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Effects of Ownership Structure on Malaysian Companies Performance

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ABSTRACT

The aim of this paper is to examine effects of managerial and family ownership structure on the company performance. The sample consists of four hundred and twenty companies listed on Bursa Malaysia for the year from 2003 to 2007. The study shows that equity ownerships in Malaysia are concentrated on few owners mainly by the State government, families or large corporations. Results reveal that managerial ownership relates significantly to return on assets (ROA) and return on equity (ROE) while family ownership relates significantly to Tobin's Q, ROA and ROE. Results suggest that an increase in the proportion of insider ownerships enhances the company performance due to re-alignment of internal and external interests and reduction in conflict of interests among shareholders. The results further indicate that the firm performance decreases when the managers' share ownership increases. Managers with greater control and large shareholdings are more concerned with their own self-interests than the interests of the shareholders at large.

Keywords: Managerial; family; ownership; performance; Malaysia

INTRODUCTION

Ownership structure is one of the important factors in shaping the corporate governance system of a firm. The concentration of ownership is beneficial to corporations because large shareholdings would allow for greater monitoring of managers (Jensen & Meckling 1976). The absence of separation between ownership and control reduces the conflicts of interest between owners and managers which would in turn increase the shareholders' value (Morck, Shleifer & Vishny 1988).

Controlling shareholders is common in East Asian corporations. Firms are usually controlled by families or the State government who have power primarily through the use of pyramids and participation in management (La Porta, Lopez-De-Silanes & Shleifer 1999). A study by Claessens, Djankov and Lang (2000) in nine East Asian countries including Malaysia reports that more than two thirds of the firms are controlled by single shareholders. About 60% of concentrated firms' top management relate to the family of the controlling shareholder. The extensive family control is more than half of East Asian firms.

In Malaysia, share of most Malaysian companies are commonly concentrated by the ownerships of the State, families or individuals. On the average, 73% of the shareholdings are owned by the top twenty shareholders (Abdullah & Mohd-Nasir 2004). A study shows that, on average, the largest shareholder holds 36% of the firm's shares (Abdullah 2001). In 1997, the ownership structure held by the nominee companies was 45.6% of the total shares held by the top five shareholders. However, the ownership pattern has changed over time and the majority of shareholdings by the nominee companies and institutions were owned by families (Zhuang, Edwards & Capulong 2001).

Hui (1981) found that, from 1974 to 1976, 69% of total shares in 62 largest Malaysian firms is owned by only 0.8% of the total number of shareholders. In 1993, three largest owners in the ten Malaysian largest non-financial domestic listed companies was 54%. The ownership by the (La Porta, Lopes-de-Silanes, Shleifer & Vishny 1998). A survey conducted by PricewaterhouseCoopers (1998) shows that almost 97% of Malaysian Public Listed Companies (PLCs) are substantial shareholders with 33% of them involved in management. A substantial shareholder is defined as having at least 5% (direct or indirectly) of the aggregate of nominal amounts of all the voting shares in the firm, as defined in Section 69D, Companies Act 1965.

Therefore, this study examines the managerial ownership structure and family ownership structure with company performance. Managerial ownership refers to where the managers (the executive directors) are the shareholders of the company (Jensen & Meckling 1976; Mat Nor, Said & Redzuan 1999; Mohd Sehat & Abdul Rahman 2005; Mat Nor & Sulong 2007; Mohd Ali et al. 2008). Family ownership is defined as family members who own company shares, and, act as the executive directors in the company (Ng 2005; Andres 2008; Chu 2009; Lin & Chang 2010).

This study predicts that there are differences in company performance because for managers that work for companies, they will strive hard and make sure those companies are making profit. Thus, these managers will expect to receive bonuses and shares from the companies as a return for the hard work done. However, for the family directors, they have two choices – to strive hard, to ensure that family companies are making great profit, and later, they are the ones that receive the returns in terms of bonuses or shares, or just feel comfortable with the

current situation within which they are operating and only endeavour to sustain their businesses. Therefore, this study expects some differences in ownership between managerial ownership and family ownership. It is expected that the findings from this study could enhance the literatures relating to ownership structure in the Malaysian context, and provide meaningful information to investors at large on the structure of ownership in Malaysia, thereby enabling better comparison with other Asian countries.

The presentation format of this study is as follows. First, the introduction section highlights the problem statement and motivation of the study. Then, discussions pertaining to the ownership structure and firm performance will be deliberated in the literature review section. The research methodology is then explained. Then the research findings and discussion are presented. Finally, the research findings are summarized followed by the limitations of the study, and recommendations for future study.

