shareholder with more than 33% direct shareholding (*DCS*) was remark as '1' and '0' for otherwise. *INDCS* is that controlling shareholders controlled the companies through indirect shareholding. For shareholders with more than 33%, indirect shareholding (*INDCS*) were also remark as '1' for *INDCS* and '0' for otherwise. While *PYRCS* is that the controlling shareholders control the companies through a combination of direct and indirect shareholding (pyramidal ownership). Thus, shareholders with pyramidal shareholding (*PYRCS*) with more than 33% were remark as '1' and '0' for otherwise. Nevertheless, because *PYRCS*

comprise of *DCS* and *INDCS* hence shareholders with the remark as '1' under *PYRCS* may also be remark as '1' either for *DCS* or *INDCS* if their shareholding is more than 33% for *DCS* or *INDCS* respectively.

Additionally, we also include control variables representing of company's and governance's characteristics differences to avoid influence in the association between controlling shareholder and RPT. Three control variables which representing company's characteristics are *CSIZE*, *CLEV*, and *ROA*. *CSIZE* represents the company's size which is measured by the natural logarithm of the company's assets. According to Kang et al. (2014), controlling shareholders always expropriate the company's wealth regardless of the company's size. Also, an increase in the company's debt motivates to RPT conflict (Bona-Sánchez, Fernández-Senra, & Pérez-Alemán 2016; Haji-Abdullah & Wan-Hussin 2015; Liew et al., 2015). Therefore, we control the company's debt through *CLEV* by dividing total debt to the total asset. Return on asset (*ROA*) is calculated by dividing net profit over the total asset. Meanwhile, the control variables for governance's attributes are audit quality (*AudQ*), the audit committee independence (*ACIND*), and size of board of directors (*BDSIZE*). *AudQ* is a binary variable, value denotes as equal to "1" if the company is audited by the Big 4 or "0" otherwise (Rahmat & Ali 2016). *ACIND* is the proportion of independent non-executive members to total members on an audit committee. *BDSIZE* is determined based on the actual number of board members (Rahmat et al. 2018).

RESULTS

DESCRIPTIVE ANALYSIS AND MULTICOLINEARITY

Table 2 shows a descriptive analysis based on 2,900 observations used for this study. The mean (median) for the main dependant variable, RPT-conflict, is 5.909 (6.900) and a standard deviation of 2.715. A maximum and minimum value for RPT are 9.400 and 0.000 respectively. A 0.000 minimum value of RPT depicts there are companies in the sample do not involve in RPT. Meanwhile, the mean value for *DCS*, *INDCS*, and *PYRCS* is 0.844, 0.368, and 0.472 respectively. This finding implies the controlling shareholder with *DCS* are holding an average of 84.4% shareholding, while an average of *INDCS* holding 36.8% and 47.2% shareholding for *PYRCS*.

Panel B in Table 2 depicts the frequency of dummy variables used in this study which refers to the different types of ownership (*DCS*, *INDCS*, *PYRCS*) and *AudQ*. As suggested by past Bursa Malaysia, this study uses 33% of shareholding as a guideline to classify the controlling shareholder through the *DCS*, *INDCS*, or *PYRCS*. Results in Panel B1 shows a frequency detail of controlling shareholder at 33% of the shareholding. As shown in Table 2, Panel B1 above, the controlling shareholder with more than 33% shareholding through direct shareholding

is about 84.45%, indirect shareholding is 37.38% and pyramidal shareholding is 34.14%. Table 2, Panel B2 shows that there are 1,462 of companies, or 50.40% out of the sample are audited by Big 4 auditors. For all continuous variables, we winsorized control variables at 1%. The mean and standard deviation for CSIZE is 5.725

and 0.634 respectively. Meanwhile, the mean value for CLEV and ROA is 0.181 and 0.056 accordingly. The standard deviation is 0.155 (CLEV) and 0.111 (ROA). The maximum value of ACIND is 1.000 with a mean of 0.892. The BDSIZE maximum, minimum and mean value is 13.000, 4.000, and 7.307 respectively.

TABLE 2. Descriptive and frequency analysis (n=2,900)

Panel A: Continuous variables (n=2,900)					
	Mean	Median	Maximum	Minimum	Standard deviation
RPT-conflict	5.909	6.900	9.400	0.000	2.715
CSIZE	5.725	5.670	7.640	3.870	0.634
CLEV	0.181	0.160	0.760	0.000	0.155
ROA	0.056	0.060	1.050	-0.940	0.111
ACIND	0.892	1.000	1.000	0.600	0.148
BDSIZE	7.307	7.000	13.000	4.000	1.809
Panel B: Dummy Variables(n=2,900)					
Panel B1: Controlling shareholder >33%					
	Frequency		Percentage		
DCS-33 (>33%)	2,499		84.45		
Non-DCS-33	401		15.55		
Total					
INDCS-33 (>33%)	1,084		37.38		
Non-INDCS-33	1,816		62.62		
Total	2,900		100.00		
PYRCS-33 (>33%)	990		34.14		
Non-PYRCS-33	1,910		65.86		
Total	2,900		100.00		
Panel B2: Audit Quality					
	Frequency		Percentage		
Big 4	1,462		50.40		
Non-Big 4	1,438		49.60		
Total	2,900		100.00		

