

CHAPTER 5: SUMMARY AND CONCLUSION

5.1 Summary and Conclusion

The increasingly globalized world economy will ensure that shareholder value creation will play a more important role for Malaysian companies that seek to compete in this global scale. Regardless of the various different views regarding the relative merits of the various stakeholder claims, firms that fail to provide global investors with adequate returns are sure to fall behind in the race for global competitiveness. In the increasingly liquid global financial markets, investors can easily shift funds elsewhere as evidenced by the 1997 financial crisis. Moreover, shareholder value maximization has important implications for the nation. This was evidenced in a study of the relationship between shareholder value creation, labor productivity, and employment growth in Germany, Japan and the United States, which found that successful companies are more productive, create more shareholder value and grow employment faster (Copeland, 1994). It is hoped that a better understanding of shareholder value creation in Malaysia can be found by exploring to what extent corporate performance, financing policy, dividend policy and growth opportunities are related to shareholder value creation.

Neither by using ROE nor TSR as the proxy, can any evidence be found to support HI, that is firms with higher levels of corporate performance had a correspondingly higher level of shareholder value. The inclusion of other types of corporate performance proxies like total sales, gross margin, operating income or net income as a percentage of sales in future studies can

perhaps clarify matters. The situation is complicated by the fact that both ROE and TSR by itself has been used as a corporate performance measure.

With regard to H2, no conclusive supporting evidence was found when using ROE as the shareholder proxy. However, H2 is supported when using TSR as the proxy. Firms with lower levels of market debt/equity ratio were found to have significantly higher levels of shareholder value (see Table 7). Moreover, in the periods of crisis and beyond, the market debt/equity ratio was negatively related to TSR (See Table 9). This does not seem consistent with the claim of the link between increased leverage and shareholder value (Lee, 1999) and with what Masulis (1983) found.

In determining support for H3, more significant results were obtained using dividend yield as the dividend policy proxy to compare with either ROE or TSR. With ROE as the shareholder value proxy, firms with higher dividends were found to have higher levels of shareholder value (See Table 6). However, in using TSR as the proxy, there were significant differences leading to the crisis period and beyond (See Table 7). For the former period, firms with lower dividends had higher levels of shareholder value while the latter period showed opposite results. The results thus showed mixed support for dividends as a means to increase shareholder wealth (Gordon, 1959). When examining dividends as a form of shareholder value creation, caution must be noted since Malaysian companies do not on the whole pay out high levels of dividends.

The empirical results that were obtained seem to largely support H4 with TSR as the shareholder value proxy. As reported in Table 7, all the periods under study showed that firms with higher MKTBKEQ hence higher growth opportunities had correspondingly higher levels of shareholder value. This was also the case for the EP ratio in the two periods of 1995 – 1996 and 1996 – 1997. Here firms that had lower EP ratios hence higher growth opportunities also had correspondingly higher shareholder value at least for the first two periods. Significant positive relationships were also noted between TSR and the MKTBKEQ ratio (See Table 9). This is as expected because firms with substantial growth opportunities will be in a much better position to create shareholder value.

Due to the exploratory nature of this study, several study limitations must be noted. These study limitations adds to the need that caution is used in interpreting the results and also gives rise to various recommendations for future research. First, the difficulties in obtaining data for the 1999 financial year had resulted in convenience sampling thus introducing some sample biases. The sample can thus be enlarged in future studies to obtain a better representation of the KLSE listed companies. The period of study can also be extended further back in time now that it has been shown that some significant relationships do exist between shareholder value and the independent variables. Second, since this was an exploratory study, no divisions were made between the firms in relation to industry sector. An overall view of the firms in the KLSE was adopted in this study. Future research can perhaps segregate the firms by industry sector to investigate the

various idiosyncrasies that exist within companies in an individual sector. Third, the study also did not take into account as to whether the firms were conglomerates or otherwise. To investigate potential differences that this factor might entail, the appropriate divisions into conglomerate and non-conglomerate will have to be made in future studies. Fourth, the cost of shareholder value creation was not taken into account for this study. Although including the cost of equity into shareholder value creation might present a more accurate picture, it however must be investigated as to whether this is indeed a better way. A proxy for shareholder value must also be simple in order to facilitate ease of use of the measure concerned. Studies can be done on the relationships among the ROE and TSR measures, with and without accounting for the cost of equity. If a significant positive relationship exists, then the much simpler measures can continue to be used as shareholder value proxies.

Additional future research recommendations could be to use other shareholder value proxies, for example EVA and CFROI. This will allow comparison of the various shareholder value measures in relation to a firm's corporate performance, corporate financial policies and growth opportunities. In the case of EVA, research can also be done to establish whether EVA and TSR will converge, assuming a sufficiently long time horizon and that the stock markets are efficient (Bacidore et al. 1997) for firms in the KLSE. If this is the case, then the simpler measure i.e. TSR would be preferred. As more shareholder value measures are studied in this context, a better overall understanding of shareholder value issues will arise.

In future research, the separate measures for financing policy, dividend policy and growth opportunities could be grouped into their respective common factors. For example, the EP and MKTBKEQ ratio could be grouped into a common factor and correlation analysis performed to determine if the common factor is significantly correlated with the separate measures of EP and MKTBKEQ ratios. If common factors can be established, further studies in this area can be simplified.

Research can also be conducted to determine if there are any other additional independent variables that need to be included into the multiple regression model proposed in this study. There might exist other variables that can further improve the explanatory power of the current model.

For more qualitative studies, a survey can be conducted among managers who are involved in the company's financial strategies for firms listed in the KLSE. This is done with the objective to determine their opinions regarding shareholder value per se, the variables that effect shareholder value, and also the actual shareholder value measures that are being used.

Overall, this study increases our understanding of the relationship between shareholder value, and the firms' corporate financial policies and growth opportunities. The implications of this are that firms' must take into account of the fact that their financial policies do indeed effect shareholder value to a certain extent. Realization that growth opportunities translate into shareholder value also indicates the importance of a company's continual

search for avenues to grow and stay relevant in the global economy. The suggested future research direction should hopefully further clarify shareholder value issues in Malaysia. The importance of these issues will become more apparent as the global economy takes hold.