Literature Review

The ownership structure is an important factor in shaping the corporate governance system. The degree of ownership concentration in a company is determined based on the distribution of power between its managers and shareholders. The concentration of ownership is beneficial to companies as large shareholdings allow for greater monitoring of managers (Jensen & Meckling 1976). Thus, the absence of separation between ownership and control reduces conflicts of interest and increases the shareholders' value (Morck, Shleifer & Vishny 1988).

The ownership structure is also a primary determinant of the agency problems between controlling insiders and outside investors, which has important implications for the valuation of the firm (Lemmons & Lins 2003). The controlling insiders can potentially disadvantage outside investors by diverting resources for their personal use or by committing funds to unprofitable projects that provide private benefit but reduce the firm's value. Alternatively, by investing resources in good projects, the firm's value increases and the insiders can increase their wealth in proportion to their claims on the firm. The next section of this paper discusses the literature relating to managerial ownership and family ownership.

Managerial Ownership

Past researchers (Morck et al. 1988; McConnell & Servaes 1990) found a nonlinear relationship between managerial ownership and the performance of US firms. Managerial ownership is a way to curb agency problems by encouraging manager-owners to look to entrepreneurial gain, which gives them an incentive to increase the value of the organization rather than to shirk (Jensen & Mecking 1976). Research has found that there is a linear relation between firm performance and managerial ownership structure (Demsetz & Lehn 1985). Jensen and Meckling (1976) suggest the alignment-of-interest hypothesis. Due to a reduction of agency costs, this hypothesis predicts that firm value and operating performance increases as management ownership rises. Jensen and Meckling (1976) explain that when managerial ownership increases, there is a greater alignment of interests of managers and outside shareholders. Managerial ownership and firm performance is observed to have a positive relationship when ownership is below 5% (Holderness, Kroszner & Sheehan 1999).

However, at certain levels of equity ownership, managers' consumption of perquisites may outweigh the loss they suffer from a reduced value of the firm. Therefore, the entrenchment hypothesis predicts a negative relation between operating performance and managerial ownership (Fama & Jensen 1983). A high level of managerial ownership in a high information asymmetry environment allows managers to indulge preferences for non-value-maximizing behaviour. Studies evidence that at high levels of managerial ownership, managers become entrenched in their positions resulting in a negative relation between managerial ownership and firm valuation (Stulz 1988).

Mat Nor and Sulong (2007) argue that when managers own a smaller portion of the organisation's share, they have greater incentive to pursue personal benefits and less incentive to maximise organisation value. Thus, to reduce the agency costs is to increase the shares held by the managers. Owner-managers become more efficient in controlling the corporate assets than hired managers.

More recent research accounts for both the alignment and entrenchment hypotheses by considering a nonlinear relationship between managerial ownership and firm performance. Experts found that when Tobin's Q was used as a proxy of firm value, 'the alignment of interest' occurs at low levels of managerial ownership but that 'entrenchment' takes place at high levels of ownership (Morck et al. 1988; McConnell & Servaes 1990). Morck et al. (1988) found that the alignment hypothesis effects are dominant within the 0 to 5% range and above the 25% level, and that the entrenchment effect is dominant within the 5 to 25% ownership range. McConnell and Servaes (1990) propose a quadratic model in which the coefficient on managerial ownership is expected to be positive, while the coefficient on managerial ownership is expected to be negative. However, they do not support the entrenchment findings by Morck et al. (1988) at the intermediate ownership level.

Subsequently, Short and Keasey (1999) argue that a cubic model better describes the transition between alignment affects to entrenchment affects and back to alignment. The coefficients on ownership and ownership cubic are expected to be positive, while the coefficient on ownership-squared is expected to be negative. Their evidence supports the cubic model of ownership structure to describe firm performance. The findings are consistent with Morck et al. (1988). The entrenchment effect takes place when managerial ownership is between 16% and 42%, which is slightly different from the 5% to 25% of Morck et al. (1988). Stulz (1988) demonstrates that at sufficiently high levels of managerial ownership,

managers become entrenched in their positions resulting in a negative relation between managerial ownership and firm value. Rose (2005) argues that managers who control a substantial part of the firm's equity may be able to have sufficient influence to secure the most favourable employment conditions, including an attractive salary. A study in the United States (US) found that, on average, managerial ownership is significantly negative every year (1988 to 2003) for American firms. In this study, firm value was measured using Tobin's Q. Managers are more likely to significantly decrease their ownership when their firms are performing well, and more likely to increase their ownership when their firms become financially constrained (Fahlenbrach & Stulz 2010).