Notes: $RPT-conflict_{i,t}$ = RPT-conflict; $DCS_{i,t}$ = controlling shareholders via a direct shareholding; $INDCS_{i,t}$ = controlling shareholders via an indirect shareholding; $PYRCS_{i,t}$ = controlling shareholders via a pyramid shareholding; $CSIZE_{i,t}$ = a client size; $CLEV_{i,t}$ = company's leverage; $ROA_{i,t}$ = return on assets; $AudQ_{i,t}$ = audit quality; $ACIND_{i,t}$ = audit committee independence; $BDSIZE_{i,t}$ = board size

The detail of each independent variable is presented in Table 2. Table 2 presents a fraction of controlling shareholders based on a different percentage of holding. 23% shareholding is used in accordance to past literature finding who suggest that 23% shareholding depicts control (Claessens et al. 2000; Lim, How & Verhoeven 2014; Rahmat et al. 2018; Sulong & Nor, 2010), 33% is used based on Bursa Malaysia guideline and more than 50% shareholding is based on MFRS 124 guideline. Overall, at each level of percentage, the controlling shareholder has control over related-party companies mostly through

direct shareholding and the least are controlled through pyramidal shareholding.

Table 3 presents the Pearson correlation among all independent variables used in this study. Based on Table 3 highest correlation is only between $PYRCS$ and $INDCS$ with 0.56. Thus, there is no indication of a high correlation among independent variables which means that there is no multicollinearity problem. Furthermore, the tolerance and VIF values for each independent variable are less than 0.1 and not more than 10 respectively. Hence it is confirmed that there is no multicollinearity issue (Field, 2009).

TABLE 3. Pearson correlation

	DCS	INDCS	PYRCS	AudQ	CSIZE	CLEV	ROA	ACIND	BDSIZE
DCS	1.00	0.30	0.20	0.17	-0.04	-0.03*	0.07	-0.03*	0.12
INDCS	-	1.00	0.56	0.08	-0.02*	-0.05	0.01	0.02	0.05
PYRCS	-	-	1.00	0.08	0.00	0.04	0.00*	0.07	0.11
AudQ	-	-	-	1.00	0.03*	0.10*	0.05*	-0.13	0.14
CSIZE	-	-	-	-	1.00	0.10*	-0.02*	-0.01	0.00*
CLEV	-	-	-	-	-	1.00	-0.10*	0.01	0.14*
ROA	-	-	-	-	-	-	1.00	-0.01	0.06*
ACIND	-	-	-	-	-	-	-	1.00	0.03
BDSIZE	-	-	-	-	-	-	-	-	1.00

Notes: $RPT-conflict_{i,t}$ = RPT-conflict; $DCS_{i,t}$ = controlling shareholders via a direct shareholding; $INDCS_{i,t}$ = controlling shareholders via an indirect shareholding; $PYRCS_{i,t}$ = controlling shareholders via a pyramid shareholding; $CSIZE_{i,t}$ = a client size; $CLEV_{i,t}$ = company's leverage; $ROA_{i,t}$ = return on assets; $AudQ_{i,t}$ = audit quality; $ACIND_{i,t}$ = audit committee independence; $BDSIZE_{i,t}$ = board size. *** represent statistical significance at 5%

MULTIPLE REGRESSION RESULTS

We run the Hausmann test and the redundant likelihood test to determine which model is more appropriate either the fixed effect model or the random model. The results

are not tabulated but suggest that the fixed effect model is more appropriate to be used for the analysis. The regression results of the analysis are shown in Table 4.

TABLE 4. Regression result for H_1

	DV- RPT-conflict	
	Coefficient	t-statistic
C	5.210	18.948***
DCS	0.262	3.822***
INDCS	0.185	2.917***
PYRCS	0.195	1.622*
AudQ	-0.081	-0.370
CSIZE	0.067	2.004**
CLEV	0.725	1.869*
ROA	1.088	3.397***
ACIND	0.040	0.159
BDSIZE	-0.026	-1.038
Adjusted R ²	82.2%	
Prob (F-Statistic)	0.000	
N	2,900	

Notes: ***significant at p -value < 0.01 , **significant at p -value < 0.05 , *significant at p -value < 0.1 .

