CHAPTER 9

CONCLUSION, IMPLICATIONS, LIMITATIONS, AND RECOMMENDATIONS FOR FUTURE RESEARCH

9.0 Introduction

This chapter reviews the empirical findings presented in Chapters 6, 7, and 8 with respect to the research questions and hypotheses development stated in Chapter 4. This chapter begins with a summary of the research problems, study objectives, and research questions. This is then followed by sections highlighting and discussing the findings on the performance of government ownership in Malaysia and Singapore, the comparison of performance of GLCS with non-GLCs in Malaysia and Singapore, and the comparison of performance of Malaysian GLCs with Singaporean GLCs. This study also identifies the contributions and implications from the findings, especially concerning what Malaysian GLCs can learn from Singaporean GLCs, which perform well domestically and internationally. Lastly, limitations of the research and some areas for further research will also be identified.

9.1 The Research Problem

Most previous studies identify negative correlation between government involvement in company and performance due to political intervention and bureaucracy in handling company activities. Specifically, GLCs have poor performance compared to non-GLCs because GLCs may forgo profit maximisation – a major objective for every company–which managers strive to achieve. Second, the NEP introduced by the Malaysian government, which requires the Ministry of Finance approval on Chairman/CEO appointments, has led to conflict and agency problems in the company. Previous studies indicate that companies adopt a separate leadership structure that can significantly increase financial performance. In Singapore, however, the situation in their GLCs is different. For these GLCs, the government hired outsiders or foreigners from the private sector to be directors of companies, especially after the crisis period. Therefore, this study aimed to compare Malaysian GLCs with Singaporean GLCs because, as of to-date, there has been no evidence or research on the comparison of performance of GLCs or SOEs (state-owned enterprises) between two or more countries. Another problem is that no study has been found to use specific, econometric methods to analyse panel and pool data in identifying the determinant factors influencing the performance of a company.

9.2 Objectives of Study

The main objective of this study was to determine whether government involvement in company leads to better performance in Malaysia and Singapore. One of the other specific objectives was to compare the performance of GLCs in Malaysia and Singapore with the non-GLCs based on financial and market performance and from panel regression results. In addition, this study investigated the performance of Malaysian and Singaporean GLCs to conduct a comparison between the two groups of companies to determine which performs better.

9.3 Research Questions

The research objectives were transformed into the following research questions:

(a) Do government linked companies perform better than non-government linked companies in Malaysia and Singapore?

(b) How do company specific factors, namely, size, growth rate and leverage affect the performance of GLCs and non-GLCs in Malaysia and Singapore?

(c) How do company specific factors, namely, non-duality and agency cost affect the performance of GLCs and non-GLCs in Malaysia and Singapore?

(d) Do Malaysian GLCs perform better than Singaporean GLCs?

This study could provide new insights into how GLCs in Malaysia can learn from non-GLCs in terms of performance after considering company specific factors, especially on corporate governance mechanisms such as agency costs and non-duality role. Also, this study could provide suggestions or solutions for Malaysian GLCs to perform better by learning from GLCs from developed countries, such as Singapore. Results from the empirical analysis will be discussed and implications for the relationship between performance and company specific factors of ALL companies, GLCs and non-GLCs in Malaysia and Singapore for the 11-year period (inclusive pre and post crisis period).

9.4 Discussion on Findings

This study discusses the performance of companies when governments are involved in company management in Malaysian and Singaporean listed companies. Specifically, the discussion is on the comparison of performance of GLCs with non-GLCs and of GLCs between these two countries. Therefore, the study is divided into three chapters of findings on the (i) Malaysian perspective, (ii) Singaporean perspective, and (iii) Malaysian and Singaporean GLCs. All these analyses are categorised into three periods, which are, all periods (1995 to 2005), pre-crisis (1995 to 1996), and post-crisis (1999 to 2005).

(a) Comparison of performance of GLCs and nonGLCs in Malaysia and Singapore

Result indicate that government ownership for both countries, Malaysia and Singapore leads to better performance than non-government owned on both performance measurements, Tobin's Q and ROA after controlling company specific characteristics. This study finds that before crisis, companies that are government owned performed well in the financial and market performance since the government exerts effort to make sure their shareholders get more wealth and also to ensure economic growth. Even though during the crisis the performance of these GLCs had fallen tremendously, the companies managed to recover after the crisis due to government intervention to gain back shareholders' trust. Some actions that were taken included the setting up of a committee (the Putrajaya High Performance Committee) to analyse the performance of GLCs and to plan for future improvement, and the changing of board of directors from civil servants to those from the private sector as well as from among the foreign experts.

