FAMILY FIRMS, EXPROPRIATION AND FIRM VALUE : EVIDENCE FROM MALAYSIA

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ABSTRACT

The primary objective of this study is to examine whether minority shareholder expropriation in Malaysian firms occur through related party transactions (RPTs) which are likely to result in expropriation and the domestic banking channel as well as whether it is influence by independent directors' tenure. An analysis is made on whether this expropriation is stronger in family firms compared to non-family firms. Furthermore, an assessment is also made whether there is a positive moderating effect of controlling shareholders' ownership on the relationship between related party transactions (RPTs) which are likely to result in expropriation, independent directors' tenure and the number of domestic banks that the firm engages with, and firm value in Malaysian firms. Further analysis is also made on whether this positive moderating effect (if any) is stronger in family firms compared to non-family firms. This research utilises panel data pooled Ordinary Least Square (OLS) regression model and the Fixed Effect Least Square Dummy Variable (LSDV) model for data analysis. In this research, minority shareholder expropriation is found in both family and non-family firms. However, minority shareholder expropriation through RPTs is found to be stronger in family firms compared to non-family firms. In addition, expropriation due to long tenure of independent directors occur only in family firms in exclusive industries and this expropriation cannot be proven whether it is stronger in family firms or non-family firms. In family firms, corporate reputational effects after the Transmile scandal also help reduce expropriation through the positive moderating effects of controlling shareholders' ownership. This moderating effects is stronger in family firms compared to non-family firms. Basically, this study shows us that there is a need for the relevant authorities in this country i.e. the Securities Commission (SC) to seriously incorporate minority shareholder protection in future issuance of Codes of Corporate Governance.

ABSTRAK

Objektif utama kajian ini adalah untuk mengkaji sama ada rampasan pemegang saham minoriti dalam syarikat Malaysia berlaku melalui urus niaga pihak berkaitan (RPT) dan saluran perbankan domestik serta sama ada ia dipengaruhi oleh tempoh pengarah bebas. Analisis dibuat sama ada rampasan ini adalah lebih kuat dalam firma keluarga berbanding dengan firma bukan keluarga. Tambahan pula, penilaian juga dibuat sama ada terdapat kesan pemilikan pemegang saham utama di atas hubungan antara urus niaga pihak berkaitan (RPT) yang mungkin menyebabkan rampasan, pengarah bebas pemegang saham tempoh dan bilangan bank tempatan bahawa firma itu terlibat dengan nilai firma dalam syarikat-syarikat Malaysia. Analisis juga dibuat mengenai sama ada kesan positif ini sederhana (jika ada) adalah lebih kuat dalam firma keluarga berbanding dengan firma bukan keluarga. Kajian ini menggunakan data panel (OLS) model regresi dan Kesan Tetap (LSDV) untuk menganalisis data. Dalam kajian ini, rampasan pemegang saham minoriti didapati dalam firma keluarga dan bukan keluarga. Walau bagaimanapun, rampasan pemegang saham minoriti melalui RPT didapati lebih kuat dalam firma keluarga berbanding dengan firma bukan keluarga. Di samping itu, rampasan kerana tempoh lama pengarah bebas berlaku hanya di firma keluarga dalam industri eksklusif dan rampasan ini tidak dapat dibuktikan sama ada ia adalah lebih kuat dalam firma keluarga atau firma bukan keluarga. Dalam syarikat keluarga, kesan reputasi korporat selepas skandal Transmile juga membantu mengurangkan rampasan pemegang saham minoriti. Kesan positif pemilikan saham pemegang saham utama melalui RPT didapati lebih kuat dalam firma keluarga berbanding dengan firma bukan keluarga. Kajian ini menunjukkan bahawa terdapat keperluan bagi pihak berkuasa seperti Suruhanjaya Sekuriti (SC) memberi perlindungan kepada pemegang saham minoriti dalam penerbitan Kod Tadbir Urus Korporat pada masa hadapan.

ACKNOWLEDGMENTS

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RPTs   Related Party Transactions

SC   Securities Commission

MCCG   Malaysian Code of Corporate Governance

VIF   Variance Inflation Factor

CG   Corporate Governance

ACGA   Asian Corporate Governance Association

CFA   Chartered Financial Analyst

CLSA   Credit Lyonnaise Securities Asia

MSWG   Minority Shareholder Watchdog Group

FRS   Financial Reporting Standards

CMP   Capital Market Master Plan

KLSE   Kuala Lumpur Stock Exchange

KLSELR   Kuala Lumpur Stock Exchange Listing Requirements

NEP   New Economic Policy

NDP   National Development Policy

EPU   Economic Planning Unit

CCM   Companies Commission of Malaysia

PDRM   Royal Malaysian Police

CHAPTER ONE

OVERVIEW OF THESIS

1.1   INTRODUCTION

Most corporate governance discussions centre on the traditional shareholder-manager problems generally referred to as Agency Problem Type I – principal-agent problem (De Cesari, 2012) which is prevalent in widely held firms (Jensen and Meckling, 1976). However, in firms controlled by one or more shareholders with large stakes (controlled firms), the interests of the firms' controlling shareholders usually are not aligned with the firms' minority shareholders.   The consequence of this misalignment is that corporate insiders possess incentives to pursue private benefits at the expense of outside shareholders, which result in minority shareholder expropriation (De Cesari, 2012). This is generally referred to as Agency Problem Type II – principal-principal problem. In this scenario, the conflict is between principal (majority shareholder) and principal (minority shareholder). The minority shareholder expropriation refers to the transfer of resources out of a company to its controlling shareholder at the expense of minority shareholders (Johnson, La Porta, Lopez-de-Silanes and Shleifer, 2000b).   Minority shareholder expropriation often occurs in countries with weak corporate governance such as those in emerging markets where most firms are controlled by families and ownership is highly concentrated (Claessens and Yurtoglu, 2012).

In these markets, family controlling shareholders assume control of most business corporations (Ahlstrom, Chen and Yeh, 2010; Liu, Yang and Zhang, 2010) and they possess the incentives to expropriate minority shareholders as well as depriving them their right to appropriate returns on their investments (Cueto, 2013).   This makes family-controlled firms in emerging markets different from non-family firms due to the tendency of family controlling shareholders to expropriate minority shareholders

(Bertrand, Mehta and Mullainathan, 2002; Peng and Jiang, 2010). Jiang and Peng (2011) supported this assertion when they find that family firms tend to use certain control structures associated with expropriation activities. Apart from the literature which reasons that family firms in emerging markets are more prone to minority shareholder expropriation, there are also studies which argue that within these markets, expropriation in family firms can be reduced due to reputational effects. These studies include Gomes (2000), Khanna and Palepu (2000) as well as Khanna and Yafeh (2007). However, Peng and Jiang (2010) argue that in emerging markets, these effects are deemed as a poor substitute for institutional deficiencies such as poor legal protection of minority shareholders because even firms with good reputation have exploited minority shareholders particularly during periods of financial crisis (Johnson, Boone, Breach and Friedman, 2000a). Nevertheless, this line of reasoning is unconvincing because it does not take into account the effect of corporate governance fiascos such as the Transmile[1] case in Malaysia, which could have a strong reputational impact on the corporate governance of family firms. For that reason, the argument that reputational effects are a poor substitute for institutional deficiencies may not be valid.

Having considered the various arguments by academic scholars, this research examines expropriation in Malaysian public-listed companies with attention given to family firms. Malaysia is chosen as the country for analysis due to its high ownership concentration, family ownership dominance as well as its weaker corporate governance compared with developed economies (Liew, 2007). Furthermore, it is envisaged that there will be negative firm value effects particularly in family firms in Malaysia as the highly concentrated ownership structure encourages family controlling shareholders to expropriate resources from their firms using related party transactions (RPTs).

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[1] In the Transmile case which occurred in early 2007, the firm's revenue was inflated in the financial statement (Securities Commission, 2011c). This is a dent to the corporate reputation of family firms in this country as Transmile at that time is owned by the Kuok family which is one of the large family business groups in Malaysia.

An overview of this research is provided by this chapter. The discussion in this chapter is organised as follows. Section 1.2 provides the background of this study. Section 1.3 discusses the problem statement, which highlight the research gaps in the corporate governance literature related to expropriation. Section 1.4 discusses the research objectives and research questions. Section 1.5 discusses the research hypotheses. Section 1.6 discusses the significance of this research. Section 1.7 explains the organisation of this study and Section 1.8 concludes the chapter.

1.2   BACKGROUND

Increasingly it appears that there is no "one-size-fits-all" corporate governance model which is relevant in all national contexts (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1997, 1998; Lubatkin, Lane, Collin and Very, 2005). The predominant model of corporate governance is a product of developed economies (primarily the United States and United Kingdom), where efficient enforcement of arm's-length agency contracts is prevalent (Peng, 2003). Also, in developed economies, because ownership and control are often separated and legal mechanisms are available to protect owners' interests; such as the governance conflict that receives the major attention is the principal-agent conflict between owners (principals) and managers (agents) (Jensen and Meckling, 1976). On the other hand, in emerging economies, the institutional context makes the enforcement of agency contracts more costly and problematic (North, 1990; Wright, Filatotchev, Hoskisson and Peng, 2005). This results in the prevalence of concentrated firm ownership (Dharwadkar, George and Brandes, 2000) especially by families (Ahlstrom et.al., 2010; Heugens, Van Essen and Van Oosterhout, 2009; Liu et.al., 2010; Peng and Jiang, 2010; Schulze and Gedajlovic, 2010; Zhang and Ma, 2009). Claessens, Djankov and Lang (2000a) finds that the largest ten families in emerging markets such as Indonesia, Philippines and Thailand control half of the corporate assets. Concentrated ownership coupled with absence of effective external

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corporate governance mechanisms provide opportunities for controlling shareholders especially from family groups to expropriate resources from their firms and indirectly disadvantage the minority shareholders (Morck, Wolfenzon and Yeung, 2005). An important consequence of minority shareholder expropriation is the reduction in firm value (Barclay and Holderness, 1989; Bebchuk, 1999; Bebchuk, Kraakman and Triantis, 1999; Claessens, Djankov, Fan and Lang, 1999b; Claessens, Djankov, Fan and Lang, 2002; Dahya, Dimitrov and McConnell, 2008; Durnev and Kim, 2005; Grossman and Hart, 1988; Harris and Raviv, 1988b; Lemmon and Lins, 2003; Lins, 2003; McConnell and Servaes, 1990; Morck, Shleifer and Vishny, 1988; Zingales, 1994). This reduction in firm value occurs because firms, which are expropriated by controlling shareholders, engage in actions which provide private benefits to controlling shareholders rather than enhancing overall shareholder value (Anderson and Reeb, 2003; Dahya et.al., 2008; La Porta, Lopez-de-Silanes and Shleifer, 1999; Lins, 2003; Morck, Stangeland and Yeung, 2001; Shleifer and Vishny, 1997; Qian, Pan and Yeung, 2011).

Such actions include appointing unqualified friends or family members as senior managers, engaging in self-beneficial trades, advancing family and political agendas that hamper corporate performance and appropriating the profits of lower-tier firms in a pyramid business group e.g.tunnelling (Chen, Li and Shapiro, 2011). These actions usually occur in family-controlled firms because family owners possess the incentives to engage in actions which are in their best interest but not necessarily in the best interests of their minority shareholders who may not have any voice in firm governance and only limited formal or informal means to protect their interests (Yoshikawa and Rasheed, 2010).

The possibility of controlling shareholders expropriating minority shareholders and the resulting reduction in the firm value had attracted the interests of numerous academic

scholars. Many studies have examined the indicators of minority shareholder expropriation (Faccio, Lang and Young, 2001a; Jiang, Lee and Yue, 2010; Krishnamurti, Sevic and Sevic, 2005; La Porta, Lopez-de-Silanes, Shleifer and Vishny, 2000a; Mitton, 2002; among others) as well as the likelihood of the existence of expropriation (Djankov, La Porta, Lopez-de-Silanes and Shleifer, 2008; Johnson et.al., 2000a; La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998; 2000b; Nenova, 2003; among others). However, there is still limited evidence on the specific transactions which controlling shareholders could use for minority shareholder expropriation, the impact of independent directors' tenure on expropriation, the effect of the number of domestic banks that the firm engages with on expropriation, the moderating effects of ownership types (i.e. family and non-family ownership) on expropriation and whether expropriation as well as the moderating effects of ownership on expropriation is stronger in Malaysian family firms compared to non-family firms.