$RPT-conflict$ is a natural logarithm of total RPT Conflict. DCS is remark as "1" if the direct shareholding is more than 33%, INDCS is remark as "1" if the indirect shareholding is more than 33%, PYRCS is remark as "1" if the pyramidal shareholding is more than 33%, AudQ denotes as equal to "1" if the company is audited by the Big 4 or "0" otherwise. CSIZE is a natural logarithm of a company's total assets. CLEV is a company's leverage scaled in the ratio of total debt over total assets. ROA is the ratio of return on assets. ACIND is the proportion of independent non-executive members to total members on an audit committee. BDSIZE is the actual number of board members.

From Table 4 below, this model is significant at p -value < 0.01 with a high adjusted R² at 82.2%. Among control variables only CSIZE (coefficient 0.067, t-statistic 2.004), CLEV (coefficient 0.725, t-statistic 1.869) and ROA (coefficient 1.088, t-statistic 3.397) are positively related to RPT. Other control variables do not have any

association with RPT. The results show DCS (coefficient 0.262, t-statistic) and INDCS (coefficient 0.185, t-statistic 2.917) are positively related to RPT significantly at p -value < 0.01 . Table 4 also shows that PYRCS (coefficient 0.195, t-statistic 1.622) is slightly significantly related to RPT at p -value < 0.10 . Therefore, H_{1a} , H_{1b} , and H_{1c} are supported.

A positive relationship between DCS, INDCS, and PYRCS, at 33% of shareholding could indicate that the controlling shareholder is not only engaged with RPT through direct shareholding but also using indirect and pyramidal shareholding to engage with RPT. The coefficients for the DCS, INDCS, and PYRCS are 0.262, 0.185, and 0.195 respectively that indicating the disclosed magnitude of RPT is lower for indirect and pyramidal shareholding than direct shareholdings. These findings are also consistent with the argument that controlling shareholders with indirect or pyramidal shareholding may utilize the complexity of the ownership structure to hide or conceal the related party's identity.

Thus, this finding gives support to the Agency Theory view, which suggests that the controlling shareholder is at privilege who can earn personal benefit from business transactions, particularly through RPT. By positioning themselves in a top management position, the controlling shareholder is in a position to manipulate their power and position for their benefit (Rahmat & Ali 2016). Consistent with Dahya et al. (2008) and Nekhili and Cherif (2013), we proved that RPT among RP companies will only be benefited to the controlling shareholder if both companies are controlled by the same related party. In concentrated ownership, RPT has widened the agency conflict Type II since the controlling shareholder regardless of the type of shareholding.

CONCLUSIONS

The main objective of this paper is to investigate the relation between three structures of controlling shareholder's ownership and RPT conflict in Malaysia for the period from 2013 to 2017. The controlling shareholders expropriate the company's wealth not only through direct shareholding but also through indirect and pyramidal shareholding. Although RPT among RP companies may not be seen as harmful to the minority shareholder, however, attention must be extended to controlling shareholders' shareholding structure not only depend direct shareholding but to include indirect and pyramidal shareholding. The controlling shareholder may not apparently be seen as having control over any companies but in fact, they still do. Hence, these findings conform to Nekhili & Cherif (2013) who said that RPT among related-party companies is the most harmful because it's been the main source for expropriation by the controlling shareholder.

Our study suffers some limitations. First, following a past finding by Bertrand et al. (2008) and Villalonga and Amit (2006), we assume that most of the controlling shareholders have also participated in management. Our findings might differ if the controlling shareholder is not part of management. Second, we define DCS, INDCS, and PYRCS based on the disclosure in financial statements. The disclosure is voluntarily based, hence, there might be some information that might not be disclosed properly by companies. This study may

potentially give an important implication for capital market regulators to strengthen approval procedures or to provide a guideline for best practices on RPT, especially upon the concentrated ownership. Also, regulators such as the MSWG may increase minority shareholder's awareness of the possibility of conflict-RPT behind the RPT among related party companies. Furthermore, findings from this study might be helpful for users to understand the relationship between controlling shareholders and RPT in other developing countries with similar governance and culture attributes to Malaysia. Finally, we recommend the policymakers and regulators to strengthen the corporate governance practice upon the concentrated ownership structure to limit conflict-RPT.

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Siti Hajar Asmah Ali
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 UKM Bangi, Selangor
MALAYSIA
E-mail: maya.ayunnie@gmail.com

Mohd Mohid Rahmat*
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 UKM Bangi, Selangor
MALAYSIA
E-mail: mohead@ukm.edu.my

Noor Idayu Ismail
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 UKM Bangi, Selangor
MALAYSIA
E-mail: nooridayuismail79@gmail.com

Norman Mohd Saleh
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 UKM Bangi, Selangor
MALAYSIA
E-mail: norman@ukm.edu.my

* Corresponding author