As mentioned earlier, the government holds the highest percentage of ownership structure controlled companies in market capitalisation in the Singaporean Stock Exchange (SX) of about 50% while in Malaysia GLCs hold about 30% of the KLCI (Kuala Lumpur Composite Index). Therefore, for both countries, this study can conclude that government policies and intervention within companies lead to better performance after controlling for company specific characteristics such as leverage (debt), growth, corporate governance, agency theory proxies, and size.

(b) Comparison of GLCs and nonGLCs performance

Second, in comparing GLCs with non-GLCs, this study matches GLCs with non-GLCs in Malaysia and Singapore. The purpose of sample matching is to obtain true results when comparing between the two samples matched based on size (ln(Total Asset)) and industry. For Malaysia, GLCs perform better than non-GLCs in accounting measurements but not on market measurement. This result may be due to the Malaysian Government controlling and monitoring their expenses and making sure their companies obtain profits. Meanwhile in market measurement, non-GLCs seem to outperform GLCs, especially when the crisis hit in 1997. The values of GLCs have been falling but have slowly recovered after intervention by the government through Khazanah and other parties to find solutions to overcome the problem.

A different result can be seen when analysing the Singaporean data. In Singapore, in the matched sample analysis, it is found that GLCs perform better than non-GLCs on both financial and market measurements. This is supported by results of the study which used panel and pool regression analysis, which indicate that GLCs outperform non-GLCs on both measurements, Tobin's Q and ROA (at 1% significant level) after controlling for company specific characteristics. These results explain that when GLCs in Singapore became negatively affected during the crisis, the government took immediate action by setting up a board to discuss the performance of these companies. One of their actions was to replace the Board of Directors that mostly consisted of civil servants and senior military officers with outsiders or foreigners from the private sector and multinational corporations (MNCs). These outsiders with their wide expertise in handling corporations who were expected to work with accountability and transparency were appointed to lead the affected GLCs towards better performance.

Therefore, overall, based on both measures of market performance and accounting performance, this study finds that in comparing GLCs with non-GLCs, companies under government control were led to better performance than those without government control.

(c) Factors impacting GLCs and nonGLCs performance

Results indicate that size of company influencing performance in Malaysia but not in Singapore. For Malaysia, the largest of company will reduce market performance, Tobin's Q but contradict with ROA which shows positive relationship. For Singapore, only nonGLCs show significant but negative relationship with ROA. None of performance shows significant in GLCs. Another variable is growth of company. The result explains that company with tend to growth (which have more cash) will lead to better performance for both measurements except for GLCs in Singapore which not significant for both measurements. Results also identify that the negative relationship between leverage and ROA for both countries but, different correlate with market performance in Malaysia companies. Both categories (GLCS and nonGLCs) show significantly positive relationship with Tobin's Q.

Meanwhile for agency costs proxied, such as nonduality and agency cost, Singaporean GLCs shows positive relationship both proxies. Role duality shows not significant at all in Malaysia and also in Singapore except GLCs show positive relationship.

(d) Comparison of Malaysian GLCs and Singaporean GLCs

In last analysis which is comparing Malaysian GLCs with Singaporean GLCs, this study finds different results for both measurements and both analyses. In financial and market performances, Malaysian GLCs outperform Singaporean GLCs based on Tobin's Q, but in both accounting measurements (ROA and ROE) and also stock return (market measurement) Singaporean GLCs are found to be better than the Malaysian GLCs. For panel regression, this study identifies that Singaporean GLCs are better than Malaysian in accounting performance, ROA, but not in Tobin's Q, which shows that Malaysian GLCs outperform Singaporean. These findings conclude that Malaysian GLCs have better performance in Tobin's Q but not in other financial and market performances in which the Singaporean shows better.

