CHAPTER 4

RESEARCH RESULTS

This chapter reports the results of the study. There will be four sections in this chapter, i.e. summary of statistic, analysis of measures, testing of hypotheses and summary of research results. In summary of statistic, we explain on the result of statistics of variables. Analysis of measures describes the analysis of techniques used in testing of hypotheses.

In testing of hypotheses, we examine the relationship between ownership structure and corporate performance from scatter diagram, correlation and regression analysis. The summary of research results will be reported in the last section of this chapter.

4.1 SUMMARY OF STATISTIC

Table 3 showed the mean, medium and standard deviation of the variables for the 100 sample companies. From the sample of 100 companies, it showed mean ownership concentration of more than 50%, that is 51.37%. It gives the implication that most of the Malaysian public-listed companies are more ownership concentrated. This extended the analysis done by Lim (1981) on the distribution of shareholders in Malaysian companies in year 1974 - 1976 showing that Malaysian large companies are highly ownership concentrated. It seems that the inequality problem did not improved since 1970s.

TABLE 3.0 STATISTIC OF VARIABLES (AVERAGE FIGURES OF 1993-1997)

VARIABLES	DEBT	INCOME	SALES	OWNER	INSIDER	ROE	MBR	ROA
Main board	50	50	50	50	50	50	50	50
Second board	50	50	50	50	50	50	50	50
Total Sample	100	100	100	100	100	100	100	100
Mean	53.28	-6.85	417,816.69	51.37	8.67	10.45	2.91	3.51
Median	53.50	0.31	104,164.00	48.89	0.16	9.00	3.11	4.00
Standard Deviation	2.36	80.14	919,889.00	18.14	15.86	6.37	7.68	0.09

Besides, the high ownership concentration also supports the property right argument[9] (Shleifer & Vishny, 1997; Claessens, Djankov, Fan & Lang 1998; La Porta et al, 1998). In term of insider ownership, an average of 8.67% of the total shareholdings is owned by directors or officers. On average, Malaysian companies had a good performance in year 1993 -1997. Based on the average return on equity of 10.45%, return on assets of 3.51% and the market to book value of 2.91, which showed that the investors are willing to pay more than two times of the actual value of the corporation. The debt per assets ratio is high for Malaysian corporations, which represents 53.28% of the total assets. The average sales of main board and second board companies is RM417,816.69 . However, the net income from 1993 to 1997 indicates a negative average growth of 6.85%.

4.2ANALYSIS OF MEASURES

We examine the relationship between ownership concentration and insider ownership against the corporate performance using the correlation and regression analysis. The coefficient of correlation (r) variables showed the relationship between the two variables. The value will fall between -1 to 1. R equals to 1 represents a very strong positive or perfect relationship between two selected variables, whereas r equals to -1 indicates a very strong negative relationship and r equals to zero indicates no correlation. The result will then be tested at both 1% and 5% significant levels (showed in parentheses).

We also conduct regression analysis of the corporate performance. The coefficient variables showed the positive or negative relationship between the ownership concentration and performance variables. The result will then be tested using the t test at 1% and 5% significant levels.

[9] More concentrated ownership observed in less developed economies, which usually associated with economies that lower shareholder-rights protected and not well legal system and enforcement

4.3 TESTING OF HYPOTHESES

Hypothesis 1

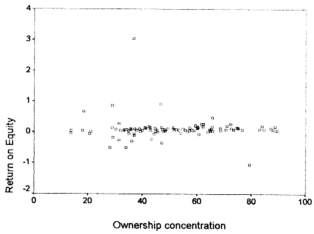
There will be significant effect between ownership concentration (OWNER and HERF) and corporate performance (ROE, MBR and ROA), and in what way it does.

When we plot the scatter diagram of ownership concentration against the three performance variables, i.e. return on equity (Graph 1.1), market to book value ratio (Graph 1.2) and return on assets (Graph 1.3), it showed no significant differences between ownership concentration on ROE and MBR, but a slightly positive relationship on ROA. However, we cannot make conclusion from the scatter diagram, several tests will be conducted to provide the statistical evidence to our hypotheses.