These studies are significant because the analysis on the specific transactions which could be used for minority shareholder expropriation shows the real act of expropriation whereas the impact of independent directors' tenure on expropriation shows the effectiveness of independent directors as the firm's internal corporate governance mechanism. In addition, the impact of the number of domestic banks that the firm engages with on expropriation shows how the domestic banking channel could be abused for expropriation purposes. Furthermore, the analysis of the moderating effects of controlling shareholder's ownership on expropriation shows the effectiveness of controlling shareholder's ownership as the firm's internal corporate governance mechanism or as a source of entrenchment. The comparison of whether expropriation as well as the moderating effects of ownership on expropriation is more prevalent in Malaysian family firms or non-family firms shows the significance of these issues in both types of firms. Therefore, in this study, I examine expropriation in public-listed

family firms, within the context of Malaysia. It is important to examine minority shareholder expropriation within the context of the different institutional settings (Aguilera and Crespi-Cladera, 2012) as the efficacy of corporate governance in a particular country is strongly determined by its institutional context (Doidge, Karolyi and Stulz, 2007). Malaysia provides an interesting emerging market setting to analyse minority shareholder expropriation due to its high ownership concentration, dominance of family ownership and weaker corporate governance compared with developed economies (Liew, 2007)

1.3   PROBLEM STATEMENT

In most corporate governance studies, expropriation is indirectly inferred such as the firm value effects of the separation of ownership and control rights of the firm's controlling shareholder (i.e. the effect of its ratio of cash-flow rights over its control rights towards firm value) (Claessens et.al., 2002; Krishnamurti et.al., 2005; Mitton, 2002; among others) as well as by the rate of dividends paid to shareholders (Faccio et.al., 2001a; La Porta et.al., 2000a; among others).   Furthermore, economists also indirectly infer expropriation through the price paid for corporate control (Zingales, 1994; Dyck and Zingales; Nenova, 2003; Atanasov, 2005). Some studies even used the legal system (in particular investor protection) to examine the likelihood of the existence of expropriation in a particular country or region (Djankov et.al., 2008; Johnson et.al., 2000a; La Porta et.al., 1998; 2000b; among others).

While these studies have generally suggested the existence of expropriation, they do not identify specific types of transactions that could be used by controlling shareholders to expropriate resources from their firms. Furthermore, the firm value effects of these transactions have not been widely examined (Jiang, Lee and Yue, 2010). This study examines a particular type of transaction that could be used for that purpose (i.e. related

party transactions (RPTs) which are likely to result in expropriation) and their firm value effects. The extant literature only provides limited evidence with respect to this i.e. Cheung, Rau and Stouraitis (2006), Cheung, Jing, Lu, Rau and Stouraitis (2009) and Peng, Wei and Yang (2011). In addition to that, their studies only focussed on the market reaction (market valuation) to the announcement of RPTs which are likely to result in expropriation (i.e. what they conduct are event studies) (Cheung et.al., 2006; Cheung et.al., 2009; Peng et.al., 2011). However, the timeframe that they used to gauge the market reaction is within a maximum range of twenty days (i.e. maximum days before the announcement and maximum ten days after the announcement). The weaknesses of such studies are that their results do not provide a comprehensive understanding of the firm value effects. Event studies deal with the change around the status i.e. usually within a short timeframe surrounding the event that occurred (MacKinlay, 1997).

In the context of expropriation studies, event studies are not entirely suitable as firm value effects should not just be measured within a short timeframe (only days)(Cheung et.al., 2006; Cheung et.al., 2009; Peng et.al., 2011) but in years as expropriation by controlling shareholders can exist for years within their firms as demonstrated by the findings of Faccio et.al. (2001a), Krishnamurti et.al. (2005), La Porta et.al. (2000a), Mitton (2002), among others. Hence, a regression of firm value effects that cover several years will provide a clearer picture of the relationship between RPTs which are likely to result in expropriation and firm value. Panel regression will provide a clearer indication of the existence of controlling shareholders' expropriation as it focuses on the progress and allows observation of the change of a particular variable over a period of time and it can provide a detectable change on that variable as the process involves repeated measurements of that same variable over time (Diggle, Liang and Zigger, 1994; Rajulton, 2001). This research examines the firm value effects of RPTs which

are likely to result in expropriation using an approach which analyse a period of a few years (i.e. 3 years) rather than an event study approach.

In order to reduce the usage of RPTs by controlling shareholders for expropriation, board oversight is important. As such, an independent director is a significant internal corporate governance mechanism for monitoring expropriation activities (OECD, 2009). However, there are certain problems related to the monitoring function of independent directors. Their impartiality in executing their duties may be affected by their tenure as their independence are very likely to be compromised when their tenure increase[2]. As the tenure of the independent directors increase, controlling shareholders particularly those from family firms, possess the incentives to exert influence on the independent directors in order to expropriate resources from their firms; hence, reducing firm value (Anderson, Mansi and Reeb, 2004; Lin, Piotroski, Tan and Yang, 2011b; Securities Commission, 2011a; Yunos, Smith, Ismail and Ahmad, 2011). As a result, the social cohesion between controlling shareholders and the independent directors will increase (Westphal, 1999) which consequently contributes to expropriation by the former (Anderson et.al., 2004; Lin et.al., 2011b; Securities Commission, 2011a; Yunos et.al., 2011).

On the other hand, within the context of the corporate governance problems that occur in Malaysia; independent directors' tenure may also have a positive impact on firm value. This possibility could arise in the post-Transmile period. During this period, reputational considerations come into play as independent directors of family firms want to preserve the corporate reputation of their firms (Oh, 2011). Independent directors want good corporate reputation because poor reputation may lower their future employment prospects with non-family firms (Othman and Rahman, 2010). Hence, as

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[2] In fact, the Malaysian Code of Corporate Governance (MCCG) 2012 proposes to limit independent directors' tenure to a maximum of nine years (Part 3, Para. 3.3).

their tenure increases, they may fully utilise their experiences and skills gained to add value to their firms in order to maintain the company's reputation.

Despite the possibility of a negative or a positive effect of independent directors' tenure on firm value, the extant corporate governance literature provides very limited empirical evidence on issues related to the effects of board tenure. Previous research only documented evidence with respect to the effects of independent directors' tenure on CEO compensation (Vafeas, 2003), timeliness of corporate internet reporting (Abdelsalam and El-Masry, 2008) and earnings management (Liu and Sun, 2010). Hence, it would be interesting to examine the firm value effects of independent directors' tenure, as this would contribute to the corporate governance literature. Despite the corporate reputational effects on independent directors of family firms, I expect independent directors' tenure particularly those from family firms to have a negative impact on firm value in Malaysia as this is in line with the proposal in the Malaysian Code of Corporate Governance (MCCG) 2012 to limit the tenure to a maximum nine years.

Although independent directors can be considered a significant internal corporate governance mechanism to reduce expropriation; there are also other potential internal corporate governance mechanisms which can be considered. One such mechanism is ownership concentration. However, the corporate governance implication of concentrated ownership by different types of owners such as family owners, state owners, foreign owners, etc is a relatively unexplored area (Cascino, Pugliese, Mussolino and Sansone, 2010; Holderness and Sheehan, 1988; Short, 1994). The existing corporate governance literature only provides limited empirical evidence on the moderating effects of ownership types (family vs non-family) on expropriation (Iskandar, Bukit and Sanusi, 2012; Yoshikawa and Rasheed, 2010). Iskandar et.al. (2012) show the significance of the moderating effects of foreign and managerial

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ownership on expropriation. Yoshikawa and Rasheed (2010) demonstrate that bank and foreign ownership play a significant role in moderating expropriation. However, these studies did not examine the moderating effects of controlling shareholders' ownership on the relationship between RPTs, independent directors' tenure and the number of domestic banks that the firm engages with, against firm value as they only generally demonstrate the significance of the different types of ownership in moderating expropriation.

It is important to analyse the moderating effects of controlling shareholders' ownership because theoretically, there are two possible implications of concentrated ownership. Morck et.al. (1988) argue that controlling shareholders respond to two opposing forces and that the moderating effect of concentrated ownership depends on which force dominates. The opposing forces work in the following way. Controlling shareholders' natural tendency is to allocate the firm's resources in their own best interests, which may conflict with the interests of the minority shareholders. This is called the entrenchment effect of controlling shareholders. However, as their ownership increases, their interests could also be likely to coincide more closely with those of minority shareholders. This is called the incentive alignment effect (Jensen and Meckling, 1976). The first of these forces has a negative moderating effect whereas, the second has a positive effect (Morck et.al., 1988).

However, within the context of the unique institutional setting as well as the corporate governance issues in Malaysia, it is argued that the explanations of these moderating effects are somewhat different. Contrary to the assertions by Morck et.al. (1988), it is argued that in Malaysian family firms, controlling shareholders' ownership may have a positive moderating effect when their ownership increases. This is likely to occur in the post-Transmile period as investors confidence on family firms was shattered following the Transmile episode (Song, 2010). When family controlled shareholders' ownership

increases, they possess higher ownership of their firms' equity. Since, they own more of their firms' equity; their incentives to preserve corporate reputation and to reduce expropriation are higher because poor corporate reputation can affect them as well as their family members (Gomez, 1999; Loy, 2010). As a result, this corporate reputational effect helps align the incentives of controlling shareholders to the minority shareholders when ownership of controlling shareholders increases (Loy, 2010). Therefore, it would be interesting to empirically analyse the positive moderating effects of family controlling shareholders' ownership on expropriation in Malaysia. This analysis will verify the prediction made as well as contribute to the corporate governance literature.

Apart from the internal corporate governance mechanisms, external corporate governance mechanisms such as bank monitoring may also play a role in firm governance. Most studies of bank monitoring are associated with syndicated loans, focusing more on the information asymmetry between the lead bank with the syndicated participants (Dennis and Mullineaux, 2000; Lee and Mullineaux, 2004; Champagne and Kryzanowski, 2007; Sufi, 2007). However, these studies did not test the strength of the monitoring role of banks in corporate governance in which the strength is measured by the number of banks that the firm engages with (Fan, Wei and Xu, 2011; Hermawan and Dina, 2011). Theoretically, an increase in the number of banks that the firm engages with may render the bank monitoring function to become ineffective (Hermawan and Dina, 2011). This is because when a company deals with many banks as its source of debt financing, each bank might rely on the other banks to do the monitoring function on their borrowers and does not do the monitoring on their own. This may allow controlling shareholders to engage in opportunistic behaviours such as loan expropriation (Hermawan and Dina, 2011). The empirical evidence with regards to this is limited. Hermawan and Dina (2011) find that an increase in the number of banks that

the firm engages with reduces firm value. However, their study did not segregate the banks into domestic and foreign categories. The strength of monitoring in domestic banks may be different from foreign banks within certain institutional contexts (Thillainathan, 1999). The extant literature provides limited evidence on the strength of domestic bank monitoring.

Only Fok, Chang and Lee (2004) provide some evidence with regards to this by analysing the relationship between the number of domestic banks that the firm engages with and firm value in Taiwan. Since, the strength of monitoring in domestic banks is dependent upon its institutional context (Thillainathan, 1999), it can be argued that the institutional setting in Taiwan has a strong effect on the results obtained by Fok et.al. (2004). The generalisability of their results can be debated because the institutional setting in Taiwan may not be the same as other countries. For example, the level of investor protection in Taiwan is not the same as common law countries or French-civil-law countries because German origin laws are used in Taiwan (La Porta et.al., 1998). As a result, it can be argued that the findings by Fok et.al. (2004) are contextual by nature. Since, contextual findings are important in expropriation studies (Aguilera and Crespi-Cladera, 2012), it is important to analyse these effects in Malaysia.

Furthermore, another unique institutional feature in Malaysia is the existence of bank-directed lending in the domestic banking system (Ang, 2009; Ang and Sen, 2011; Economic Planning Unit, 1981, 2001, 2006, 2011) which further increases the significance of conducting such a study in the Malaysian context. Due to the existence of bank-directed lending within the domestic banking system, controlling shareholders particularly those from family firms may expropriate the loans obtained from these domestic banks as debt provide incentives for expropriation in emerging markets (Faccio, Lang and Young, 2001c). They can also obtain these loans without proper scrutiny (Bhattacharya, 2001; Laeven, 1999; Perera, 2011; Sharma, 2001; Thillainathan,

1999). Moreover, the more domestic banks are engaged by the firm, the more loans the firm can obtain via bank-directed lending (IMF, 1998; Kroszner, 1998; Kwack, 2000; Oh, 1998; Perera, 2011; Sharma, 2001; Thillainathan, 1999). Hence, if the firm engages more domestic banks for financing purposes, the more loans the controlling shareholder may expropriate via bank-directed lending and as a result, firm value may be reduced. Therefore, it would be interesting to analyse the firm value effects due to the number of domestic banks that Malaysian firms engages with in particular, family firms.

Despite the previous arguments, the extant literature only provides limited empirical evidence as to whether expropriation and the positive moderating effects of controlling shareholders' ownership on expropriation is more prevalent in family firms or among non-family firms in the context of the Malaysian institutional setting. So far, only Munir and Gul (2011) and Munir and Salleh (2010) provide some evidence about this assessment. However, their studies do not assess the relevance of expropriation with respect to the impact of expropriation against the independent directors' tenure and the strength of domestic bank monitoring. The relevance of the positive moderating effect of controlling shareholders' ownership on expropriation is not assessed as well. Besides, it is likely that the potential negative relationships between RPTs (which are likely to result in expropriation), independent directors' tenure and the number of domestic banks that the firm engages with, may result in firm value which is higher among family firms compared with non-family firms. This is because family owners possess private objectives which can result in actions which advance their family welfare at the expense of minority shareholders (Schulze, Lubatkin, Dino and Bucholtz, 2001). Furthermore, it is also likely that the positive moderating effect of controlling shareholders' ownership on expropriation is stronger in family firms due to the corporate reputational effects as predicted previously. Hence, it is timely to investigate empirically the incidence of expropriation and observe whether the relationship between

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expropriation and firm value is stronger among firms with controlling shareholders' ownership (family firms) than non-family firms in Malaysia.