The conclusion from these three chapters of findings on Malaysian and Singaporean listed companies, especially on government linked companies can be related to theories that were applied in this study, which are the theory of company and the agency theory. Both theories are related to the corporate governance model built by Berle et al. (1932), which explains that different sets of ownership structure have different structures and different objectives. For example, government or state ownership in company needs to maximise shareholders (the citizens) wealth and at the same time needs to ensure the economic growth of the country as well. This differs from other models whose main objectives are to provide maximum returns to shareholders. This motive reduces the agency conflict between managers and owners compared to the situation under government ownership.

In Malaysia, the government totally controls its companies even with a minimum shareholding in the company. This situation is referred to as the "golden share". A golden share means that the government, even without being a major shareholder of a company can still have the right to control and make decisions in the company for the sake of the citizens and itself. GLCs through Khazanah and six other GLIC bodies are generally managed and controlled by politicians and civil servants. This is due to the NEP (New Economic Policy) objectives to ensure that Bumiputras hold at least 30% of the equity stake and that the structure of ownership in public listed companies is changed with Bumiputra involvement in companies. The government aims to achieve its NEP targets by encouraging the Bumiputras, especially the Malays, to compete with others like the foreigners and the economically powerful Chinese, so as not to be left behind. As is known, the government in Malaysia is led by the National Front or Barisan Nasional (BN), which has been dominated by UMNO (United Malay National Organisation) since Independence in 1957.

Singapore, after it became a nation independent from Malaysia in 1965, has since become an economic model for other developing countries, especially after managing its economic growth into double-digit growth rates during the oil crisis and world recession in the 70s. In the 80s, the Singaporean government started to become involved in their state owned companies in the private sector since their enterprises had been successful in their respective areas of endeavour.

Government companies are enterprises incorporated under the Companies Act, like other private sector companies. As in Malaysia, the GLCs in Singapore originally had most of their board directors appointed from among the senior civil servants or military officers. The purpose of this appointment is for them to represent the interests of the Singaporean citizens besides aiming to maximise the wealth of the companies.

According to Krause (1987), this appointment has been criticised because these leaders are seen as being too risk-averse and lacking sufficient entrepreneurial drive. There have also been charges that certain GLCs investments have been politically rather than commercial motivated. There are certain barriers when the government is involved in companies and some countries are reluctant to allow Singaporean GLCs to invest in sectors considered nationally strategic. For example, Temasik had tried to own Pantai Holdings in Malaysia. Other critics argue that GLCs are less efficient than private sector companies are, because of their institutional relationship with the government, the market structure in which they operate, and their management systems.

One of the important factors in determining the performance of the company is agency cost. This study uses two factors in agency cost, which are the non-duality role, and agency cost measurement (total expenses over total assets). The result is different when agency cost measurements are used in determining performance in Malaysian GLCs and Singaporean GLCs. In Malaysia, the government appoints politicians from government parties, senior civil servants, or those directly connected with the government. Therefore, the expenses expended by the company are lower, which leads to better performance in accounting measurements but it does not affect market measurement. This could be explained by the lack of private sector management, or the experience of the politicians and civil servants to lead private sector companies to perform better from the market perspective.

In Singapore, the government appoints outsiders from the private sector and foreigners who have no direct connection with the government to manage and direct their GLCs to better performance. This was particularly apparent after the crisis. This appointment is based on their experience in the private sector and in multinational companies or enterprises. Not surprisingly, the expenses of these companies are much higher because of the high salaries, benefits, and other remuneration to attract them to serve and lead the companies to better performance.

9.5 Contributions of Study

It is hoped that the findings from Chapters 6, 7, and 8 and their implications can be a significant contribution to the ongoing body of work related to corporate governance and government agencies in Malaysia and Singapore, and to policymakers when revising their policies. Specifically, contributions from this study are as below:

(i) One of the findings in this research is that Singaporean GLCs perform better than Malaysia in market performance. This has been partly attributed to the hiring of professional outsiders and foreigners from the private sector and multinational companies to be directors or CEO of these GLCs, which was initiated by the Singaporean government after the crisis hit the Asian economy in 1997. Through their knowledge and experience, GLCs through Temasek Holdings and two government investment bodies (GLICs) picked themselves up aggressively, becoming more important in the Singaporean economy. GLCs in Singapore today have more than 50% in market capitalisation in the trade market. Therefore, to reduce the gap between the two countries, policymakers in Malaysia, especially the government had to develop its own solutions to improve the performance of GLCs in Malaysia. Even though the Government through Khazanah has made some changes in the management teams of GLCs, such as MAS, Proton, Telekom, and Tenaga Nasional Berhad, resulting in some performance improvement within these large corporations, these are still not adequate to compete and compare with the Singaporean GLCs and the local non-GLCs. It is almost impossible for the Malaysian government to follow the Singaporean government in hiring foreigners due to the NEP that requires Bumiputras to be appointed as GLC directors or CEO. Because of this, a suggestion that can be made is that, instead, the Government can appoint outsiders or foreigners as advisors to GLCs or members of the Putrajaya Committee on GLC High Performance. This committee consists of representatives from the government (such as the Prime Minister and Minister of Finance), Khazanah Holdings, the six bodies of GLICs, and policymakers. One objective of this committee is to monitor the performance of GLCs. Therefore having foreigners as advisors or members of the committee would facilitate the recommendation of solutions to strengthen and drive GLCs to better performance from the point of view of private sector leaders. In addition, this can lead to a contribution of new literature on agency theory since this situation is unique compared to that in other countries, especially the Anglo-American nations. For example in Malaysia, the government fully monitors and controls its companies even though it only holds a minimum share (the golden share), to ensure that all these companies that the government has invested in perform well, especially in the market.

(ii) The Malaysian Code on Corporate Governance (MCCG) will be directly enhanced. This study, which explores corporate governance mechanisms such as non-duality, ownership structure, and agency cost focusing on government and non-governmental companies, might diversify the landscape of the ownership structure and company performance in Malaysia and Singapore.

(iv) Exploring the relationship of corporate governance mechanisms and performance of government linked companies in non-GLCs and GLCs in these two countries. This pioneer paper foresees the significant influence of corporate governance mechanisms such as ownership structure, agency cost, and role of non-duality on performance, which are beneficial to owner-managers (in this situation refers to government controlled), investors, practitioners and academicians. They may use this result as a reference to improve company performance and corporate governance awareness.

(v) The study will provide some suggestions for the Malaysian government, investors, practitioners, and academicians on how to improve the Malaysian GLCs to perform better based on the findings of how our neighbour Singapore handles their GLCs. Singaporean GLCs control more than 50% of market capitalisation in the trade market.

(vi) The study also highlights the market and financial performances between Malaysian GLCs and its non-GLCs and between Malaysian GLCs and Singaporean GLCs under three economic scenarios –the pre-economic crisis, post economic crisis and all periods of study.

(vii) This study utilises panel pool regression with common and period specific coefficients based on three econometric model methods – Fixed Effect, Random Effects, and Ordinary Least Square (OLS). These three methods are used to identify which method is the best for analysing panel and pool data with large samples and long periods of study. In addition, the chosen method is taken into consideration in the selection of sample, and tests will identify which method is the best to use. Tests such as the Hausman Test, Likelihood Test, and Chow Test will be conducted. Furthermore, these models can overcome econometric issues such as multicollinearity, heteroscedasticity, and auto-correlation. Hence, policymakers especially academicians and economists can benefit from this for their research.

9.6 Limitations of Study

This study has a number of limitations. One of them is the mechanism of matching the GLCs with non-GLCs and the Malaysian GLCs with Singaporean GLCs. For example, there are over one thousand companies listed on Bursa Malaysia and the Singapore Stock Exchange (SGX), and out of that, only 30 in Malaysia are GLCs compared to 180 non-GLCs while in Singapore 25 GLCs compared to 152 non-GLCs (after deducting financial institutions and companies without complete data). The matching is based on size and industry for this study. Although the effect on performance is probably minimal, an inaccurate match-pair could jeopardise the mechanism of the sample selection itself.

A second limitation is the possibility of other variables that should be reconsidered to add or replace existing variables. For example, board size in company, non-executive directors, senior government officers, and others for corporate governance mechanisms. Other variables can also be considered for agency cost proxies such as total expenses to total assets, instead of total expenses over total sales. For capital structure variables, the study can identify other variables such as equity multiplier (total assets over total equity) or total equity over total assets.