Local studies have found that when the directors' ownership is at a range of 5% to 25%, the financial performance is significant. However, at other ranges, there is no relationship between ownership and performance (Mat Nor, Said & Redzuan 1999). Yarram and Balachandran (2005) conducted a study for non-financial companies in 2004. They found that Tobin's Q has no significant influence on managerial ownership. Perhaps, political connections may have a pervasive influence on corporate decisions in Malaysia (Johnson & Mitton 2003). Ali Ahmed (2009) points out that there is a positive association between managerial ownership and Malaysian firm performance. It is further supported by Mahmud, Muhd Kamil & Pok (2010) that managerial ownership has a significantly positive association with firm performance measured using Tobin's Q and ROA, which is consistent with the alignment-of-interest hypothesis. On average, 26% of shares issued by Malaysian firms are held, directly or indirectly by directors.

Thus, based on the arguments in the empirical studies, this study predicts that the managerial ownership has a non-linear relationship (alignment-entrenchment-alignment) with firm performance. At a low level of ownership, when managers are rewarded with shares, they feel happy and are motivated to work for the company. As the level of ownership increases, managers start to manipulate or control the company by potentially expropriating the interests of the minority shareholders for their personal interests. Next, when the shareholdings increase beyond, firm value starts to enhance again. At this stage, managers with high shareholdings may become the substantial or controlling shareholder of the company. Therefore, these managers want to ensure that the firm gains profits and it is aligned with the interest of the managers. Therefore, it is hypothesised that:

H_{1a} Ceteris paribus, there is a non-linear relationship (alignment-entrenchment-alignment) between managerial ownership and Tobin's Q.

H_{1b} Ceteris paribus, there is a non-linear relationship (alignment-entrenchment-alignment) between managerial ownership and Return on Assets (ROA).

H_{1c} Ceteris paribus, there is a non-linear relationship (alignment-entrenchment-alignment) between managerial ownership and Return on Equity (ROE).

Family Ownership

Family ownership is prevalent in most countries around the world. In the US, families present one-third of the S&P 500 and account for 18% of outstanding equity. It is found that there is a nonlinear relationship between family holdings and firm performance (Anderson, Mansi & Reeb 2003). Most of the firms are family companies whereby the legal control of voting stock is held by one or a few families who are either related in some way or share a certain degree of affinity or alliance (Corbetta 1995). Faccio and Lang (2002) note that firms in the UK and Ireland are 44.29% controlled by families. A research conducted by Franks and Mayers (2001) reports that family shareholdings account for one-third of total shareholdings in Germany.

Families also have a strong incentive to decrease agency costs and increase the firm value. Concentrated shareholders have a strong economic incentive to monitor managers and decrease agency costs (Demsetz & Lehn 1985). Since families usually invest most of their private wealth in the company and it is not well-diversified, families are more concerned with the firm's survival and have a strong incentive to monitor management closely. Monitoring costs tend to be lower in companies controlled by family than by non-family (Fleming, Heaney & Rochelle 2005; Fama & Jensen 1983). Anderson et al. (2003) show that family firms enjoy a lower cost of debt financing compared to non-family firms. This is because families have a committed, undiversified stake in the company and induce a strong incentive to monitor, as the company survival and its value maximisation is important to them. The unique interests associated with the long-term family commitment explain that family ownership is an organizational structure that decreases the conflict between shareholders and themselves, thus, protecting their interests. Family ownership is only related to superior firm performance under certain conditions. If families are just large shareholders without board representation, the performance of their companies is not distinguishable from other firms. In addition, the results indicate that other block-holders either affect firm performance adversely or have no detectable influence on performance measures (Andres 2008).

However, it cannot be denied that family companies with a concentrated ownership do face agency problems between the controlling shareholders and the minority shareholders and the threat of expropriation of minority shareholders' rights may become a reality. Family companies can make sub-optimal investment decisions since the interests of the family are not necessarily in line with those of other shareholders (Fama & Jensen 1985). Moreover, restricted ownership reduces external governance and highlights the problems of self-control

that arise when a firm is headed by a powerful owner/manager or because family relationships tend to make agency problems more difficult to resolve (Schulze, Lubatkin, Dino & Bucholtz 2001). There is a possibility that family firms might use their concentrated ownership to expropriate wealth from other shareholders (Morck, Strangeland & Yeung 2000). Morck et al. (2000) argue that family ownership in Canada leads to poor financial performance. The entrepreneurial spirit and expertise are partly inherited and descendants gradually regress towards average talent and it affects firm performance negatively. The family's role in selecting managers and members of the supervisory board also increase the entrenchment and may lower firm value since external parties can hardly capture control over the firm. The findings reveal that family control by heirs leads to slower growth because of inefficiencies that are due to entrenchment, high barriers against outside control and low investment in innovation. Shleifer and Vishny (1997) argue that the performance of family firms gets worse as firm age increases. The families, as large and undiversified investors, might pursue risk reduction strategies, thus, it indirectly affects firm performance.