1.4   RESEARCH QUESTIONS AND RESEARCH OBJECTIVES

Considering the limited evidence and research gaps as discussed in the previous section as well as the argument that reduction in firm value is an indicator of minority shareholder expropriation (Barclay and Holderness, 1989; Bebchuk, 1999; Bebchuk et.al., 1999; Claessens et.al., 1999b; Claessens et.al., 2002; Dahya et.al., 2008; Grossman and Hart, 1988; Harris and Raviv, 1988b; Lemmon and Lins, 2003; Lins, 2003; McConnell and Servaes, 1990; Morck et.al., 1988; Zingales, 1994); the research questions can be broadly categorised into four parts as discussed below :

Part I

Is there a negative relationship between:-

1) related party transactions (RPTs) (which are likely to result in expropriation) and firm value in Malaysian firms?

2) independent directors' tenure and firm value in Malaysian firms?

3) the number of domestic banks that the firm engages with and firm value in Malaysian firms ?

Part II

If there is a negative relationship between:-

4) the related party transactions (RPTs) (which are likely to result in expropriation) and firm value in Malaysian firms, is this negative relationship stronger in family firms compared to non-family firms?

5) the independent directors' tenure and firm value in Malaysian firms, is this negative relationship stronger in family firms compared to non-family firms?

6) the number of domestic banks that the firm engages with and firm value in Malaysian firms, is this negative relationship stronger in family firms compared to non-family firms?

Part III

Is there a positive moderating effect of controlling shareholders' ownership on the relationship between:-

7) the related party transactions (RPTs) (which are likely to result in expropriation) and firm value in Malaysian firms?

8) the independent directors' tenure and firm value in Malaysian firms?

9) the number of domestic banks that the firm engages with and firm value in Malaysian firms?

Part IV

If there is a positive moderating effect of controlling shareholders' ownership on the relationship between the related party transactions (RPTs) (which are likely to result in expropriation) and firm value, the independent directors' tenure and firm value and the number of domestic banks that the firm engages with and firm value in Malaysian firms; are these positive moderating effects stronger in family firms compared to non-family firms ?

In summary, the research objectives of this study are to find out the following:

1. Whether there is a negative relationship between related party transactions (RPTs) (which are likely to result in expropriation) and independent directors' tenure, the number of domestic banks that the firm engages with, and firm value in Malaysian firms.

2. If there is a negative relationship between related party transactions (RPTs) (that are likely to result in expropriation), and independent directors' tenure, the number of domestic banks that the firm engages with, and firm value in Malaysian firms; is this negative relationship stronger among family firms compared to non-family firms.

3. Whether, there is a positive moderating effect of controlling shareholders' ownership on the relationship between related party transactions (RPTs) (which are likely to result in expropriation) and independent directors' tenure, the number of domestic banks that the firm engages with, and firm value in Malaysian firms.

4. If there is a positive moderating effect of controlling shareholders' ownership on the relationship between related party transactions (RPTs) (which are likely to result in expropriation) and independent directors' tenure, the number of domestic banks that the firm engages with, and firm value in Malaysian firms; is this positive moderating effect stronger among family firms compared to non-family firms.

1.5   SIGNIFICANCE OF STUDY

There are several theoretical contributions emanating from this research. First, this research provides a new perspective to agency theory by showing that corporate reputational effects help mitigate minority shareholder expropriation in Malaysian family firms even during the period of the global financial crisis which started in 2008 through the positive moderating effects of controlling shareholders' ownership on expropriation via RPTs and through the positive moderating effects of controlling shareholders' ownership on expropriation due to long tenure of independent directors (only in Malaysian family firms in exclusive industries). Hence, the argument by Peng and Jiang (2010) that reputational effects is a poor substitute for weak minority shareholder protection in emerging markets can be disputed. Second, the significant negative relationship between independent directors' tenure and firm value in Malaysian family firms only in exlusive industries shows that the assumptions of agency theory with respect to the positive effects of having independent directors working in firms; do not hold within family firms in exclusive industries in emerging markets. Third, this research also contributes to the theory of ownership structure by showing that controlling shareholders' ownership has a significant positive moderating effect on expropriation via RPTs in family firms as well as on expropriation due to long tenure of independent directors (only in family firms in exclusive industries). The contribution to the theory of ownership structure is also shown by the results of the significant negative moderating effect of controlling shareholders on the relationship between RPTs which are like to result in expropriation and firm value as well as between the number of domestic banks that the firm engages with and firm value, in non-family firms.

1.6 SUMMARY OF RESEARCH RESULTS AND IMPLICATIONS OF RESEARCH RESULTS

Generally, the conclusions derived from the research results in this study consider a limitation of this research where the accounting-based performance measures may be subject to management manipulation (Chakravarthy, 1986; Lubatkin and Shrieves, 1986; Purkayastha, 2013) which result in higher sensitivity of market-based performance measures towards Agency Problem Type II (principal-principal conflict) as well as contradictory significant research results between market-based and accounting-based performance measures. The contradictory research results in this study will not be considered as significant findings because the study that is conducted is conclusive research. Therefore, only conclusive evidence which are robust against all the performance measures utilised or only restricted to one particular performance measure are accepted as significant findings in this type of research (Saunders, Lewis and Thornhill, 2009; Singh, 2007).

With consideration of this limitation, basically, in the Malaysian context, this research shows that minority shareholder expropriation do exist in family and non-family firms. In family firms, minority shareholder expropriation occurs through RPTs as well as due to long tenure of independent directors. In non-family firms, expropriation occurs as a result of the negative moderating effect of controlling shareholders' ownership on the firm value effects of RPTs as well as on the firm value effects of the number of domestic banks that the firm engages with. Likewise, it is found that minority shareholder expropriation through RPTs is stronger in family firms compared to non-family firms. Furthermore, in family firms in exclusive industries, minority shareholder expropriation occurs due to the long tenure of independent directors but it cannot be proven whether this expropriation is stronger in family firms or non-family firms. On the other hand, in family firms, corporate reputational effects after the Transmile

scandal help reduce minority shareholder expropriation through RPTs as well as expropriation due to long tenure of independent directors through the moderating effects of controlling shareholders' ownership. Basically, this study shows us that there is a need for the relevant authorities in this country i.e. the Securities Commission (SC) to seriously incorporate minority shareholder protection in future issuance of Codes of Corporate Governance as the current Malaysian Code of Corporate Governance (MCCG) 2012 does not incorporate this protection in its code. Furthermore, the current MCCG 2012 which sets the limit of the tenure of independent directors to 9 years ought to be continued in future codes issuance as it is shown in this research, that long tenure of independent directors are detrimental to the interests of minority shareholders.

1.7   ORGANISATION OF THIS STUDY

This thesis is divided into seven chapters. Chapter one provides an overview of the thesis by introducing the research topic, background of study, problem statement, research questions, research objectives, hypotheses used and the significance of its contribution. Chapter two discusses the literature related to agency problems, ownership structure and control, legal protection of minority shareholders, corporate governance mechanism and the Malaysian institutional setting. Chapter three discusses the expropriation in family firms, RPTs in family firms, independent directors in family firms, the banking relationship of family firms and the moderating role of controlling shareholders' ownership. Chapter four discusses philosophical paradigm, theoretical framework and hypotheses development. Chapter five discusses the research model, variable measurements, sampling design and the data analysis techniques used in this research. Whilst in Chapter six, the discussion is focussed on the descriptive statistics, research results, conclusions, endogeneity issues, multicollinearity issues and robustness checks. Finally, Chapter seven discusses the summary of the findings by hypotheses,

implications of these findings, theoretical contributions, policy implications, limitations in this research as well as suggestions for future research.

1.8   CONCLUSION

This chapter has introduced the thesis by outlining the topic of this research, the background of study, the problem statement, the research questions and the objectives, the hypotheses examined, the research significance and a brief summary of the research results and its implications. The next chapter discusses the relevant literature related to this research which provide the background and foundation for issues related to expropriation. In addition, the institutional setting in Malaysia is discussed as well.

CHAPTER TWO

THE MALAYSIAN INSTITUTIONAL ENVIRONMENT,

OWNERSHIP STRUCTURE AND MINORITY SHAREHOLDER

EXPROPRIATION

2.1   INTRODUCTION

The main aim of this chapter is to explain the Malaysian institutional environment as well as explain issues of ownership structure and how it relates to minority shareholder expropriation.

The rest of the discussions in this chapter is organised as follows. Section 2.2 discusses the definition of corporate governance. Section 2.3 discusses the literature on agency problems, ownership structure & control and legal protection of minority shareholders. Section 2.4 discusses the corporate governance mechanisms available to mitigate agency problems. Section 2.5 discusses the Malaysian institutional setting.

2.2   CORPORATE GOVERNANCE

Corporate governance is very significant for a firm to succeed and for gaining trust from investors and the public generally. Besides that, effective corporate governance can boost market confidence and sustain both economic and social stability (Ibrahim, 2009). McKinsey (2000) conducted a survey and finds that ASEAN investors show appreciation for those companies which ensure protection of minority shareholder rights and they are willing to pay a valuable premium to purchase shares in well governed firms. As a result, an efficient corporate governance system is required for the firm's success and overall market stability (OECD, 2004, 2011).

2.2.1 Definitions of Corporate Governance

The definition of corporate governance is very subjective. There are various definitions of corporate governance, each in line with the field of research in which they are committed. Blair (1995) argues that corporate governance should be defined in a broader context, which takes into consideration the business environment, social culture and political framework. Therefore, he defines corporate governance as:

> "The whole set of legal, cultural and institutional arrangements that determines what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated"

> (Blair, 1995, p.3)

In the United Kingdom (UK), corporate governance is defined as the system to direct and control a company as described by the Cadbury Committee on the financial aspects of corporate governance (MacMillan and Downing, 1999). In sequence, the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance (1999) improves the view of corporate governance with a sound set of relationships between the firm's board, shareholders and stakeholders:

> "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, the means of attaining those objectives and monitoring performance."

Basically, the OECD principles concentrate on five items which are the rights of shareholders, fair treatment to shareholders, role of stakeholders, transparency and responsibility of the board members. As such, the shareholders look forward to a well maintained management since they place their trust in firms to use their invested funds in an appropriate manner (OECD, 1999).

On the other hand, The Malaysian High Level Finance Committee on Corporate Governance defines corporate governance as:

> "The process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interests of other stakeholders".

(Finance Committee of Corporate Governance, 1999, p.52)

This definition indicates that corporate governance is concerned about both internal and external controls. The board's structure and the relationship with both shareholders and stakeholders are also taken into account in well organised governance. Furthermore, internal and external governance mechanisms are also taken into consideration. The internal mechanism of main interest are the Board of Directors and the ownership structure of the companies, while the main external mechanisms are the external market for corporate control like the takeover market and the legal system (Cremers and Nair, 2004). Well monitored governance mechanisms can enhance the corporate governance stability, thus increase a firm's productivity as well as the overall economy.

Furthermore, from the finance perspective, corporate governance is defined as the ways in which suppliers of funds to firms assure themselves of obtaining a return on their

investment (Shleifer and Vishny, 1997). An entrepreneur or a manager raises funds from investors either to productively use them or to cash out his holdings in the firm. The financiers need the managers' expertise to generate returns on their investments. The manager needs the financiers' investments, since he either does not possess sufficient capital of his own to invest or else wants to cash out his holdings. One interesting and significant question that arises is, how can financiers be assured that they obtain returns on their investments? The agency problem in this context refers to the difficulties financiers have in assuring that their investments are not expropriated or wasted on unproductive projects (Shleifer and Vishny, 1997).

To resolve this problem, the financiers and the manager sign a contract which specifies what the manager does with the funds, and how the returns are divided between him and the financiers. Ideally, they would sign a complete contract, which specifies exactly what the manager does in all states of the world and how the profits are distributed. The difficulty in this process is that most future contingencies are hard to describe and predict, and as a result, complete contracts are technically infeasible (Shleifer and Vishny, 1997). Due to the problem of incomplete contracts, the manager and the financier have to allocate the residual control rights which are the rights to make decisions in situations not fully foreseen by the contract (Grossman and Hart, 1986; Hart and Moore, 1990). In principle, the financiers could invest in the firm if only they retain all the residual control rights. Anytime something unexpected occurs, they get to decide what to do. However, this approach is too idealistic, for the simple reason that the financiers are not qualified or sufficiently informed to decide what to do as this is the very reason they hired the manager in the first place. As a result, the manager ends up with substantial residual control rights and therefore, discretion to allocate funds as he chooses. There may be limits on this discretion specified in the contract and much of

corporate governance deals with these limits but the fact is that managers do possess most of the residual rights (Shleifer and Vishny, 1997).

In reality, the situation is more complicated. First, the contracts that the managers and investors sign cannot require too much interpretation if they are to be enforced by outside courts. In the United States (USA), the role of the courts is more extensive than anywhere else in the world, but even the so-called business judgment rule keeps the courts out of the affairs of companies. In much of the rest of the world, courts only get involved in massive violations by investors' rights such as erasing shareholders' names from the register, etc. Second, in the cases where financing requires collection of funds from many investors, these investors themselves are often small and too poorly informed to exercise even the control rights that they actually possess. Furthermore, the free rider problem encountered by individual investors makes it uninteresting for them to learn about the firms they have financed, or even to participate in the governance. As a result, the effective control rights of the managers and hence, the room they have for discretionary allocation of funds end up being excessive than they would have been if courts or investors became actively involved in detailed contract enforcement (Shleifer and Vishny, 1997).

