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CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSIONS

The KLSE is one of the active stock markets in the Asia Pacific region. In 1995, there were a total of 559 companies listed on the KLSE of which 379 companies were on the main board and 180 companies on the second board. The number has increased to 665 companies in 1997 of which 382 companies were in the main board and 283 in the second board. There were only 21 companies, which accounted for Foreign Majority Equity Companies (FMECs) for the period of 1995 to 1999. The remainders were Local Majority Equity Companies (LMECs). This research analyzed the performance of LMECs and FMECs listed on the KLSE by looking at the companies' stock return.

In this study the samples were selected from the KLSE board based on percentage of foreign-owned equity in the company. All samples were classified into two groups, namely Foreign Majority Equity Companies (FMECs) and Local Majority Equity Companies (LMECs). The samples were then matched according to their sector and market size. The objectives of the study are to compare the performance of LMECs and FMECs, and to see the wealth impact of the financial crisis on return performance between the LMECs and FMECs.

The results of the study indicated that the performance of LMECs was not badly affected before and during the financial crisis. This might due to the government intervention as most of the LMECs were Government Linked-Companies and majority of their equity owned by government agencies (Lee, 1994). In contrast, the result showed a significant difference to the FMECs before and during financial crisis. In other words, it reveals that FMECs' return performance was seriously affected during the financial crisis as compared to before the crisis period. This was also implied that capital size and well managerial input are not enough to influence the performance of the companies especially during the bearish market.

When comparison was made between LMECs and FMECs, as has been pointed out in Chapter four, there were no significant difference between these two groups before the crisis. It was explained that both groups had average in performance before the crisis although the result showed that the return of LMECs was slightly higher than the return of FMECs.

However, the result showed a significant difference during the crisis period. The LMECs had a positive return while FMECs had a negative return. This showed that FMECs were badly affected as compared to the LMECs during the crisis. The results also showed that the FMECs had larger difference in return performance as compared to LMECs. It is implied that FMECs had a larger impact in performance than LMECs during the crisis.

The study then examined the wealth impact of the LMECs and FMECs due to the crisis. Both groups experienced an impact in return performance due to financial crisis. The result empirically showed that the FMECs experienced a greater impact as compared to LMECs. However, the LMECs appeared to experience the impact of financial crisis earlier than FMECs. The reason is that the LMECs tended to react faster than FMECs if there was any event affected the market. That is why LMECs reacted faster to follow the market performance as compared to FMECs.

There are few explanations that can be made as to why the Local Majority Equity Companies (LMECs) companies were less affected due to financial crisis. The Second Outline Perspective Plan 1991 – 2000 reported that government supported the local companies through the allocation of contracts, quotas and joint ventures. Other efforts included the provision of education and training and credit facilities. In addition, government agencies like MARA and SEDCs and trust agencies like PNB also provided effective support for the development of local businesses. This situation was not surprising because majority shareholders in the local companies were the government agencies and trust agencies.

Most of the local companies' nature businesses were import substitution, which were related to the consumer goods like FFM, Hicom and Perak. Basically, they have tended to cater more for the domestic market. Phang (1998) stated that local companies supplied 58 percent of home market demand. Hence, they were not involved in foreign exchange transaction and the weakening Ringgit give less impact to them.

The Malaysian Government also initiated the Corporate Debt Restructuring Committee to help the companies to restructure their debt payment during the crisis. As mentioned in Lee (1994) that most of the local companies were Government-Linked Companies (GLCs), the Government might use alternatives through Pengurusan Danaharta Berhad to deal with non-performing loans and Danamodal Berhad to assist in corporate restructuring. Danaharta only takes over the loans from corporate borrowers while Danamodal played a role in managing halted infrastructure projects. This plan would assist the problem companies to survive and help the economy to get back to normal. Based on Danaharta Report, many companies benefited from this debt restructuring such as Hicom and Gadek.

Although most of the FMECs are multinational corporations (MNCs) and they had unlimited sources of capital and well managerial inputs as supported in Fong (1990) and Phang (1998) but it did not assured that the companies can maintain their good in performance during the bearish market. The results stated that the FMECs were badly affected during the crisis since they had larger differences in return performance as compared to LMECs. As mentioned by Phang (1998) that most of the foreign companies were export-oriented. When the Ringgit was weakening against US Dollar, it gave an effect to the value of the firm, as the return could be lower. Thus, it was better for the FMECs to move from the Malaysian market although they had strength in capital. The situation made the FMECs was badly performed during the crisis or downward trend. It is also clarify the doubt why the proportion of local shareholders still dominated the KLSE stock market during the downward trend.

5.2 PROBLEMS AND LIMITATIONS

The main problem was that there were limited studies done previously on comparison between local companies and foreign companies in Malaysia. It was also found that there was no list of foreign companies provided by the KLSE. However, the percentage of foreign equity could be found in the Investor Digest.

This study conducted the event study by using the monthly return and daily return. The purpose is to compare the consistent of the result. The study exhibited that daily return result was consistent with the empirical result. It seemed that the event study by using the daily return were more accurate as compared to monthly return. This is because the daily return looks more at a micro level and could capture the entire event that affected the market within 30 days of the month. The constraint of using monthly return is that it could be less accurate as the data has been normalized. In addition, the monthly return only looks at a single day of the month.

The final samples involved in this study were also very limited. Thus, it might influence the significant result of the study.

5.3 RECOMMENDATIONS

Malaysian Government has to recognize the contribution that can be made by foreign companies in economic and industrial development. Yet, the need for foreign technology and capital has to be balanced against the desire of having local participation and control of the economy. Hence, the government should give opportunities to the local companies to be more competitive and more reliable in the market.

The results showed evidence that LMECs had less impact in return performance as compared to FMECs. Information from various magazines like the Edge and the Business Week stated that the Government had assisted the local companies during the crisis. The efforts of Malaysian Government to introduce the Corporate Debt Restructuring Committee to help the companies to restructure their debt payment are practicable. Most of local companies benefited from the initiative. However, the government should provide various types of assistance tailored to each kind of industrial sectors. This would ensure that the government supports would give a greater and sustainable performance and growth to the local companies. At the same time, the LMECs have to struggle to be more independent in strategic decision-making, sources of capital, tested and competence as compare to their FMECs counterpart.

5.4 SUGGESTIONS FOR ADDITIONAL RESEARCH

This study reveals the performance between local majority equity companies and foreign majority equity companies due to financial crisis, regardless their sector in the KLSE, by using stock return. This study has not analyze the performance of particular sector in KLSE. One possible area for further study is regarding the performance of particular foreign dominated sector in KLSE. As such there is scope for further research on the impact of foreign equity in manufacturing sector. This might provide some evidence to why they can perform and compete in the market better. Perhaps, the other methods of performance measurement like debt to equity ratio and Jensen, Sharpe and Treynor could be used instead of stock return and cumulative abnormal return.