La Porta et al. (1999) discovered that firms in Hong Kong are largely family controlled, and that there are few widely-held firms. Since most firms are family-owned and controlled, the family ownership in Hong Kong affects performance. At a very high level of ownership, the entrenchment effect becomes dominant. This indicates that if the family ownership can be controlled and made use of appropriately, firm performance can be optimized. A firm with high ownership concentration should pay more attention to improving corporate governance practices in order to enhance firm performance (Ng 2005). In contrast, later studies show that there is no positive relationship between family ownership in Hong Kong and firm performance using ROA, ROE or the market-to-book ratio (Chen, Stouraitis & Wong 2005). A study in India by Johl, Jackling and Joshi (2010) evidenced that low family ownership leads to better performance, whilst high ownership is related to lower performance. This implies that the relation between family ownership and firm performance is not uniform across all levels of family ownership. As families have large control of the firm, the potential for entrenchment and poor performance is high.

Meanwhile, most firms in Thailand are family-owned and their businesses are financed by the family-owned money. Individual or institutional investors typically hold small shares in the firms (Jelatianranat 2000). Family-controlled firms have shown a significantly higher performance. The presence of controlling shareholders is associated with higher firm performance, when measured using ROA and the sales-asset ratio (Wiwattanakang 2001). In Taiwan, there is a nonlinear relationship between family ownership and performance. The findings reveal that when family ownership is weak, the performance of family-control is low. A family only needs 15% equity on a listed firm to control the firms effectively. Thus, an effective way of mitigating the ownership problem is when the family ownership is high but with low family representation on the board. In this way, the conflict of interest between the majority and minority shareholders can be minimized (Yeh, Lee & Woidtke 2001). Family ownership is positively associated with the performance (measured using ROA). Chu (2009) reveals a strong positive association, particularly when family members serve as CEOs, top managers, chairpersons, or directors of the firms; however, the association becomes weak when family members are not involved in firm management or control. Lin and Chang (2010) found that an optimal level of family ownership was between 31.76% and 33.61%, and, at this level, firm value is maximized.

In Malaysia, empirical studies also discuss the ownership and firm performance. Studies claim that listed firms in Malaysia are owned or controlled by family and that these companies appear to be inherited by their own descendants (Abdul Rahman 2006). It is reported that nearly 67.2% of the Malaysian companies are owned by families (Claessens et al. 2000). The World Bank study in 1999 (Backman & Butler 2003) on PLCs in Malaysia and other Asian countries, found that single shareholders control more than half of PLCs shares, and that families control at least 60% of PLCs shares. Specifically, 67.2% shares are owned by family firms, 37.4% are in the hands of only one dominant shareholder and 13.4% are state controlled. Thus, family controlled dominate and control the majority of the Malaysian capital market.

According to a survey done in 1996, family firms in Malaysia control almost 60% of PLCs (Soederberg 2003) and the majority of Malaysian firms have an ultimate controlling owner, particularly an individual or family (Ishak 2004). A study by Mohd Sehat and Abdul Rahman (2005) examined the ownership concentration from the perspective of direct shareholdings with a cut-off level for ownership of 5%. The results show that the average shares held by block-holders in the top 100 Malaysian listed companies was 55.84%. Thus, it can be concluded that ownership and control are highly concentrated in Malaysia. The concentrated ownership structure in Malaysia may be influenced by the families' business style, culture, race and regulations imposed in Malaysia. For example, Bursa Malaysia only requires Malaysian PLCs to issue a small portion of shares to the public. KLSE Listing Requirements paragraph 2.08 and 8.15, Required Public Listing Spread, require that listed companies must ensure that at least 25% of their total shares are in the hand of a minimum 1,000 public shareholders holding not less than 100 shares each. All companies need to issue at least 25% of the shares to the public, including family businesses. Meanwhile the remaining shares can still be owned by family firms. Therefore, it is still possible that the remaining 75% of the company shares are held by family members. Families can remain as the controlling shareholders, as long as they own the shares and control the company.