The outcome of this is that managers end up with significant control rights (discretionary rights) over how to allocate investors' funds. They can expropriate these funds and in many pyramid schemes, for example, the organisers abscond with the money. Managerial expropriation of funds can also take more complicated forms than just taking the cash out, such as transfer pricing. As a consequence of the opportunistic behaviours of managers due to the possession of significant control rights, agency problems arise. The agency problem that arises here is between the principal (investor) and the agents (managers). This problem is called the Principal-Agent Problem or generally referred to as Agency Problem Type I (Shleifer and Vishny, 1997).

2.3 AGENCY PROBLEMS, OWNERSHIP STRUCTURE & CONTROL AND LEGAL PROTECTION OF MINORITY SHAREHOLDERS

2.3.1 Agency Problem: The Principal-Agent Conflict (Agency Problem Type I)

Traditionally, agency problems involve the relationship between the principal and the agent (Jensen and Meckling, 1976). Jensen and Meckling (1976) define this agency relationship as a contract in which one party (the principal) provides another party (the agent) the decision-making authority to perform some service on its behalf. In the classical principal-agent problem, professional managers assume the role of the agent who acts on behalf of the company's shareholders (the principal). The basic agency problem arises when the interests of the professional managers and the company's shareholders are not aligned. This misalignment of interests occurs as a result of the separation between decision-making, which is carried out by professional managers, and the bearing of residual risk by shareholders (Clacher, Hillier and McColgan, 2010).

This separation of ownership and control provide managers with the power to control the firm. Due to their controlling power, managers possess the incentives to realise private benefits of control that are unavailable to the firm's shareholders. When managers derive private benefits from the firm, they are not acting in the best interest of the shareholders. The latter want to see their investment returns maximised and not their firm investments being expropriated by managers (Clacher et.al., 2010). Jensen and Meckling (1976) argue that this inefficiency is reduced with the increase of managerial incentives to make value-maximising decisions so that the interests of professional managers are more aligned with those of shareholders. Clacher et.al. (2010) further argue that agency costs arise because providing managers with the appropriate incentives to act in the best interest of company shareholders imposes costs on the principals. This cost can be seen as the value loss to shareholders arising from the

cost of minimising divergence of interest between company shareholders and corporate managers (Clacher et.al., 2010).

In developed economies such as United States (USA), this principal-agent problem or Agency Problem Type I receive major attention because in these economies, often there is separation of ownership and control as well as legal mechanisms exist to protect owners' interests (Jensen and Meckling, 1976; Young, Peng, Ahlstrom, Bruton and Jiang, 2008). However, this is not the norm for most countries across the world outside USA, where family groups own and control many firms (Clacher et.al., 2010). There is also no effective and predictable rule of law that protect investors (Dharwadkar et.al., 2000; Mitton, 2002). The difference is further elaborated next.

2.3.2 Ownersip Structure & Control And Legal Protection Of Minority Shareholders: International Evidence

2.3.2.1 Ownership Structure & Control outside United States (USA)

One of the major differences between developed economies such as USA and the rest of the world lies in terms of ownership structure and control. Traditionally, the literature on the role and function of modern firm is based on the assumption of the prevalence of widely dispersed ownership (Claessens et.al., 1999b). In widely dispersed firms, the control over companies is being transferred to professional managers (Claessens et.al., 1999b). This assumption is applicable to countries like USA as the corporate governance literature concluded that almost half of large American firms are widely held (Claessens et.al., 1999b). This assumption has also been propagated by Baumol (1959), Jensen and Meckling (1976) and Grossman and Hart (1980), among others.

However, a subsequent line of the empirical literature finds results, which go against this traditional assumption (Claessens et.al., 1999b). La Porta et.al. (1999) finds a huge concentration of ownership in countries outside USA. La Porta et.al. (1999) is one of the pioneering studies which investigates the significant issue of ultimate control i.e. they trace the chain of ownership to find who has the most voting rights. Their findings suggest that ownership is largely concentrated in the hands of families and the state particularly in emerging markets. The study by La Porta et.al. (1999) presented a different picture of the ownership structure of a modern corporation than that suggested by Berle and Means and which is widely accepted in the finance literature. The Berle and Means widely held firms is only common for large firms in the richest common law countries such as USA. Outside USA, particularly in countries with poor shareholder protection, even the largest firms tend to possess controlling shareholders. Sometimes, the controlling shareholder is the State but more often, it is a family, usually the founder of the firm or his descendants (La Porta et.al., 1999).

La Porta et.al. (1999) further find that the controlling shareholders in countries outside USA typically have high control over firms in excess of their cash-flow rights (ownership rights). This is so because they often control large firms through pyramidal structures and in part because they manage the firms they control. As a result, large firms particularly in emerging markets have a problem of separation of ownership and control. These firms are run not by professional managers without equity stakes who are unaccountable to shareholders, but by controlling shareholders. These controlling shareholders are ideally placed to monitor the management, and in fact, the top management is usually part of the controlling family. As a result, they possess the power to expropriate minority shareholders. Generally, the findings by La Porta et.al. (1999) reflects the negative impact of huge control by controlling shareholders particularly in emerging markets.

Claessens et.al. (1999b) further investigates ultimate control patterns in 2,980 publicly traded firms in nine East Asian countries (i.e. Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand). They find large family control within more than half of East Asian firms (Claessens et.al., 1999b). They also find that smaller firms in East Asia are more likely to be family-controlled, as are older firms. In many East Asian countries, control is enhanced through pyramid structures, deviations from one-share-one-vote rules, and voting rights exceeding cash-flow rights (Claessens et.al., 1999b). Separation of management from ownership control is rare and management of two-third of firms, which are not widely held, is related to the family of the controlling shareholder (Claessens et.al., 1999b). Since, the 1996 statistics by Claessens et.al. (2000a), there has been relatively little change to the ownership structure and control in East Asia. Carney and Child (in press) finds that for the year 2008, family control remains the most dominant form of ownership across East Asia, though widely held firms dominate in Japan and Taiwan and is substantial in both South Korea and Thailand. The Philippines has witnessed the largest increase in family-controlled firms, while Taiwan has undergone the largest decline.

Basically, the separation of ownership and control has undergone little change from 1996 to 2008 for the East Asian region as a whole and remains highest among family-controlled firms (Carney and Child, in press). Furthermore, it shows among firms with a dominant family owner, the average number of firms belonging to a single family or the top families has also remained relatively stable over time when looking at East Asia in the aggregate, although changes have occurred for individual countries. For example, family control has increased substantially in South Korea from an average of 1.61 firms per family in 1996 to 3.22 in 2008. Hong Kong and the Philippines, by contrast, have shown the largest declines, from 1.92 for Hong Kong in 1996 to 1.33 in 2008, and 2.42 for the Philippines in 1996 to 1.69 in 2008 (Carney and Child, in press). On average,

the number of family firms from 1996 to 2008 has reduced as well, from an average of

179 to 144 (Carney and Child, in press). Table 2.1 below shows the concentration of

family control for both 1996 and 2008. One of these East Asian countries which

demonstrate high ownership concentration as well as large family ownership and

control is Malaysia (1.49 firms per family for 2008 as shown in Table 2.1).

Table 2.1: Concentration of Family Control for 1996 and 2008

Percentage of Sample Firms That Families Control					
Country	Average Number of Firms per Family	Top One Family	Top Five Families	Top 10 Families	Number of Firms
1996					
Hong Kong	1.92	8.0	30.0	39.0	200
Indonesia	1.55	4.5	18.0	29.2	178
Japan	1.00	0.5	2.5	5.0	200
South Korea	1.61	5.0	16.0	23.5	200
Malaysia	1.75	10.5	29.0	37.0	200
Philippines	2.42	6.7	25.0	39.2	120
Singapore	1.23	3.0	10.0	14.5	200
Taiwan	1.08	3.5	7.8	11.3	141
Thailand	1.67	7.8	24.0	33.5	167
East Asia nine	1.58	5.49	18.02	25.8	
2008					
Hong Kong	1.33	3.2	11.4	17.7	158
Indonesia	1.49	4.5	18.9	26.5	132
Japan	1.07	1.5	4.4	8.1	136
South Korea	3.22	10.1	37.5	42.8	159
Malaysia	1.49	5.2	16.4	23.4	154
Philippines	1.69	5.3	16.9	36.0	114
Singapore	1.16	3.8	12.2	16.0	131
Taiwan	1.24	1.2	5.5	8.6	163
Thailand	1.53	4.7	13.4	19.5	149
East Asia nine	1.58	4.38	15.18	22.05	
Change					
Hong Kong	-0.59	-4.84	-18.61	-21.28	
Indonesia	-0.06	0.05	0.96	-2.70	
Japan	0.07	0.97	1.91	3.09	
South Korea	1.61	5.06	21.50	19.27	
Malaysia	-0.26	-5.31	-12.65	-13.62	
Philippines	-0.74	-1.40	-8.12	-3.20	
Singapore	-0.06	0.82	2.21	1.53	
Taiwan	0.15	-2.32	-2.28	-2.76	
Thailand	-0.14	-3.09	-10.53	-14.07	
East Asia nine	0.00	-1.12	-2.84	-3.75	

Source: Carney and Child (in press)

2.3.2.2 Ownership Structure & Control in Malaysia

Malaysia is an emerging market which possesses very different ownership structure and controls compared to developed economies. Yunos, Smith and Ismail (2010) found that between 2001-2007, 96.8% of Malaysian public-firms are closely held by a controlling shareholder. They also found that 30.8% of public-listed firms are controlled by management whereby the manager is supplied by the controlling shareholder (Yunos et.al., 2010). Moreover, family shareholders form the predominant controlling shareholders and 67.2% of the total firms in the stock exchange are family owned (Claessens et.al., 2000a; Ibrahim and Samad, 2010). This figure is the highest among East Asian countries i.e. Hong Kong, Indonesia, Japan, Korea, Philippines, Singapore, Taiwan and Thailand for 1996 (Claessens et.al., 2000a; Ibrahim and Samad, 2010). In fact, for the year 2004, the average shareholding of family controlling shareholders in Malaysian public-listed firms amounts to 27.3% (Munir and Salleh, 2010).

Aside from ownership structure, Malaysian public-listed firms also demonstrate very high concentration of control. The percentage of concentration of control among Malaysian public-listed family firms amounts to 76.2% of its Gross Domestic Product (GDP), which is the second highest after Hong Kong for the year 1996 among all the East Asian countries (Claessens et.al., 2000a; Lee and Li, 2009). Concentration of control is also reflected by the ratio of cash-flow rights to control rights. This ratio explains how much of the firm a controlling shareholder own (cash-flow rights) compared to how much he could control the firm (control rights). A low ratio signifies a high concentration of control as control rights exceed cash-flow rights (Claessens et.al., 2000a). In Malaysia, for the year 2008, public-listed firms demonstrate a relatively low cash-flow-to-control rights ratio i.e. 0.81 (Carney and Child, in press). This ratio is the second lowest in East Asia after South Korea, from nine East Asian countries analysed (Carney and Child, in press). Whereas, for family firms its cash-

flow-to-control rights ratio i.e. 0.743 (Carney and Child, in press). This ratio is the lowest in East Asia, from nine East Asian countries analysed (Carney and Child, in press). As Malaysia is ranked second lowest for public-listed firms and lowest for family firms, respectively, in East Asia, it can be inferred that the concentration of control in Malaysian public-listed firms, particularly, family firms, is very high for this region[3]. The high concentration of ownership and control in Malaysia as well as in other emerging markets provide opportunities to controlling shareholders to expropriate minority shareholders due to the lack of investor protection in these markets compared to developed economies (Claessens et.al., 2000a; Young et.al., 2008). Hence, the following section provides a further explanation of the protection of minority shareholders in these economies.

2.3.2.3 Legal Protection of Minority Shareholders outside United States (USA)

The extant literature on corporate governance systems and models, which are widely practiced in developed economies such as USA, are based upon the assumption of strong legal protection for minority shareholders' rights (Shleifer and Vishny, 1997). In USA, both small and large shareholders are protected through an extensive system of rules that protect minority shareholders' rights allows easy transfer of shares, keeps election of directors relatively uninhibited by managers and gives shareholders extensive powers to sue directors for violations of fiduciary duty, including through class-action suits (Shleifer and Vishny, 1997). However, in the rest of the world particularly emerging markets, legal protection of investors is less substantial, due to laws are not good or because courts do not enforce these laws (Shleifer and Vishny, 1997). As a result, firms remain family-controlled and, some of these firms have difficulties raising external funds, therefore, have to finance their investments internally

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[3] For public-listed firms in general, the low range of cash-flow rights-to-voting rights is between 0.79 to 0.855 and the high range between 0.855 to 0.92. For family firms, the low range of cash-flow rights-to-voting rights is between 0.743 to 0.817 and the high range between 0.817 to 0.891 (Carney and Child, in press).

