

CHAPTER 5

CONCLUSIONS AND LIMITATIONS

Conclusions

The Kuala Lumpur Stock Exchange Composite Index is divided into eleven industries; the consumer product sector, the industrial sector, construction, trading/ services companies, the infrastructure project sector, the finance sector, hotel sector, the properties sector, the plantation sector, the mining sector, and the trust sector. When the US Dollar was strong in the market, the weaker ringgit was good for the export-oriented companies such as plantation companies and mining companies but not for other sectors. The most affected industries in the KLSE were construction and finance companies. However, the selected companies in this study were picked regardless of their sectors and size. The objective of this study was, to see the impact of the currency crisis on Bumiputera-controlled companies and whether the level of leverage had any implications for the companies.

The results of the study indicate that the Bumiputera-controlled companies suffered during the crisis and as did the non-Bumiputera companies. As has been pointed out in Chapter 4, the Bumiputera companies seemed to feel the impact of the currency crisis earlier than the non-Bumiputera group. Three months after the crisis started, the non-Bumiputera companies were still performing better in the market. However, when the crisis still persisted and the value of the Ringgit Malaysia continued dropping, the impact was not only felt by the Bumiputera-controlled companies but also by the non-Bumiputera companies. Many foreign investors stepped out from the market, as they wanted to be on the safe side. The market started to tumble because panicking investors started to sell off their shares.

Ten months after the crisis started, the non-Bumiputera return seemed to be affected badly. However, during this time, the Bumiputera companies' return, even though it was affected by the crisis, was not much different from the market. Ten months after the crisis occurred, both groups' returns started to increase again and follow the market movement. What are the assumptions that can be made by looking at these results? Based on the articles read from financial magazines such as the Edge, Investors' Digest, and Business Week, it can be seen that many Bumiputera-controlled companies were still dependent on the Government to help them to survive during the crisis. Non-Bumiputera companies might also have faced difficulties if the Government had acted slowly to help the businesses in Malaysia.

There are about ten types of funds provided by the Government to help entrepreneurs in Malaysia such as The Fund for Small and Medium sized Industries, Financial Packages for SMEs which are mostly allocated to the Bumiputera, the Technology Acquisition Fund, the Commercialization of Research and Development Fund, the Industrial Linkage Programme, the Industrial Technical Assistance Fund, and other type of funds. The Government also initiated Pengurusan Danaharta Berhad to deal with non-performing loans and also Danamodal Berhad in order to help corporate restructuring.

There are a few assumptions that can be made as to why the Bumiputera Companies with high leverage did not differ much in performance compared to low leverage ratios due to the crisis. This was because the Malaysian Government initiated the Corporate Debt Restructuring Committee to help the companies to restructure their debt payment. One of the alternatives used by the Government was through Pengurusan Danaharta Berhad. Pengurusan Danaharta Berhad is an asset management company that would buy over the assets of companies whose loans from the bank are non-performing. The company then will revive those assets to be sold later for profit. Danaharta only takes over the loans from corporate borrowers while Danamodal Berhad was

established to play a role in managing halted infrastructure projects. This plan would help the bank to concentrate more on productive sectors of their business, and this helped the economy to get back to normal. All the assumptions above may explain why the Bumiputera-controlled companies and non-Bumiputera companies performed similarly and still survived even though their stock return experienced a tremendous drop.

Problems and Limitations

The main problem in this study was the lack of research done on the Bumiputera Companies. There was also limited literature on Bumiputera-controlled companies. It was also difficult to get the current list of Bumiputera-controlled companies from the KLSE because of its strict procedures. However, the percentage of Bumiputera equity can be found in the KLSE Corporate handbook and through the list of major shareholders in the Bloomberg on-line web site. It is time consuming when the study needs to look at each Bumiputera shareholder for each company in order to get the total percentage of shares owned by this group.

In order to avoid complexity, this empirical research only used the monthly raw return to evaluate the companies' performance. The dividend elements were ignored throughout the return calculation. Perhaps this element will be added in the future research to produce more significant results.