Therefore, based on the discussed literature, this study predicts that ownership by family members does motivate family directors to enhance company performance. Family members who own only a small amount of share equity would be less attached to the company. However, as the family ownership increases, family managers exert more effort and work for the firm, as if the company is part of them. Furthermore, the majority of the family wealth is invested in the family companies. Thus, family directors will struggle to gain higher profits because it is their own wealth too. Family-companies can also make sub-optimal investment decisions since the interests of the family are not necessarily consistent with those of other shareholders. Restricted ownership also reduces external governance, and there is a possibility that family firms might use their concentrated ownership to expropriate wealth from other shareholders. Therefore, this study hypothesises that:

H_{2a} Ceteris paribus, there is a non-linear relationship (entrenchment-alignment-entrenchment) between family ownership and Tobin's Q.

H_{2b} Ceteris paribus, there is a non-linear relationship (entrenchment-alignment-entrenchment) between family ownership and Return on Assets (ROA).

H_{2c} Ceteris paribus, there is a non-linear relationship (entrenchment-alignment-entrenchment) between family ownership and Return on Equity (ROE).

Research Methodology

SAMPLE SELECTION

The sampling frame for this study consists of 420 public listed companies on the Main Board and Second Board of Bursa Malaysia (excluding financial companies) over the period of 2003 to 2007 (5 years). The industry is regulated under the Banking and Financial Act (BAFIA), 1989. The BAFIA (1989) allows Financial Institutions (FIs) to make portfolio investments in non-financial businesses up to a maximum of 20% of the FIs shareholders' funds and up to 10% of the issued share capital of a company in which the investment is made. The FIs are not allowed to assume any management role to take up a board position (Chu & Cheah 2004). Public Listed Companies (PLCs) are chosen because the published annual reports have been audited by the public auditors and the reliability of the data is assured.

DATA GATHERING

The data for this study were hand-collected from secondary sources, mainly from the companies' annual reports and Datastream (the Datastream database is available in Perpustakaan Sultanah Bahiyah, Universiti Utara Malaysia. Financial data were downloaded using the Datastream). In this study the dependent variables are Q, ROA and ROE. Accounting-based measures such as ROA and ROE are backward-looking measurements (Anderson & Reeb 2003; Villalonga & Amit 2006; Mahmud et al. 2010) that reflect accounting rules and show the current performance of the firm, while market-based indicators such as Tobin's Q is a forward-looking measure that reflect the market's valuation of the firm (Morck et al. 1988; McConnell & Servaes 1990; Anderson & Reeb 2003; Villalonga & Amit 2006; Andres 2008; Fahlenbrach & Stulz 2010). Q is defined as the market value of ordinary shares plus the book value of preferred shares and debt divided by the book value of total assets, ROA is the net income divided by book value of total assets and ROE is the net income divided by shareholders' equity. A family-controlled company is defined as: (i) founder is the CEO, or successor is the CEO that is related by blood or marriage (Yeh, Lee & Woidtke 2001; Anderson & Reeb 2003; Villalonga & Amit 2006; Andres 2008), (ii) at least two family members in the management, and (iii) families have ownership (direct and indirect shareholdings) of a minimum of 20% in the company (La Porta, Lopez-De-Silanes & Shleifer 1999; Faccio & Lang 2002; Villalonga & Amit 2006; Chu 2009). The directors and their respective shareholdings were identified from the annual report and also from the company prospectus available on the Bursa Malaysia website. Managerial ownership (MOWN) is measured as the proportion of shares (direct and indirect) shareholdings held by the executive directors over the total number of shares issued (Demsetz 1983; Fama & Jensen 1983; Demsetz & Lehn 1985; Holderness et al. 1999; Mandaci & Gumus 2010; Fahlenbrach & Stulz 2010; and locally are Mat Nor et al. 1999; Mohd Sehat & Abdul Rahman 2005; Mat Nor & Sulong 2007; Mohd Ali et al. 2008; Ali Ahmed, 2009; Mahmud et al. 2010). Managerial ownership (MOWN, $MOWN^2$, $MOWN^3$) variable is use to test H_1.

Meanwhile family ownership (FOWN) is measured as the proportion of shares held by family directors over the total number of shares issued. This measurement has been used by previous researchers (Morck et al. 2000; Schulze et al. 2001; Yeh et al. 2001; Anderson et al. 2003; Ng 2005; Chen et al. 2005; Andres 2008; Achmad et al. 2009; Chu, 2009; Lin & Chang 2010). Family ownership (FOWN, $FOWN^2$, $FOWN^3$) variable is use to test H_2.