(Mayer, 1990). In fact, the Asian Corporate Governance Association (ACGA) and Credit Lyonnaise Securities Asia (CLSA) jointly conducted an investor protection and corporate governance assessment on eleven Asian countries in 2012[4]. Table 2.2 shows the investor protection and corporate governance scores for these countries.

Table 2.2: Investor Protection & Corporate Governance (CG) Scores for Eleven Asian Countries

No.	Country	Total (Average Score)	CG Rules & Practices	Legal Enforcement	Political & Regulatory	Accounting & Auditing Standards	CG Culture
1	Singapore	69	68	64	73	87	54
2	Hong Kong	66	62	68	71	75	53
3	Thailand	58	62	44	54	80	50
4	Japan	55	45	57	52	70	53
5	Malaysia	55	52	39	63	80	38
6	Taiwan	53	50	35	56	77	46
7	India	51	49	42	56	63	43
8	South Korea	49	43	39	56	75	34
9	China	45	43	39	56	63	43
10	Philippines	41	35	25	44	73	29
11	Indonesia	37	35	22	33	62	33

Source: ACGA (2012b)

From Table 2.2, it can be observed that Asian emerging markets such as Thailand, Malaysia, India, China, Philippines and Indonesia only demonstrate overall decent and below average scores in this assessment (total average scores range between 37 to 58 out of 100). Hence, it can be concluded that investor protection in Asian emerging markets is basically poor or mediocre. The lack of legal protection of minority shareholders and the prevalence of high ownership concentration in emerging markets give rise to the principal-principal conflict which is generally known as Agency Problem Type II (Morck et.al., 2005; Young et.al., 2008). This is explained in the next section.

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[4] Asian Corporate Governance Association (ACGA) and Credit Lyonnaise Securities Asia (CLSA) are non-profit organisation and independent financial services provider respectively, which assess corporate governance and investor protection in Asia (ACGA, 2012a; Krishnamurti et.al., 2005).

2.3.3 Agency Problem: The Principal-Principal Conflict (Agency Problem Type II)

2.3.3.1 Corporate Governance in Emerging Markets and the Nature of the Principal-Principal Conflict

Emerging economies are low-income, rapid growth countries which use economic liberalisation as their primary growth engine (Hoskisson, Eden, Lau and Wright, 2000). In these economies, formal institutions often do not exist to promote mutually beneficial arms' length transactions between economic actors (North, 1990; 1994). Consequently, firms in emerging markets are guided by informal institutions, to a huge extent. (Peng and Heath, 1996). In the case of corporate governance, emerging economies typically do not possess effective and predictable rule of law which in turn, creates a weak governance environment (Dharwadkar et.al., 2000; Mitton, 2002). This is not to say that emerging economies have no laws dealing with corporate governance.

In most situations, emerging economies have attempted to practise legal frameworks of developed economies, in particular those of Anglo-American system, either as a result of internally driven reforms such as in Malaysia or as a response to international demands such as in South Korea and Thailand. However, formal institutions such as laws and regulations with regards to accounting requirements, information disclosure, securities trading and their enforcement are either absent, inefficient or do not operate as expected. Consequently, standard corporate governance mechanisms possess relatively little institutional support in emerging markets (Peng, 2004; Peng, Buck and Filatotchev, 2003). This results in informal institutions such as relational ties, business groups, family connections and government contacts, all playing a stronger role in influencing corporate governance (Peng and Heath, 1996; Yeung, 2006).

For threshold firms[5], the transition to professional management is always difficult (Daily and Dalton, 1992). It is even more difficult in emerging markets due to the weak institutional environment and it is common for even the largest firms to still be under the control of the founding family. Basically, these companies attempt to appear as having crossed the threshold from founder control to professional management. However, the founding family often retains control through other informal means (Liu, Ahlstrom and Yeh, 2006; Young, Ahlstrom and Bruton, 2004). In addition, public-listed firms in emerging markets possess shareholders, board of directors and professional managers, which reflect the characteristics of firms with modern corporate governance (Monks and Minnow, 1995). Even the largest public listed firms in an emerging economy may have adopted the appearance of corporate governance mechanisms from developed economies but these mechanisms rarely function like their counterparts in developed countries (Young et.al., 2008).

Generally, the corporate governance structures in emerging markets often resemble those of developed economies in form but their implementation is poor (Backman, 2001; Peng, 2004). Consequently, concentrated ownership and other informal mechanisms emerge to fill the corporate governance gap. While these ad hoc mechanisms may resolve some problems such as the principal-agent conflict, they create other agency problems in the process such as the principal-principal conflict or generally known as Agency Problem Type II (Young et.al., 2008).

The principal-principal conflict or Agency Problem Type II has been identified as a major corporate governance problem in emerging markets (Young et.al., 2008). This conflict is between two groups of principals: controlling shareholders and minority shareholders (Jiang and Peng, 2011). Young et.al. (2008) argue that the principal-

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[5] Threshold firms are firms which are undergoing a transition from the emergence to the professional management stage (Zahra and Filatotchev, 2004).

principal conflict is likely to be severe when the firm is owned and controlled by one large shareholder or a single family owner. The principal-principal conflict in emerging markets differs from the principal-agent problem that is prevalent in developed economies. This difference is explained by Figure 2.1.
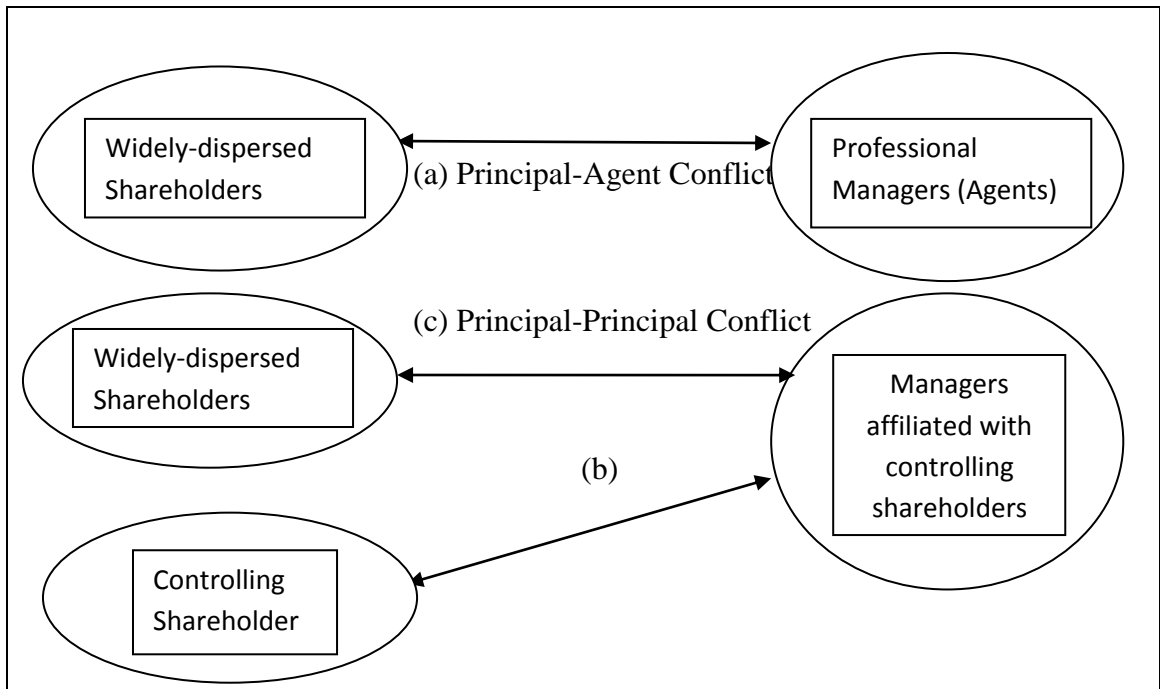
Figure 2.1: Principal-Principal Conflict vs. Principal-Agent Conflict
Source: Young et.al. (2008)

In the top panel of Figure 2.1, arrow (a) depicts the traditional principal-agent conflict that occurs between dispersed shareholders and professional managers. In the bottom panel of Figure 2.1, the slanting arrow (b) depicts the relationship between the controlling shareholders and their affiliated managers. These affiliated managers may be family members or associates who reports directly to the controlling shareholders (Young et.al., 2008). The straight line (c) depicting the conflict is drawn between the affiliated managers – who represent the controlling shareholders - and the minority shareholders. Hence, the conflict actually is between the controlling shareholders on one hand and dispersed minority shareholders on the other hand (Young et.al., 2008). This

principal-principal conflict has certain costs associated with it, which is missing from agency theory (Dalziel, White and Arthurs, 2011).

2.3.3.2 Extension of Agency Theory

Largely missing from agency theory is the discussion of the potential costs which could arise from principal-principal conflict. In order to fully understand the costs associated with such conflicts, I briefly review the costs and benefits associated with mitigating principal-agent conflict (see Figure 2.2) and then extend this agency theory foundation by specifying the costs and benefits associated with mitigating principal-principal conflict (see Figure 2.3).
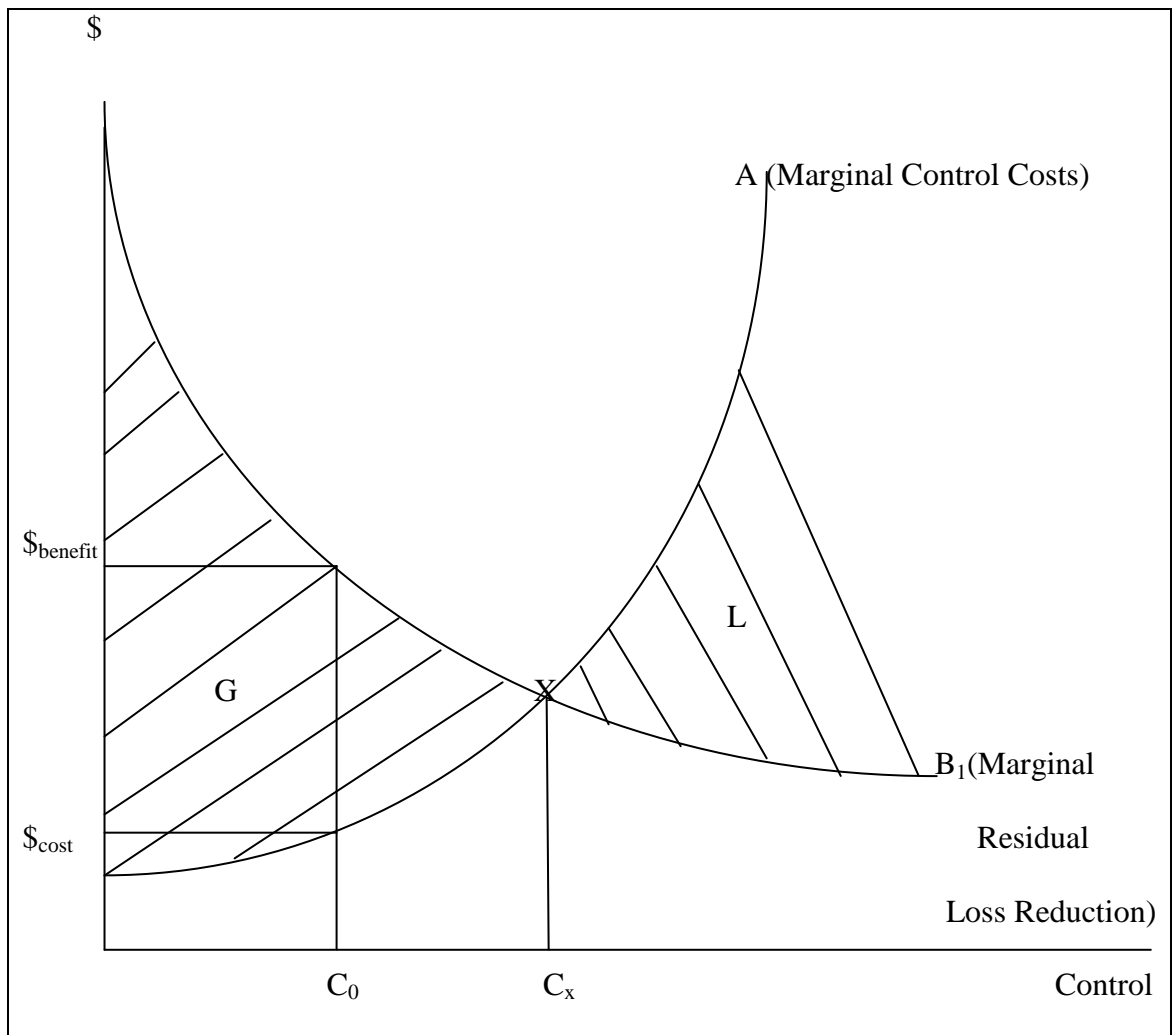
Figure 2.2: The costs of principal-agent conflict

Source: Dalziel et.al. (2011)

In Figure 2.2, curve A represents marginal control costs. Marginal control costs are the additional costs incurred from incremental control. Marginal reductions in residual losses, depicted by curve B_1 are the reduction in residual losses expected from additional control. Thus, curve A represents incremental costs, while curve B_1 represents incremental benefits. Curves A and B_1 intersect at point X. When control reaches C_x, the marginal benefit of control equals or breaks even with the marginal cost of control.

