

CHAPTER 5 CONCLUSION AND RECOMMENDATIONS

SUMMARY AND CONCLUSIONS

Accounting (ROSF) and market (VAL) measures

This paper considers accounting and market measures of PLC performance in Malaysia and a more generalised form of the relationship confirm the general finding of the US and UK literature of a non-linear relationship between firm performance and managerial ownership. Therefore, the results suggest that the noted non-linear relationship between the both accounting and market measures performance of firms and director ownership. For the ROSF regression, the coefficient on the variable DIR is positive in 1996, while the coefficient on the variable DIR² during the entire sample period is positive in except 1996, that on the DIR³ is positive from 1995 to 1996.

TABLE 10
Summary of ROSF regression coefficient

	1995	1996	1997	1998	1999
DIR	-0.48700	0.08886	-0.59400	-0.53200	-0.24000
DIR ²	0.28300	-1.18200	1.85200	1.78100	0.68700
DIR ³	0.78100	1.82600	-1.30800	-1.34900	-0.45400

For VAL regression, the present results indicate a significant and positive relationship (variable DIR² is statistically significant at 10% level of confidence in 1998 and the variable DIR is negatively significant in 1995) between performance and director ownership.

TABLE 11
Summary of VAL regression coefficient

	1995	1996	1997	1998	1999
DIR	-7.47900	-7.36600	-29.60800	-32.15000	-28.27400
DIR ²	-6.44900	-9.34000	89.33700	105.59400	93.78400
DIR ³	37.76900	42.93200	-59.72500	-78.58300	-71.99100

For both the ROSF and VAL regression, the present results indicate a consistent positive relationship between performance and director ownership at high level of ownership (DIR³) before 1997, it consistent with the hypothesis that the convergence of interest effect dominates at high levels of ownership.

Short and Keasey (1999) indicates that the non-linear relationship between exists between performance and managerial ownership for both accounting and market measures of performance. For both the RSE and VAL regressions, the coefficients on the variables DIR , DIR^2 and DIR^3 are all statistically significant at the 5% level of confidence, that is the coefficients on the variables DIR and DIR^3 are positive, while that on the variable DIR^2 is negative. The results indicate a consistently significant and positive relationship between performance and managerial ownership at high levels of managerial ownership.

In contrast, Morck et al. (1988) found a significant positive-negative-positive relationship to exist only for performance as measured by Tobin's Q (ratio of the firm's market value to the replacement cost of its physical assets) and not for performance as measured by an accounting profit rate. Morck et al. report a positive association between performance (Tobin's Q) and high management ownership (specifically ownership at 25% or above), the statistical significance of their variable is weak and varies according to the model specification.

Hence, the present results provide somewhat stronger evidence of a positive relationship between performance and director ownership at high level of ownership before the Asian Financial Crisis 1997. This is consistent with the Jensen and Meckling (1976) model, which suggests that high levels of managerial ownership help to align the interests of shareholders and managers.

Turning Points

The performance of PLC as measured by ROSF is positively related director ownership above 35.08% in 1995 and above 39.01% in 1996. However, the PLC performance is positively related to director ownership in the 20.54% to 73.80% range, 19.03% to 68.94% and 22.54% to 78.34% in 1997, 1998 and 1999 respectively.

TABLE 12

Summary of Turning Points

	1995	1996	1997	1998	1999
ROSF	35.08%-59.24%	4.14%-39.01%	20.54%-73.80%	19.03%-68.94%	22.54%-78.34%
VAL	20.62%-32.01%	17.73%-32.24%	20.99%-78.73%	19.44%-70.14%	19.41%-67.43%

Short and Keasey (1999) calculate the coefficient of the variables DIR, DIR² and DIR³ reveal that, for the RSE model, the turning points on the cubic function of managers' ownership are approximately 15.58% and 41.84%. The results suggest that the performance of firms (as measured by RSE) is positively related to managers' ownership below 15.58% and exceeds 41.84%. Similarly, using VAL as the measure of the performance of firms, the turning points are 12.99% and 41.99% respectively.

Finally, the paper provides evidence for a non-linear relationship between firm performance and director ownership.

SUGGESTIONS FOR ADDITIONAL RESEARCH

A study of the relationship between smaller PLC performance and director ownership represents a potentially valuable area for future research. In addition, a further analysis of additional firm performance measure such as research and development expenditure divided by total assets etc can be added for research.

IMPLICATION

Overall, the findings will provide useful quantitative data for shareholders of PLC, institutional groups, professionals and regulators in understanding the relationship between the firms' performance and director ownership. For example, if higher insider ownership improves performance, then regulators can encourage such ownership as a complement to or as a substitute for capital adequacy in a competitive financial system.