The control variables for this study are debt, firm age, firm size and industry type. In this study debt (DEBT) is measured as the book value of long-term debt divided by total assets. Firm age (FAGE) is measured as the number of years since the company was incorporated. Firm size (FSIZE) was calculated by dividing the natural log of the book value with total assets. In this study, industries are trading services (TS), consumer products (CP), industrial products (IP), properties (PROP), plantation, construction, infrastructure projects, technology, hotels, and mining. This was then split into five groups TS, CP, IP, PROP and OTHERS. Plantation, construction, infrastructure projects, technology, hotels, and mining are grouped as OTHERS because these industries are small in number.

RESEARCH MODEL AND MEASUREMENT

The research model of this study is as follows:

$$PERF_{it} = b_0 + b_1MOWN_{it} + b_2MOWN^2_{it} + b_3MOWN^3_{it} + b_4FOWN_{it} + b_5FOWN^2_{it} + b_6FOWN^3_{it} + b_7DEBT_{it} + b_8FAGE_{it} + b_9FSIZE_{it} + b_{10}CP_{it} + b_{11}IP_{it} + b_{12}TS_{it} + b_{13}PROP_{it} + b_{14}OTHERS + \varepsilon_{it}$$

Where;

PERF = Company performance (measured using Q, ROA and RO one at a time).
MOWN = % of executive directors ownership/total shares.
FOWN = % of family directors ownership/total shares.
DEBT = Book value of long-term debt/ total assets.
FAGE = Number of years since incorporated.
FSIZE = Natural log of the book value of total assets.
CP = Consumer product
IP = Industrial product
TS = Trading services
PROP = Properties
OTHERS = Plantations, infrastructure projects, technologies, hotels.
e_{it} = Error term

MODEL SPECIFICATION

In this paper, managerial ownership (H_1) and family ownership (H_2) were measured continuously. The control variables in this study were debt, firm age, firm size and industries.

RESULTS AND DISCUSSION

DESCRIPTIVE ANALYSIS

The results in Table 1 show that family-controlled companies on the main board comprise 666 (72.8%), and second board companies total up to 249 (27.2%). Nearly 73% of family companies are derived from the Main Board. Thus, these findings are consistent with Ibrahim and Abdul Samad (2010) that the development of family business in Malaysia has contributed in producing a number of tycoons in their respective field. In return, these millionaires have contributed towards the Malaysian economy.

Table 2 summarises the industries in which family-controlled companies are highly involved. The industrial product (32.9%), consumer product (20.3%) and properties (13.7%) ranked as the top three industries that family businesses ventured into. While trading service (11.7%) and construction (10.4%) are in the fourth and fifth place for family-controlled firms. This indicates that family companies are involved in big businesses that need a huge amount of capital, with a large market segment and that these industries are highly demanded by the consumers.

Table 3 shows the difference in mean for managerial and family ownership is very small. The mean for managerial ownership is 44.63%, with a minimum level of ownership of 0% and maximum of 74.78%. This finding reveals a higher level of managerial ownership as compared to the study by Mahmud et al. (2010). For family ownership, the maximum value is 79.54% and the

TABLE 1. Frequency and per cent of family-controlled companies by type of board

	Family-controlled company	
	Frequency	Per cent
Main board	666	72.8
Second board	249	27.2
Total	915	100.0

TABLE 2. Frequency and PER CENT of Family-Controlled Companies by Industry

	Family-controlled Company	
	Frequency	Per cent
Consumer Product	186	20.3
Industrial Product	301	32.9
Plantation	66	7.2
Trading Services	107	11.7
Construction	95	10.4
Infrastructure Projects	5	0.5
Technology	20	2.2
Hotels	10	1.1
Properties	125	13.7
Total	915	100.0

TABLE 3. Min, Max, Mean and Standard Deviation by Managerial and Family Shareholdings

	Min	Max	Mean	Std. Dev.
MOWN	0	74.78	44.63	14.56
FOWN	0	79.54	43.24	14.64

TABLE 4. Frequency and Per Cent by Managerial and Family Shareholdings

Range	Managerial		Family	
	N	%	N	%
Less than 5%	603	29.1	23	2.5
5% to 25%	306	14.8	82	9.0
26% to 50%	730	35.2	507	55.4
More than 50%	435	20.9	303	33.1
Total	2074	100.0	915	100.0

mean for family ownership is 43.24%. This result is also slightly higher than the findings by Backman and Butler (2003). In sum, the findings from this study explain that managers do own substantial amounts of shares and that most of the managers are from family companies.