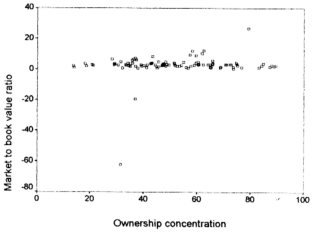
Correlation analysis found no significant relationship between ownership concentration and performance variables, for both ROE and MBR. We do not reject H_o at both 1% and 5% significant levels. However, the ownership concentration on ROA showed a positive and significant effect at 1% significant level. (Table 4)

From Table 4, we observe the correlation between the independent variables and found that there is no multicollinearity between the variables. This satisfies the assumption of classical linear regression model (CLRM) and the regression model can be used for our analysis. We conducted analyses on both ownership concentration (OWNER and HERF) variables and performance variables (ROE, MBR and ROA). The result is as showed in Table 5. The regression models are significant at both 1% and 5% when ROA is used as the performance variables, whereas significant at 5% when MBR is used as performance variable. This indicates that all partial coefficients are not simultaneously equal to zero in MBR model (at 5% significant level) and ROA model (at 1% and 5% significant levels).

Graph 1.1



Graph 1.2



Graph 1.3

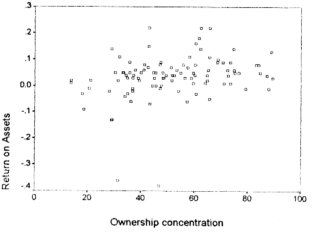


TABLE 4: CORRELATION ANALYSIS 1

Variables	DEBT	INCOME	OWNER	SALES	ROE	MBR	ROA
DEBT	1.000	-0.074 (0.467)	-0.137 (0.174)	0.013 (0.902)	-0.005 (0.963)	-0.309** (0.002)	-0.491** (0.000)
INCOME		1.000	0.179 (0.075)	0.053 (0.604)	0.042 (0.681)	0.004 (0.97)	0.083 (0.413)
OWNER			1.000	0.112 (0.268)	-0.035 (0.730)	0.160 (0.112)	0.291** (0.00)
SALES				1.000	0.066 (0.517)	-0.041 (0.689)	0.117 (0.247)
ROE					1.000	-0.384** (0.000)	-0.068 (0.501)
MBR						1.000	0.402** (0.000)
ROA							1.000

** Correlation is significant at 0.01 level (2-tailed)

TABLE 5: OWNERSHIP CONCENTRATION AND CORPORATE PERFORMANCE

	DEBT	INCOME	SALES	OWNER	HERF	Adj R^2	F-stat	Sig
ROE	0.0146 (0.928)	0.0002163 (0.655)	2.787E-08 (0.504)	-0.00107 (0.621)		-0.033	0.2	0.938
ROE	0.134 (0.257)	0.0002084 (0.665)	2.754E-08 (0.508)		-1.06E-05 (0.596)	-0.033	0.209	0.933
MBR	-9.554 (0.003)	-0.00371 (0.695)	-4.14E-07 (0.611)	0.05592 (0.188)		0.077	3.051	0.021
MBR	-9.624 (0.003)	-0.00299 (0.75)	-3.8E-07 (0.641)		0.0004527 (0.248)	0.073	2.938	0.024
ROA	-0.16 (0.000)	-5.58E-06 (0.953)	5.697E-09 (0.508)	0.001008 (0.018)		0.276	8.534	0.000
ROA	-0.161 (0.000)	6.652E-06 (0.944)	6.219E-09 (0.472)		8.286E-06 (0.036)	0.266	8.192	0.000

- Figures in parentheses indicate the significant value

When we examine the coefficient on ownership concentration variables (OWNER and HERF), it shows a significant and positive effect on ROA at 5% significant level. However, it indicates no significant effect on ROE and MBR at both 1% and 5% significant levels. The coefficient on ownership concentration variables give a negative value when ROE is used as the performance variable, but a positive value when MBR as the performance variable. Dummy indicates no significant difference between the main board and second board companies. This would mean that capitalization does not reflect the performance of the corporation.

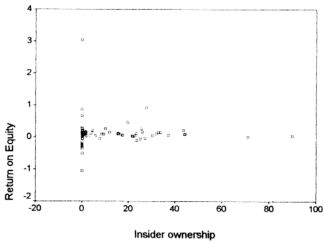
When we observe the coefficient on other controllable variables, coefficient on debt to assets ratio shows a negative and significant effect on MBR and ROA at 1% and 5% significant levels. Other controllable variables are found to be insignificant.