To illustrate, consider the arbitrary point C_0 shown in Figure 2.2, which is to the left of level of control C_x. At this level, the benefit of an additional unit of control (shown in the figure as $\$_{benefit}$) is larger than the cost ($\$_{cost}$) associated with that same additional unit of control, so overall the principals are benefiting from control. At this level, there are also additional benefits which can be derived if more control is exerted, but it is important to note that the marginal costs associated with achieving these marginal benefits are higher. In other words, when control is very low, a principal who increases control (e.g. through additional monitoring) will be able to substantially reduce the risk of huge losses associated with opportunistic agent behaviour. However, further increase in control ultimately yields smaller and smaller returns as remaining opportunism becomes increasingly trivial or difficult to obviate. Accordingly, the marginal benefits of control (i.e. the marginal reduction in residual losses depicted as curve B_1) dwindle at the same time as the marginal costs of control (curve A) increase. From an agency perspective, the goal is to ensure that the benefits of control surpass the costs, yielding net gains to principals. Shaded area G represents these gains to principals as control reduces more costly residual losses.

If the principals exert too much control, the firm enters the area to the right of point C_x, where the marginal costs of control are higher than the marginal benefits and the firm begins to experience losses. Exerting too much control or 'over-governance' can occur in a variety of ways. For example, rigid checks and balances, excessive reporting requirements (Manzi, 2007), over-monitoring of executive compensation (Tosi and Gomez-Mejia, 1994), and too many layers of supervision can constrain managerial behaviour in undesirable ways and impose costs on the organisation which are far above the benefits to be obtained (Shapiro, 2005). Additionally, principals who typically possess less knowledge of the internal workings of the firm than agents – must frequently monitor using gross proxies of performance such as financial measures rather than strategic criteria or first-hand operational insights. As a consequence, when these principals "try to closely monitor managerial actions, they may inadvertently cause managers to pursue non-wealth-maximising strategies" (Lane, Cannella and Lubatkin, 1998, p. 560). Finally, over-governance can shift risk to managers in ways which are ultimately detrimental to firm performance (Hoskisson, Castleton and Withers, 2009). Shaded area L depicts the losses firms suffer to the right of C_x when control is exceptionally high.

2.3.3.3 The Costs of Principal-Principal Conflict

In addition to examining the costs associated with principal-agent conflict, it is also important to analyse the potential costs of principal-principal conflict (Dalziel et.al., 2011). Figure 2.3 depicts what happens as principals exert "biased control".
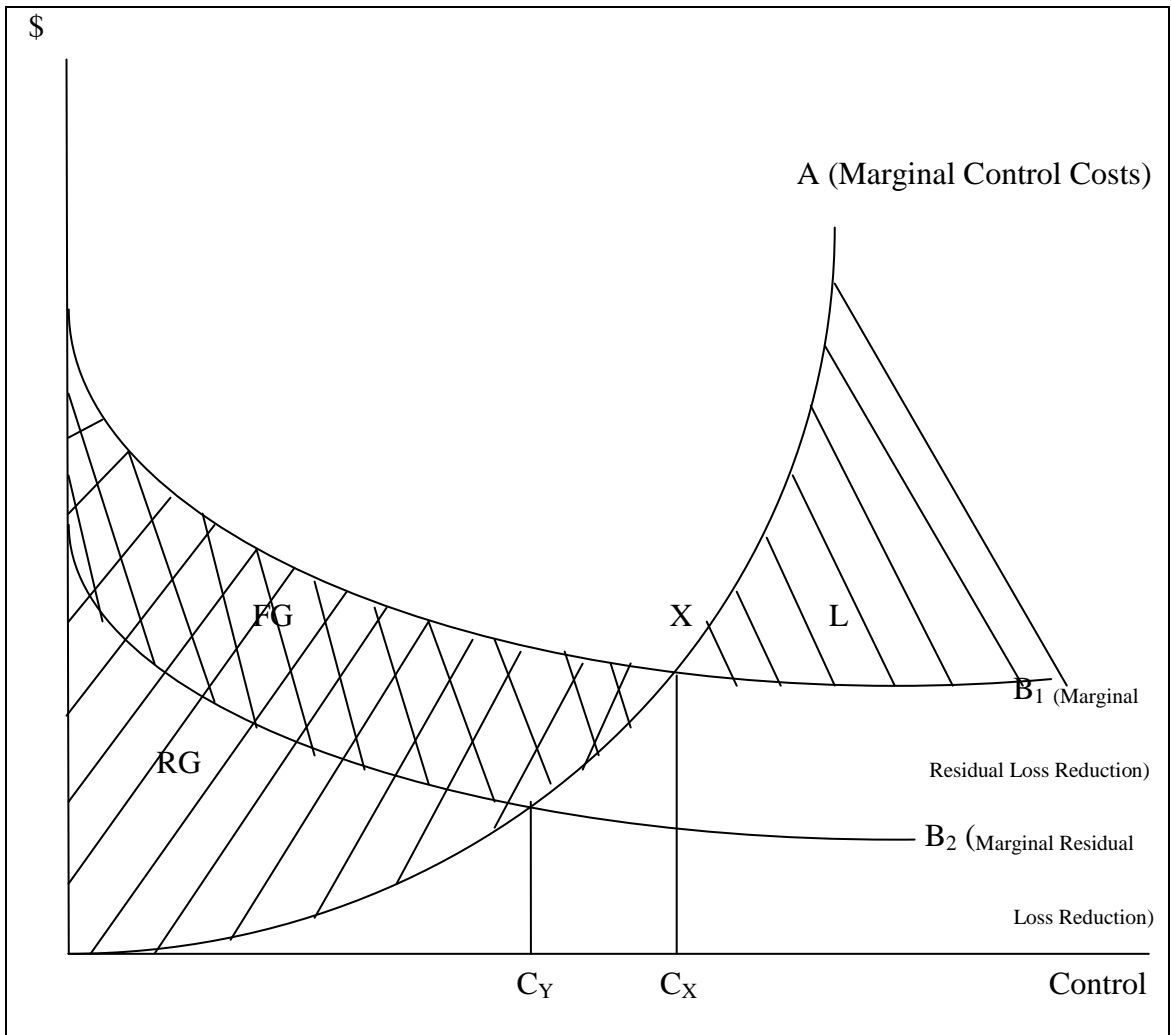
Figure 2.3: The costs of principal-principal conflict

Source: Dalziel et.al. (2011)

When a given principal uses its influence to bend the governance of the firm to its own benefit rather than focusing on the shared interests of all the firm's principals, it redirects the governance devices towards tasks that suit its own ends but which will be less useful in reducing residual losses. This is indicated by the lower marginal residual loss reduction curve (B_2) shown in Figure 2.3. This result in a new equilibrium level of control indicated as C_Y.

By lowering the residual loss reduction curve, principal-principal conflict deprives the firm of some of the benefits of control. In effect, the gain area G is divided into two sections, such that G = RG + FG. The (actual or realised) gains, which are represented by area RG, are substantially smaller than G because worthwhile tasks are being

neglected as powerful principals use governance mechanisms to pursue their own agendas. Potential gains which the firm could have enjoyed are forfeited as governance mechanisms are diverted away from their intended purpose. The region FG shows the size of these forfeited gains and is a measure of unrealised governance potential. This region depicts the cost of principal-principal conflict or principal costs.

Dalziel et.al. (2011) define principal costs as the forfeited gains which result from principal-principal conflict and the associated neglect of important governance tasks. Principal costs have the effect of reducing the value of the firm below what it otherwise would have been.

Basically, the differences between principal-agent conflict and principal conflict are outlined in the following table :

Table 2.3: Principal-Agent Conflict versus Principal-Principal Conflict

	Principal-Agent conflict as depicted in Anglo-American variety of agency theory	Principal-Principal conflict that commonly occur in emerging economies
Goal incongruence	Between fragmented, dispersed shareholders and professional managers.	Between controlling shareholders and minority shareholders.
Manifestation	Strategies that benefit managers at the expense of shareholders in general (e.g. shirking, pet projects, excessive compensation and empire building).	Strategies that benefit controlling shareholders at the expense of minority shareholders (e.g. minority shareholder expropriation, nepotism and cronyism).
Institutional protection of minority shareholders	Formal constraints (e.g. judicial reviews and courts) set an upper bound on potential expropriation by majority shareholders. Informal norms generally adhere to shareholder wealth maximization.	Formal institutional protection is often lacking, corrupt or un-enforced. Informal norms typically favour the interests of controlling shareholders over minority shareholders.
Market for corporate control.	Active as a governance mechanism "of last resort".	Inactive even in principle. Concentrated ownership thwarts notions of takeover.
Ownership pattern.	Dispersed – holding 5-20% equity is considered "concentrated ownership". A shareholder with 5% equity stake is regarded as a "block holder".	Concentrated – often more than 50% of equity is held by controlling shareholder. Often structured as a "pyramid where control rights are greater than ownership rights.
Board of directors	Legitimate legal and social institutions with fiduciary duty to safeguard shareholders' interests. Research focuses on factors that affect day-to-day operations such as insiders vs. outsiders, background of directors, committee structures, etc.	In emerging economies, boards often have yet to establish institutional legitimacy and thus are ineffective. Research indicates they are often the "rubber stamp" of controlling shareholders.
Top management team	Professional managers who often have made their way up through the ranks or are hired from outside after extensive search and scrutiny of qualifications. Monitored internally by boards of directors and externally by managerial labour market.	Typically, family members or associates. Monitored mainly through family consensus or self-regulation adhering to "gentlemen's agreements".

Source: Young et.al. (2008)

The reduction in firm value as a result of principal-principal conflict (minority shareholder expropriation) will be further discussed in the next section on minority shareholder expropriation.

2.3.3.4 Minority Shareholder Expropriation

Since principal-principal conflict incurs costs, it is important to discuss a significant manifestation of this conflict. One significant manifestation of principal-principal conflict is minority shareholder expropriation (Le Breton-Miller and Miller, 2009; Young et.al., 2008). Minority shareholder expropriation is defined as the transfer of resources out of a company to its controlling shareholder at the expense of minority shareholders (Johnson, Porta, Lopez-de-Silanes and Shleifer, 2000b). It is also called tunnelling and often, the term expropriation and tunnelling is used interchangeably (Johnson et.al., 2000b). Expropriation by controlling shareholders occurs due to conflict of interest between controlling shareholders and minority shareholders as the interests of both these shareholders are diverged and the former do not act in the best interest of the latter.

When expropriation by controlling shareholders occurs, there is a transfer of value from minority shareholders to controlling shareholders (Shleifer and Vishny, 1997). This value transfer emphasises the point that expropriation is indeed a key characteristic of Agency Problem Type II, because it is used to fulfil controlling shareholders' interests which are in direct conflict with, as well as, at the expense of minority shareholders' interests (Claessens et al., 2000a; Faccio et al., 2001a; Johnson et al., 2000b; Mitton, 2002; Young et.al., 2008). The reason for this is that controlling shareholders have the incentives to expropriate resources from the firm due to their power in controlling the corporation (Dharwadkar et.al., 2000; San Martin-Reyna and Duran-Encalada, 2012; Shleifer and Vishny, 1997; Young et.al., 2008). Such expropriation generally reduces

the observed market value of the firm (Dahya et.al., 2008). This reduction in firm value occurs due to the cost of the principal-principal conflict (forfeited gains) as discussed previously which basically refers to the unrealised governance potential of the firm. Instead of governing their firms properly, controlling shareholders direct their activities and actions to benefit themselves at the expense of minority shareholders (Anderson and Reeb, 2003; Dahya et.al., 2008; La Porta et.al., 1999; Lins, 2003; Morck et.al., 1988; Shleifer and Vishny, 1997; Qian et.al., 2011).

Such activities or actions can take many forms – some legal, some illegal and some in grey areas (La Porta et.al., 2000a,b). These include putting less-than-qualified family members, friends, and cronies in key positions (Chen et.al., 2011; Faccio et.al., 2001a); engaging in advantageous transfer pricing transactions (Chang and Hong, 2000; Chen et.al., 2011; Khanna and Rivkin, 2001); engaging in strategies which advance personal, family or political agendas at the expense of firm value such as excessive corporate diversification (Backman, 1990; Chen et.al., 2011); tunnelling profits from companies at the bottom of the corporate pyramidal structure to the holding firm or to other subsidiaries or associated companies (Chen et.al., 2011); excessive executive compensation (Wiwattanakantang, 2001); self-beneficial trades (Atanasov, Boone and Haushalter, 2010; Hand and Skantz, 1999; Nanda, 1991; Powers, 2003); loan guarantees (Johnson et.al., 2000b); outright theft or fraud (Johnson et.al., 2000b) as well as dilutive share issues (Johnson et.al., 2000b). Djankov et.al. (2008) argue that self-dealing transactions such as advantageous transfer pricing, excessive executive compensation, loan guarantees and outright theft enable controlling shareholders to utilise RPTs to expropriate resources from their firms for their own private benefits.

As minority shareholder expropriation reduces firm value, it is also significant to know the factors which encourage minority shareholder expropriation as outlined in the next section.

2.3.4 Factors Which Encourage Minority Shareholder Expropriation

Several factors could encourage minority shareholder expropriation. These include:

(i)   private benefits of control and expropriation;

(ii)   capital market development and moral hazard banking;

(iii)   agency cost of debt;

(iv)   lack of informed trading in equity markets;

(v)   lack of market for corporate control;

(vi)   inadequate and costly legal protection of minority shareholders;

(vii)   restrictive licensing practices; and

(viii) rent seeking practices.