Table 4 indicates that 35% of the managers own around 26% to 50% of managerial shares and that 29% managers own at least 5% managerial ownership. This study observes that 21% of the managers own more than 50% shareholding in the companies. This study predicts that for the range of 26% to 50% and more than 50% shareholding, the majority of the managers are family directors and they are also the controlling shareholders of the companies.

The family ownership results show that 55% or 507 family directors holds shares within 26% to 50%, followed by 33% of family directors own more than 50% of company shares and only 9% of family directors hold 5% to 25% shareholdings. These findings indicate that the majority (97%) of family directors own 5% of shares shareholding in the family businesses, and some are the controlling directors. Thus, it is evident that ownership structures in Malaysia are concentrated and mostly controlled by family businesses (Soederberg 2003; Ishak 2004; Abdul Rahman 2006; Ibrahim & Mohd Samad 2010).

MULTIVARIATE REGRESSION ANALYSIS

Multivariate regression analysis is adopted to examine the panel data for period of 2003 to 2007. The panel data analysis allows for both cross sectional and time series effect in the sample and helps in identifying the sources of possibly mingled effects (Baltagi 2001; Greene 2000).

The diagnostics analyses were done to check for the present of multicollinearity, heteroscedasticity and Hausman tests. The variance inflation factors (VIF) for the models range from 1.04 to 3.74, which is below the threshold of 10 and multicollinearity is not likely to affect the regression analysis (Gujarati 2003: 362; Hair et al. 2006: 193; Ho 2006: 258). Based on the Hausman tests a significant p-value, prob>chi^2 larger than .05 was found, so the fixed effect model (FEM) is used for the panel data analysis. In addition, based on the Breusch-Pagan/Cook-Weisberg test, the p-value is significant and a heteroscedasticity problem exists. Therefore, as a remedy, this study used the White Heteroscedasticity Consistent Variance and Standard error technique as suggested by Gujarati (2003) to overcome the problem. Table 5 below exhibits the final results.

Results for both variables in Table 5 show that managerial ownership and family ownership are similar in terms of coefficient signs. However, MOWN and MOWN^2 were not statistically significant (for Tobin's Q). The results show different directions: negative, positive and negative indicating entrenchment, alignment, and entrenchment respectively. The different directions may arise because most companies in Malaysia put their family members in the board as outside directors. The family directors can make sub-optimal investment decisions since the interests of the family are not necessarily in line with other shareholders (Fama & Jensen 1985). They may also use the concentrated ownership to expropriate wealth from other shareholders (Morck et al. 2000).

Following the procedures by Ng (2005), ownership has been identified (negative, positive and negative) with company performance (for ROA and ROE). For managerial ownership, it indicated that from 0% to 27%, the managers have greater incentive to pursue personal benefits and have less incentive to maximize firm value. This is consistent with study done by Mat Nor & Sulong (2007) which explained by the management entrenchment theory. Another range of relationship between performance and managerial ownership is between range 27% to 67%. In this range, the relationship was positive and the interest of managers and shareholders seem to be aligned (alignment theory). As managerial ownership continues to rise beyond 67%, the management entrenchment starts to dominate again at the expense of shareholders' interests. In another word,

TABLE 5. Regression Results for Managerial and Family Ownership with Company Performance

	H	Expected sign	Q	ROA	ROE
MOWN	H_1	+	-.0004	-.0019***	-.0013***
$MOWN^2$		-	.0000	.0001***	.0000**
$MOWN^3$		+	-3.50e-07*	-5.29e-07***	-4.18e-07**
FOWN	H_2	-	-.0023**	-.0038***	-.0048***
$FOWN^2$		+	.0001***	.0001***	.0002***
$FOWN^3$		-	-8.18e-07***	-8.13e-07***	-1.22e-06***
DEBT		-	.0293***	-.0179*	-.0515
FSIZE		+	-.0138***	.0128***	.0209***
FAGE		+	-.0001	-.0003***	-.0007***
CP		+	.0759***	.0178***	-.0232***
IP		+	.1027***	.0169***	-.0076
TS		+	.0867***	.0075**	-.0147*
PROP		+	.0951***	.0049	-.0484***
OTHERS		+	.1162***	.0219***	-.0051
_CONS			.8881***	-.1599***	-.2695***
R^2			17.8	12.11	19.23
Adj. R^2			16.03	10.15	2.17
F stats			13.12	8.5	3.63
P value			0.00	0.00	0.00