Hypothesis 2

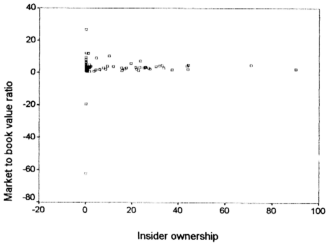
There is significant relationship between insider ownership (INSIDER) and corporate performance (ROE, MBR and ROA), and in what way it does.

We plot the scatter diagram of insider ownership against the three corporate performance variables as showed in Graph 2.1 (INSIDER and ROE), Graph 2.2 (INSIDER and MBR) and Graph 2.3 (INSIDER and ROA). The graphs show the distribution of insider ownership corresponding to the given performance variables. We notice that no differences are found in performance with the increases in percentage of insider ownership.

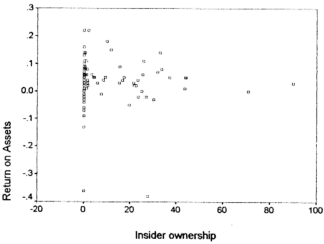
Graph 2.1



Graph 2.2



Graph 2.3



Based on the correlation analysis in Table 6, we found that there is no significant relationship between insider ownership and three performance variables, namely ROE, MBR and ROA at both 1% and 5% significant levels.

Besides, we found no high correlation among the independent variables. Therefore, the variables satisfy the assumptions of CLRM that no multicollinearity exists in the regression equation. All variables can be applied in the corporate performance regression model.

When we test on the significant of the overall variables, the regression models are significant at both 1% and 5% significant levels when MBR and ROA are used as the performance variables (Table 7). We then continue to test the coefficient on insider ownership towards performance, the result showed no significant relationship between insider ownership and three performance variables (ROE, MBR and ROA). This gives an implication that there is no significant relationship between insider ownership and corporate performance. Coefficient on debt to assets ratio indicates a negative and significant effect on MBR and ROA at 1% and 5% significant levels. Other controllable variables are found to be insignificant.

TABLE 6: CORRELATION ANALYSIS 2

Variables	DEBT	INCOME	INSIDER	SALES	ROE	MBR	ROA
DEBT	1.000	-0.074 (0.467)	0.063 (0.534)	0.013 (0.902)	-0.005 (0.963)	-0.309** (0.002)	-0.491** (0.000)
INCOME		1.000	0.005 (0.963)	0.053 (0.604)	0.042 (0.681)	0.004 (0.97)	0.083 (0.413)
INSIDER			1.000	-0.003 (0.976)	0.017 (0.866)	0.047 (0.644)	-0.062 (0.54)
SALES				1.000	0.066 (0.517)	-0.041 (0.689)	0.117 (0.247)
ROE					1.000	-0.384** (0.000)	-0.068 (0.501)
MBR						1.000	0.402** (0.000)
ROA							1.000

** Correlation is significant at 0.01 level (2-tailed)

TABLE 7: INSIDER OWNERSHIP AND CORPORATE PERFORMANCE

	DEBT	INCOME	SALES	INSIDER	Adj R^2	F-stat	Sig
ROE	-0.00907 (0.957)	1.802E-04 (0.709)	2.700E-08 (0.543)	4.076E-04 (0.866)	0.047	0.116	0.989
MBR	-11.769 (0.000)	4.443E-04 (0.962)	3.545E-07 (0.677)	0.03296 (0.477)	0.102	3.259	0.009
ROA	-0.169 (0.000)	3.131E-05 (0.744)	7.523E-09 (0.394)	-1.73E-04 (0.718)	0.232	6.983	0.000

- Figures in parentheses indicate the significant value.

4.4 SUMMARY OF RESEARCH RESULTS

Ownership Concentration and Corporate Performance

The result of this study showed that there is insignificant relationship between ownership concentration and corporate performance (ROE and MBR). Although ownership concentration gives a positive and significant effect on ROA, the effect is small (coefficient of 0.001008) and shall be ignored. This result supports the findings by Demsetz & Lehn (1983), Kwabena (1993) and Yee (1998).

Hill and Snell (1989) described the two benefits when stockholdings are concentrated.

- First, the quality of information at its disposal (Fama, 1970). When stockholdings are concentrated, it said that shareholders could use their voting power to co-ordinate action and demand information from

management and influence management decisions (Aoki, 1984; Leech, 1987; Salancik & Pfeffer, 1980).