2.3.4.1 Private Benefits of Control and Expropriation

Private benefits of control is defined as the benefits which accrue to managers or shareholders who possess control of the corporation, but not to minority shareholders (Benos and Weisbach, 2004). They can be non-pecuniary, such as the ability to direct a company's resources to a cause one agrees with (Demsetz and Lehn, 1985), a preference for glamorous projects (Jensen, 1993), or the use of a position for the enhancement of one's human capital (Shleifer and Vishny, 1989).

Private benefits of control can have an enormous direct financial effect on minority shareholders through transactions which divert corporate resources to other companies owned by the controlling shareholder or their families (Benos and Weisbach, 2004). Hence, measuring the extent of private benefits accruing to controlling shareholders is therefore a central question in corporate finance because the nature of these benefits are

interesting and important in their own right because they are detrimental to the interests of minority shareholders (Benos and Weisbach, 2004).

One significant method to measure private benefits of control was originally proposed by Barclay and Holderness (1989) and relies on ownership changes of controlling blocks of shares. Barclay and Holderness (1989) argue that the difference between the price per share paid by the acquiring party and the price per share prevailing on the market after the acquisition has taken place, reflect private benefits associated with the control of the company. This difference is a plausible measure of private benefits since the price per share paid by the acquiring party reflects not only the expected future cash flows but also the value of control, whereas the market price of the shares reflects only the cash flow benefits (Benos and Weisbach, 2004).

Extending the Barclay/Holderness approach to an international context, Dyck and Zingales (2004) calculate the control (or block) premium in 393 control-transactions spanning 39 countries for the years 1990-2000. These authors define block premium as the difference between the price per share paid for the control block in firms and the price on the Stock Exchange two days after the announcement of the control transaction, divided by the price on the Exchange after the announcement and multiplied by the proportion of cash-flow rights represented in the controlling block (Dyck and Zingales, 2004). In Malaysia, the average private benefits of control are just 7% (Dyck and Zingales, 2004). This low figure signals some interesting postulations about the state of corporate governance in this country.

First, if controlling shareholders do purchase their controlling blocks and subsequently enjoy on average low private benefits of control, they definitely have more incentives to engage in expropriation activities in order to increase their private benefits (assuming they are utility maximisers). Secondly, the 7% of private benefits are actually only

representing the private benefits derived from the acquisition of control blocks[6]. It does not represent other types of private benefits of control such as private benefits enjoyed by the controlling shareholder since the firm started, without any change of hands in the controlling block. This type of private benefits could be huge if we consider the opportunities for expropriation in emerging markets where investor protection is lower.

As a conclusion, these 7% of private benefits only indicate that either the potential for expropriation by controlling shareholders is high or it is not definitive of the entire private benefits of control enjoyed by them. Aside from private benefits of control, the lack of capital market development also plays a part in encouraging minority shareholder expropriation.

2.3.4.2 Capital Market Development, Moral Hazard Banking and Expropriation

The bond market in Malaysia is relatively underdeveloped (Sharma, 2001) which increases the expropriation incentives of controlling shareholders. The poor development of the bond market can be explained by the 'supply side' and 'demand side' constraints. For the former, the heavy reliance on bank financing creates a strong hindrance for the utilisation of bonds to obtain capital. In fact, between 2001 to 2006, corporate loans comprise the largest category of loans for commercial banks, finance companies and merchant banks in Malaysia (Zulkhibri, 2013).

The weak Malaysian bond market is also related to the links between business and politics. In this country, the ethnic dimension increases the intricacies with the adoption of "Bumiputra" policy[7] leading to the ownership of many companies and banks being reserved for Malay citizens. As a result, the major connections in Malaysia tend to be between political parties and powerful families within specific ethnic groups

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[6] Based upon the average, the range of the percentage of private benefits considered low is between -4% to 34.5% and considered high is between 34.5% to 65% (Dyck and Zingales, 2004).
[7] Bumiputra policy means policy for the natives.

controlling companies (Sharma, 2001). A common institutional characteristic is that there is a close and often interlocking relationship between members of government and the owners of banks and conglomerates (Sharma, 2001). These links explain the heavy reliance on bank financing by business groups. Consequently, relationship banking works well for both, businesses as well as banks (Bliss and Gul, 2012).

Adding to this 'relationship banking' is the rationale provided by government support. The Government promises bail-out in the case of bank failures. This gave the private as well as state banks the confidence to lend without much prudence and rigorous credit criteria, hence, creating a moral hazard in the banking industry. It also gave businesses the security to undertake long-term strategic investments by the availability of long-term loans. Consequently, firms rarely encounter the need to diversify their sources of debt financing and issue medium-term instruments (Sharma, 2001). This not only retards bond market development but also encourages expropriation by controlling shareholders. Moral hazard bank lending gives rise to the utilisation of bank loans for the private benefits of controlling shareholders such as engaging in unprofitable investments (empire building) and increases the risk of bank failures (Faccio et.al., 2001c; Sarkar and Sarkar, 2008).

Aside from the 'supply side' constraints, there are also the 'demand side' constraints. Given the predominance of bank financing; there has been little perceived need to develop the governance infrastructure related to arms'-length mechanisms of finance, i.e. the legal rights of creditors and minority shareholders and corporate transparency (Sharma, 2001). Though, creditors' rights have been well defined in Malaysia, the enforcement is problematic[8] due to corruption, political interference and the fact that

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[8] The joint assessment by Asian Corporate Governance Association (ACGA) and Credit Lyonnaise Securities Asia (CLSA) only provides a score of 35 out of 100 for legal enforcement in Malaysia (ACGA, 2012b).

courts still do not possess the expertise and practical knowledge for handling proceedings like critical bankruptcy cases (Sharma, 2001).

Failure to develop a proper governance infrastructure for arms-length debt (bond) financing retards the development of the bond market because it discourages investors to lend their funds as they will never know whether they will obtain their principal back when the bond matures or when the firm becomes insolvent. If investors are discouraged to lend to firms then the controlling shareholders will have more incentive to expropriate through continued reliance on long-term bank loans.

In essence, the bond market is a market-based debt system where ratings agency such as Ratings Agency Malaysia (RAM) regularly rates the bonds of corporations based upon the quality of the firm's financials and bond characteristics such as amount and duration borrowed. If firms with poor quality financials borrow excessively from the market on a long-term basis, its rating will drop due to the increased risk of bond default. This will deter future investors from lending to these firms; thus, reducing the incentives for controlling shareholders to engage in debt expropriation. On the other hand, bank financing particularly in Malaysia is very much a relationship-based system influenced by moral hazard, which ultimately, creates strong incentives for expropriation.

Unless the supply and demand side constraints of bond market development are addressed seriously in Malaysia, it is unlikely that the bond market will grow. The lack of bond market development means the retardation of a market-based system, which can help constrain expropriation by controlling shareholders through the disciplinary effects of bond ratings. As a result, businesses will depend more on bank financing for financing needs through a relationship-based system, which is influenced by moral hazard and provide the incentives for expropriation. Besides capital market

development and moral hazard banking, the lower agency cost of debt also plays a role in encouraging expropriation.

2.3.4.3 Agency Cost of Debt and Expropriation

Agency cost of debt is lower when firms are highly concentrated in shareholding. As a result, highly concentrated firms obtain loans more easily from banks as well as find it easier to secure capital from bond investors. This increases the incentives for debt being used as an expropriation tool (Kim and Sorensen, 1986). Therefore, it is not surprising that in emerging markets such Malaysia, in which bank financing is dominant and shareholding concentration is high; access to debt financing becomes easier such that the share of domestic debt of the banking system increased from 62% in 1986 to 75% in 1997 (Thillainathan, 1999). With the increase in debt usage by firms, the amount and the likelihood of debt being used as an expropriation tool by controlling shareholders will increase indefinitely. Although, debt can be expropriated by controlling shareholders, the characteristic of the equity market also play a role in encouraging minority shareholder expropriation.

2.3.4.4 Lack of Informed Trading In Equity Markets and Expropriation

Morck, Yeung and Wu (2000) conducted a cross-country study on developed and emerging markets (total 40 countries) to examine the stock returns synchronicity in both markets. Stock returns synchronicity is measured as the average R-squared values of firm-level regressions of bi-weekly stock returns (dependent variable) on local and US market indexes (independent variables) in each country. Malaysia is ranked third highest behind Poland and China in terms of stock returns synchronicity with an R-squared value of 42.9%. This means 42.9% of the variation in bi-weekly stock returns in Malaysia is explained by the variation in the domestic market index and the US market returns. The higher R-squared values, it indicates that stock prices frequently

move together and this measurement is consistent with Roll (1988) and French and Roll (1986) measurement.

Both these papers argue that low levels of synchronicity in some country's stock prices reflect the incorporation of more firm-specific information into the stock prices in their markets. They further argue that if less firm-specific information is capitalised into stock prices, investors would carry out less risk-arbitrage activities (informed trading). When less risk-arbitrage activities are being carried out, noise trading instead of informed trading of stocks occur, which is not based upon stock fundamentals but by market trends.

In finance theory, it is argued that risk arbitrageurs utilise resources to uncover proprietary information about stocks and earn an acceptable return by using that information to trade against less informed investors (Morck et.al., 2000). Hence, indirectly, they are actually acting as firm monitors. Morck et.al. (2000) further argues that this activity might not be attractive in countries with poor minority shareholder rights protection because risk arbitrageurs fear they may not be allowed to keep their earnings in these countries, especially if they are not politically connected.

Since, Malaysia is ranked the third highest in stock returns synchronicity (Morck et.al., 2000), it can be argued that risk arbitrageurs are not interested in trading in this country's stock market due to lack of minority shareholder rights protection. With lack of informed trading, there is less monitoring by risk arbitrageurs in the capital markets (Holmstrom and Tirole, 1993; Morck et.al., 2005). This further provide incentives for controlling shareholders to expropriate minority shareholders through stock market manipulation such as share repurchases, share price dilution, etc. This opportunistic behaviour is also encouraged by the lack of market for corporate control.

2.3.4.5 Lack of Market for Corporate Control and Expropriation

Due to the prevalence of high ownership concentration in Malaysia, there is a lack of market for corporate control (Abdullah, 2006; Thillainathan, 1999). Ownership concentration reduces the incentives for takeovers and acquisitions because of the higher price the acquirer has to pay to become the new controlling shareholder of the acquired firm (due to the higher volume of shares needed to be purchased) compared to the price they have to pay to acquire a stake in widely held corporations. As a result, the disciplinary effects of the market for corporate control are greatly reduced. This encourages expropriation because controlling shareholders know that the likelihood that they will be replaced is low due to their ownership concentration (Thillainathan, 1999). The argument by Thillainathan (1999) is consistent with the argument by Stulz (1988) who argues that an increase in the fraction of voting rights of controlling shareholders decreases the probability of a successful tender offer to acquire the firm and increases the premium offered if a tender offer is made. The lack of disciplinary effects of the market for corporate control can also be attributed to the strategic under pricing of Initial Public Offering (IPO) shares by controlling shareholders in order to elicit oversubscription of these shares and allow lotteries to ration the shares. This prevents large subscribers from purchasing large-block shares and weakening the control of the controlling shareholders, hence, the under pricing helps maintain the control power of controlling shareholders. This is detrimental to the interests of minority shareholders as the market for corporate control is weakened by the IPO under pricing (Lin and Chuang, 2011).

Apart from a low likelihood of being replaced, the inadequate and costly legal protection of minority shareholders also encourages controlling shareholders to expropriate.

2.3.4.6 Inadequate and Costly Legal Protection of Minority Shareholders

The adequacy of investor protection for minority shareholders in Malaysia can be analysed with regards to their rights as shareholders, the protection they enjoy against expropriation as well as the quality of law enforcement (Thillainathan, 1999; World Bank, 2005). Equity ownership in firms provides a shareholder several basic rights, which include the following:

a) The right to a secure method of ownership registration

b) The right to convey or transfer shares

c) The right to obtain relevant information on the corporation on a regular basis

d) The right to participate and vote at general shareholders meetings on key corporate matters

e) The right to elect members of the board

f) The right to share in the residual interest in the profits of the corporation

The principal rights that minority shareholders possess is the right to vote on the election of directors, on amendments to the corporate charter as well as on key corporate matters such as asset sales, mergers and acquisitions, and liquidation; thus restricting the discretion of corporate insiders on these key issues (Thillainathan, 1999; World Bank, 2005).

In assessing how well Malaysia performs with regard to these principal shareholder rights; an assessment of the voting rights attached to shares as well as the rights that support the voting mechanism against intervention by corporate insiders (also known as anti-director rights) was conducted by La Porta et.al.(1998) (as cited in Thillainathan, 1999).

La Porta et.al. (1998) find that Malaysia is one of only eleven countries out of a total of forty nine, which adopts a genuine one-share-one-vote rule. They also find that Malaysia scored four out of six in anti-director rights whereby proxy mail and cumulative voting are not allowed. This provides incentives for controlling shareholders to take advantage of this weakness by engaging in expropriation activities.