* significant at 0.1 (2 tailed), ** significant at 0.05 (2 tailed), ***significant at 0.01 (2 tailed).
Q = Market value of common equity plus book value of preferred shares and debt divided by book value of total assets, MOWN = % of shares by executive directors by total shares issued, FOWN = % of shares by family directors by total shares issued, DEBT = The book value of long-term debt by total assets, FSIZE = Natural log of the book value of total assets, FAGE = Number of years since incorporated, CP = Consumer product, IP = Industrial product, TS = Trading services, PROP = Property, OTHERS = Plantations, infrastructure projects, technologies, hotels.

beyond 67% managerial ownership, the firm value begins to fall. This show an alignment/convergence of interest hypothesis exists as suggested by Jensen and Meckling (1976), Ali Ahmed (2009) and Mahmud et al. (2010). An increase in the proportion of firm's equity owned by insiders is expected to increase firm value as the interest of internal and external are realigned, thus, resulting in less conflict among the shareholders. However, this study observed that when managers own beyond 67% of shares in the company, firm performance fall again. The reason may be that with greater control and large shareholdings, managers are more concerned about their own interests rather than the interests of the shareholders at large. In sum, it can be concluded that managerial ownership in Malaysia is found to be influenced by who control and manage the companies, instead of the composition of the board of directors.

Family ownership shows a non-linear relationship with firm value (for Tobin's Q, ROA and ROE). Therefore, this study supports H_2. It is evident that from 0% to 15%, the firm value decreases. Family members that hold small number of shares felt less belonging with the firm. It may leads to low motivation to work by the family managers and a weak sense of belonging towards the business success. However, as their shares increase 15% to 49%, the firm performance is enhanced. At this level, the interests of family directors are aligned with the firm performance. The family directors are happy with their share ownership and this is the best level for family managers to retain their shareholdings and to have a positive performance. But, as shareholdings go beyond 49%, the firm value starts to drop again. This is where the family directors may act in their own interests without considering other shareholders. Family members might use their concentrated ownership to expropriate wealth of other shareholders. In short, the relationship between Malaysian family holdings and firm performance is not uniform over the entire range of family ownership. The entrenchment-alignment-entrenchment exists in Malaysian family-controlled companies. These findings do support previous works (Yeh et al. 2001; Ng 2005) done in Asian countries. The findings from this study are similar to past studies done in Taiwan and Hong Kong. In a Taiwan study, the findings reveal that when family ownership is weak, the performance of family-control is low. A family only needs 15% equity in a listed firm to control the firms effectively. Thus, the effective ways of mitigating the ownership problem is when the family ownership is high but with low family representation on the board. In this way, the conflict of interest between the majority and minority shareholders can be minimized (Yeh et al. 2001). In Hong Kong scenario, the study reveals that at a low level of ownership, managers entrench their interest with the companies. Next, when ownership is 17% to 63%, family managers interests are match with companies need, and firm performance improves. However, at high levels of ownership, the family management feel stronger in the companies as they have sufficient control in the companies and that they can benefit more by expropriating the minority shareholders (Ng 2005).

Conclusion, Limitations and Future Study

Generally, the ownership influences the company performance. Family ownership is most prevalent of ownership structure. In terms of theoretical perspective, the alignment and entrenchment hypothesis were found in this Malaysian family ownership. This may be due to the concentrated ownership among Malaysian companies and that majority of businesses in Malaysia are family-companies. Regulators and investors' need to be sensitive that the ownership structure in Malaysia is unique because Malaysian companies tend to be less dispersed and more concentrated. This concentration of ownership is found to be owned or held by the State, families or large corporations unlike in the West.

On the practical side, regulatory bodies such as Securities Commission, Bursa Malaysia and Committee of Malaysian Code of Corporate Governance need to take note on the percentage of concentrated ownership among the family companies. This is because if the percentage is too high, so it can threaten the minority shareholders and the purchase of shares is no more attractive to the investors. Notwithstanding the limitations of this study future research may consider looking at qualitative data to support the findings. This study is applicable to Malaysia at this period of time only. The range of managerial and family ownership may behave differently in years to come. Although data collected from this study were gathered from annual reports, some of the data were dropped due to insufficient information. Data on unit trusts, finance and banking industries were dropped from the sample due to different regulations that govern these industries.

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