Finally, the study examined the performance of government ownership in Malaysia and Singapore for an 11-year period of study (1995 to 2005). This study may be considered only after the crisis period, especially after the corporate governance policies reassessment in 2000, and, maybe, more samples of GLCs can be matched with non-GLCs in Malaysia and Singapore. Results that are more comprehensive could perhaps be obtained. However, in spite of these limitations, this study provides a unique contribution to the growing body of literature on the relationship between government ownership and performance in Malaysia and Singapore.

9.7 Recommendations for Future Research

This thesis can be expanded in some of the following areas:

(i) A continuing study, which concentrates on the performance of GLCs in Malaysia and Singapore after taking into consideration corporate governance mechanisms to get better and significant results and to obtain new findings and knowledge that can be added to the available literature, especially on corporate governance theories like the agency theory. This study will be the pioneer paper foresees the significant influence of corporate governance mechanisms, such as ownership structure, agency cost, and the role of non-duality on performance, which are beneficial to policy makers especially in Malaysia, owner-managers (in this situation refers to government controlled), investors, practitioners and academicians. They may use this result as a reference to improve company performance and corporate governance awareness.

(ii) The duration of analysis also needs to be extended to get better results. For example, the period of study can be taken from 2000 until 2007. In 2000, a lot of changing policies on corporate governance were introduced to strengthen and reassess government ownership since the Asian crisis hit in 1997. Therefore, with that time period of study, the analysis may produce better results that are significant, before another crisis hit the world in mid-2008.

(iii) The study can extend its period of study to 2005. This is because during that period the government may have invested and owned other companies, and, at the same time, improved their GLCs by injecting funds for recovering after the crisis period. Also, after 2000, there was an amendment to the corporate governance policies, which might lead to better performance such as hiring more outsiders with better knowledge, transparency, and accountability controlling GLCs and at the same time reducing bureaucracy in decision-making. Thus, if more samples of GLCs can be matched with non-GLCs, better results can be obtained, and the more significant they should be.

9.8 Chapter Summary

This study has investigated the performance of government ownership in Malaysia and Singapore for the 11-year period beginning 1995 until 2005. This study identifies that government ownership in Malaysian and Singaporean companies leads to better performance after controlling for company specific characteristics such as corporate governance, agency cost, leverage (capital structure), growth, and profitability. In both countries, the government has performed well in both accounting and market measurements.

The performance of GLCs in Singapore show better than non-GLCs for both measurements of performance, accounting and financial, which is contradictory to the Malaysian case in which non-GLCs perform better than GLCs. This is because Singaporean GLCs area major contributor for its economy, which controls more than 50% of market capitalization on the Singaporean exchange. Singaporean GLCs also invested in major industry in other countries such as Poland, Russia, India and other Asian countries. Therefore, it leads to GLCs performing better in accounting performance and also increasing market perception from investors, existing and potential investors.

The final analysis shows that Singaporean GLCs outperform Malaysian GLCs for both measurements. The main reason being is because Singaporean GLCs implement better corporate governance than Malaysia by hiring outsiders or foreigners as CEO of their GLCs. With considerable experience in handling multinational companies and separating role duality, it enabled them to control and manage GLCs towards better performance. Since GLCs are generally correlated with better governance practices, the results support the view that investors in the Singaporean market do value the higher standards of corporate governance found in the GLCs. Malaysia, which is an emerging market and also a developing country, can learn from a developed country such as Singapore as to how to handle or control government or state companies in a move towards better performance. As mentioned, since the government in Singapore loosened its control by replacing GLC directors from senior government staff with outsiders and foreigners, the GLCs became more powerful and performed better than non-GLCs and Malaysian GLCs.

It is impossible for the Malaysian government to follow the Singaporean government in hiring foreigners due to the NEP, which requires Bumiputras to be appointed as GLC directors or CEO. Therefore, a suggestion that can be made is that the Government can instead appoint outsiders or foreigners as advisors to GLCs or members of the Putrajaya Committee on GLC High Performance. This committee consists of representatives from the government (such as the Prime Minister and Minister of Finance), Khazanah Holdings, the six bodies of GLICs, and policymakers.

As a conclusion, the study finds that government intervention in companies leads to better performance after taking into consideration company specific characteristics. Better results that could lead to better findings may be obtained if other factors can be included as determinant factors influencing company performance. This suggestion can also be applied when comparing between two matched samples, such as between GLCs and non-GLCs and between Malaysian and Singaporean GLCs.

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