- Second, when stockholdings are concentrated, the shareholders will have the ability to remove managers that fail to maximize shareholders wealth by waging proxy battles or engineering take-over bids (Manne, 1965). Hence, the stock concentration should give a positive impact to the corporate performance as revealed by Berle-Mean thesis. However, our results simply lend no support to the hypotheses.

Insider Ownership and Corporate Performance

The result indicated an insignificant relationship between insider ownership and corporate performance. This gives additional evidence to the study done by Yee (1998) and Kwabena (1993) on Malaysian Companies indicate no significant effect of insider ownership on corporate performance. There are two reasons for the anomaly of corporate performance given by Kwabena (1993) in his study on Malaysian companies.

- First, the loss of control of top management in the corporation. Although the management who have the financial stake in the corporation may be aiming at higher returns and efficiency, at a lower level of management the vision might be lost due to organization phenomenon such as control loss. In Kwabena's study, it gave the assumption that high insider ownership is associated with low ownership concentration.

- Second, change in behaviour of management who once was sole owner-directors/managers of the corporation. When they are no longer the sole owner of the corporation, the entrepreneurial spirit might be reduced. They might not make the decision at the best interest of the owners as the fraction claims on the corporation fall. It demonstrates that insider ownership might not at all time promote a better performance of the corporation.

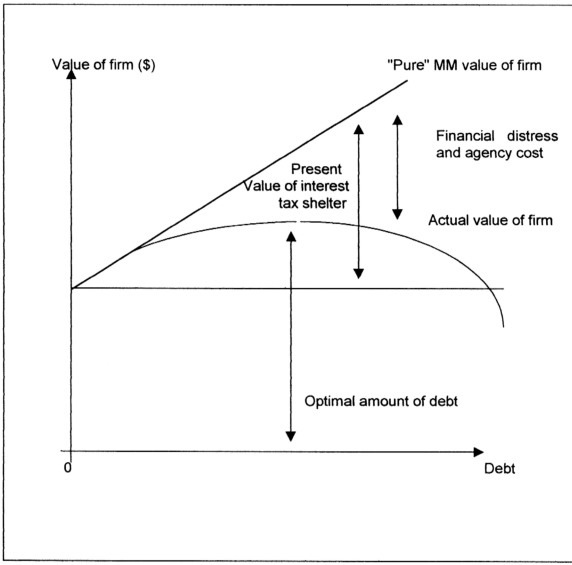
Debt and Corporate Performance

The result contrary with our expectation that higher debt ratio will lead to higher return (value of corporation). This can be explained from the capital structure theory: the trade-off models from the cost of financial distress and agency theory views.

Although it described that debt will increase a firm's value from the tax shield benefit. However, debt financing might cause financial distress. A greater use of debt financing, the larger the fixed interest charges, the greater probability that a decline in earning will lead to financial distress, hence the higher the probability that the costs of financial distress will be incurred (Brigham & Gapenski, 1997).

It can also be described in the agency cost point of view (Brigham & Gapenski, 1997; Jensen & Meckling, 1976). Agency relationship exists between shareholders and bondholders (debt holders). It said that in the absence of any restriction, management might take actions that would benefit shareholders at the expense of bondholders. However, bonds are normally protected by restrictive covenants. The company must be monitored to ensure that the covenants are being obeyed and thus the costs of monitoring incurred. This cost of monitoring will pass on to the shareholders in the form of higher debt costs. In other words, it reduces the benefits provided by the interest tax shield and decreases the value of the firm. Both cost of financial distress and agency cost can be explained from Graph 3.0.

Graph 3.0 Debt and Value of firm



Source: Brigham & Gapenski, 1997

Size and Corporate Performance

The result showed insignificant relationship between size and performance of corporation. As we have explained in previous chapter, size of a corporation has an ambiguous effect on the performance of the corporation. Large corporations might give a better performance because of the economics of scale in monitoring. On the other hands, it might weaken the performance due to increase in monitoring and agency costs.

Growth in Net Income and Corporate Performance

The result showed an insignificant relationship between growth in net income and corporate performance. Although it expected that higher growth in net income would promote better performance of the corporation, corporate performance might be affected by other factors such as corporate policies or strategies, products and services of the corporation, industry performance and overall corporate economy. Hence, growth in net income might not be an important factor that contributes to the better performance of a corporation.