In Malaysia, as in many other common law countries, shareholder-voting rights are supplemented by an affirmative duty of loyalty of managers to shareholders. Managers have a duty to act in shareholders' interests. The most commonly accepted element of the duty of loyalty are the legal restrictions on managerial self-dealing, such as outright theft from the firm, excessive compensation or issues of issuing additional securities (such as equity) to the management and its relatives. Malaysian courts would intervene in cases of management theft and asset diversion, and they would definitely intervene if managers dilute existing shareholders through equity issuance to themselves (Thillainathan, 1999; World Bank, 2005).

However, the courts are less likely to intervene in cases of excessive compensation and in line with the business judgment rule (that keeps the courts out of corporate decisions), they are also very unlikely to second guess managers' business decisions, including those decisions that could hurt minority shareholders (Thillainatan, 1999; Pascoe and Rachagan, 2005; Salim, 2009). This is a window of opportunity for controlling shareholders to engage in expropriation activities.

The minority shareholders in this country, as in the United States, have the right to sue firms using class action suits that bypass the free rider problems, if they believe that corporate insiders have violated their duty of loyalty to them. However, Malaysian civil procedures are less accommodative to class action suits and contingent fees are prohibitive (Chan, 2007; Thillainathan, 1999). This hinders legal action by minority

shareholders and increases the incentives for expropriation by controlling shareholders. Although, overall, there is an avenue for minority shareholders to take legal action on behalf of the firm's name, the practical realities discourage such actions. This is because the legal costs of initiating legal action as well as the substantive and procedural requirements to carry out such actions are generally burdensome (Chan, 2007; Thillainathan, 1999). This further provides incentives for minority shareholder expropriation.

Apart from property rights and the quality of investor protection, the quality of legal enforcement is also significant for good corporate governance (Berglof and Claessens, 2006; Thillainathan, 1999). As shown in the investor protection scores from the Asian Corporate Governance Association (ACGA) and Credit Lyonnaise Securities Asia (CLSA), Malaysia only obtained a score of 39 out of 100 for legal enforcement (ACGA, 2012). Consequently, it is very clear that emerging markets such as Malaysia need to improve upon its legal enforcement.

In addition, there is a growing public perception that the judiciary standards have declined in this country (Thillainathan, 1999; Wain, 2009). For example, it is perceived that the independence, impartiality and integrity of the judiciary have been compromised, whereby judges are perceived to be not 'truly' independent in their judgments. Declining standards of the judiciary system will definitely serve as a catalyst for expropriation by controlling shareholders, as they are confident that the likelihood of receiving a favourable outcome from court cases is high. Although, legal weaknesses and cost of legal protection is an important factor in encouraging expropriation, economic practices too play a role in encouraging this behaviour.

2.3.4.7 Restrictive Licensing Practices and Expropriation

In Malaysia, one significant issue which encourages expropriation is the presence of restrictive licensing practices (exclusive economic practices), which benefit certain controlling shareholders of large business groups. These practices result in monopolies in certain industries and hence, concentrated shareholding (Nambiar, 2011; Thillainathan, 1999). These practices need to be reduced or eliminated which is crucial for encouraging more dispersed shareholding and risk diversification at the level of individual or family wealth holders which will result in less expropriation by controlling shareholders. However, the practice of restrictive licensing is likely to continue as long as firms have the tendency to be rent-seekers.

2.3.4.8 Rent Seeking and Expropriation

Generally, the theory of the firm presumes that in a perfect market, all firms compete for resources and market share on an even level. In a pure, competitive market with low ownership concentration and limited economic distortions, a highly efficient firm sells its product at market prices and earns a normal profit. This firm employs a reasonable number of workers at market rate wages and using optimum capital structure, is able to pay normal dividends and provide a reasonable return on equity to shareholders. This was basically the idea of traditional business corporations in the early twentieth century as postulated by Coase (1937). He argues that firms control the transformation of inputs into outputs and earn a resulting profit. As a result of this, the theory by Coase (1937) predicts that the whole economy could operate efficiently as one great system of markets, in which autonomous agents enter into very elaborate contracts with each other without any transaction and agency costs incurred.

However, due to market imperfections such as transaction costs, barriers to entry, the existence of monopolies, oligopolies and monopsonies, market illiquidity, etc; firms strive to maximise profits by engaging in rent-seeking activities (Ariffin, 2009). Morck et.al. (2001) define rent seeking as business practices which extract uncompensated value from others without taking actions to improve productivity or create a mutual beneficial transaction. Although, rent seeking is unethical in nature, given the urgency of the firm in maximising shareholder wealth along with various economic constraints, rent seeking may be the only business solution to the firm (Krueger, 1974).

In the model by Krueger (1974), it is shown that firms which seek rent try to create a barrier of entry into the market and monopolise the production line in which the rent is created. This distortion creates an artificial market price for a product that, in turn, creates a higher profit margin for the firms.

Murphy, Shleifer and Vishny (1993) find that rent-seeking activities show increasing returns for firms which practise them. Since the returns from rent-seeking activities are attractive, this makes rent-seeking more attractive relative to productive activities. Basically, this is costly to the firm's growth because resources are channelled to rent-seeking instead of production. This expropriates minority shareholders. Murphy et.al. (1993) further explain that firms which choose to maximise their rent-seeking activities instead of production, had most of their resources diverted to unproductive activities. Hence, minority shareholders are expropriated. For example, instead of channelling investment funds into research and development (R&D), the funds are used to finance the lobbying of a specific government agency. If the lobbying is successful, it will help the participating firms maintain their rent seeking activities. In the long run, the economy will suffer because no product development occurs but corruption, minority shareholder expropriation and other unhealthy business practices prevail.

Having known the factors which encourage minority shareholder expropriation, it is also important to know that the risk of minority shareholder expropriation occurring is the highest during times of financial crisis (Johnson et.al., 2000a). This is explained further next.

2.3.5 Minority Shareholder Expropriation during Financial Crisis

Young et.al. (2008) argue that the principal-principal conflict may increase during periods of economic crisis. This can occur because during these periods where controlling shareholders possess stronger incentives to expropriate minority shareholders due to the financial losses that they have suffered. This occurs because controlling shareholders become more desperate to extract firm resources in an attempt to protect their own wealth (Young et.al., 2008; Jiang and Peng, 2011).

In addition to that, Johnson et.al. (2000a) argue that minority shareholders expropriation becomes more severe during periods of financial crisis because controlling shareholders are led to expropriate more as the expected returns on investment falls. During the 1997 Asian financial crisis, even firms with a good reputation exploited their minority shareholders (Johnson et.al., 2000a). Johnson et.al. (2000a) used a simple model to show that agency problems can make countries with weak legal systems vulnerable to the effects of a sudden loss of investor confidence. They show that corporate governance variables particularly those related to minority shareholder protection such as contracts enforceability and shareholder rights explain more of the variation in exchange rates and stock market performance during the Asian financial crisis compared to macroeconomic variables. The evidence provided by Johnson et.al. (2000a) suggest that corporate governance particularly minority shareholders protection is a first-order significance in determining the extent of macroeconomic problems in crisis situations.

The model used by Johnson et.al. (2000a) show that minority shareholder protection matters more in explaining the changes in the exchange rate and stock market performance during the Asian financial crisis is as following:

As in Jensen and Meckling (1976), the conflict of interest is between insiders (managers) and outsiders (shareholders in our simple model). The manager owns a fraction α of the firm's equity and shareholders own equity of (1-α) fraction. Retained earnings are represented by *I*. The manager steals $S \geq 0$ of retained earnings and receives utility of *S* from them. Johnson et.al. (2000a) utilise "stealing" as shorthand for more general forms of managerial expropriation. Stealing is costly and the manager expects to lose $C(S)=(S^2/2k)$ when he steals because, for example, other people need to be compensated and there is some probability that the manager will be caught and punished. A higher value of *k* - representing, in this case, weaker corporate governance rules or a weaker legal system or both - means that it is cheaper to steal. Thus, the value of stealing, *S* - *C(S)*, is concave in *S*. The marginal value of stealing is reduced as the amount stolen increases because it becomes harder to steal as the absolute amount of theft increases; the stealing becomes more obvious and easier for a court to stop[9].

The manager invests what he does not steal in a project that earns a gross rate of return *R*, which is greater than one, and from which he receives the share α of profits. The manager's optimisation problem is given by $Max_S\ U(S; R, k, a) = Max[\alpha R(I - S) + S - (S^2/2k)]$, and the optimal amount of theft, *S**, is found by solving $\delta U/\delta S = 1 - (S^*/k) - \alpha R = 0$, which yields $S^*(R, k, a) = k(1 - \alpha R)$. Johnson et.al. (2000a) assumes that the parameter values are such that the manager will not attempt to steal more than the total amount of retained earnings, or $S^*(R, k, a) \leq I$. This simplifies the analysis by avoiding a corner solution, without changing the main insights.

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[9] A referee has pointed out that Johnson et.al. (2000a) could cast the model in terms of general agency problems for managers (e.g., shirking). Their results apply directly to any managerial agency problems that become worse in an economic downturn. Note that many forms of stealing are actually legal in countries with weak legal environments (Johnson et al., 2000b).

The manager equates the marginal cost and marginal benefit of stealing. Because the manager owns α of the firm, he possess an incentive to invest at least some of the firm's cash rather than to steal it all. As k rises, the equilibrium amount of stealing falls. As k rises, the amount of stealing in equilibrium rises. If $α > 1/R$, the manager's stealing is "negative", meaning the manager puts in some of his own money into the firm, perhaps to ensure firm survival and enjoy positive stealing in the future (Friedman and Johnson, 1999). For their own objectives, Johnson et.al. (2000a) assume that α is low enough that the manager decides to steal. Alternatively, they assume that the manager is credit constrained. In this static model, assuming that the manager never steals less than zero does not substantially change the analysis.

Differentiating the optimal stealing equation with respect to R gives

$$(\delta S^*/\delta R) = - \alpha k.$$

An increase in the rate of return on the invested resources lowers the amount of stealing because it increases the marginal opportunity cost of the stolen resources.

A higher α means $\delta S^*/\delta R$ is more negative. If the manager owns more of the firm, then a given increase in the return on investment convinces him to put more resources into the investment project and, therefore, to steal less. Conversely, if the manager owns more but the return on investment declines, then he steals more.

A higher value of k means that $\delta S^*/\delta R$ is more negative. A lower cost of stealing (higher k) both raises the equilibrium value of stealing and makes stealing more responsive to variation in the rate of return on investment. This is because larger k both shifts up the stealing function and makes it less concave (i.e., the returns to stealing do not decrease so strongly).

The shareholder receives share (1 - α) of the returns from the funds that are actually invested in the firm. The expected value of the firm's shares is therefore

$$\Pi = R(I - k(1 - \alpha R)),$$

where P is the share value of the firm. This is the value of all the shares owned by both shareholders and managers, which equals the total value of the firm minus the value of stealing.

Differentiating with respect to R gives the "absolute responsiveness,"

$$\rho_a = \delta \Pi / \delta R = I - k + 2Rk\alpha,$$

which is the sensitivity of firm value to variations in R. This is always positive because Johnson et.al. (2000a) have assumed that the optimal level of stealing is less than I. The maximum value of stealing, given by the first-order condition when αR is zero, is k. Johnson et.al. (2000a) assumed that there cannot be negative stealing, so $k \leq I$, and thus is adequate to ensure that $\rho_a > 0$.

There are two effects of a higher R. The first, direct effect is to increase the expected payoff and thus increase the amount that the investor is willing to invest in the firm. Holding the level of stealing constant, the direct effect shows that the value of the firm increases. The second, indirect effect works because higher investment returns decrease the optimal level of stealing, so $\delta S^*/\delta R < 0$. Reduced stealing also increases the expected payoff for shareholders and increases the firm value[10].

What is the effect on $\delta \Pi / \delta R$ of altering the penalty for managerial theft, k? The effect on the absolute responsiveness is

$$\delta \rho_a / \delta k = 2R\alpha - 1.$$

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[10]   In order to make the point, Johnson et.al. (2000a) presented a simplified model that ignores general equilibrium effects. Assuming α is exogenous, the expected return for a shareholder varies between countries that have a different value of k. In equilibrium this would not occur because shareholders would want to invest more in the country with a higher return. A complete model would include these general equilibrium effects.

For low values of αR, such that $R\alpha < 1/2$, a larger value of k (a lower penalty) implies a reduction in $\delta\Pi/\delta R$. For large values of αR, however, a larger value of k implies an increase in $\delta\Pi/\delta R$. The intuition for this result is that when αR is low, the manager is already stealing a huge amount, so Π is already low in absolute terms and thus further variations in R do not induce much additional stealing[11].

However, Johnson et.al. (2000a) receive an unambiguous prediction for the relative responsiveness, $\rho_r = (\delta\Pi/\delta R)/\Pi = (I - k(1 - \alpha R) + Rk\alpha)/R(I - k(1 - \alpha R))$, which is the sensitivity of firm value in percentage terms. The differentiation of this variation with respect to k is

$$\delta\rho_r/\delta k = I\alpha/(I - k + Rk\alpha)^2 > 0.$$

This impact is positive regardless of the α value. Note that the relation between absolute and relative responsiveness is

$$\delta(\rho_a)/\delta k = \delta(\Pi\rho_r)/\delta k = \Pi[\delta\rho_r/\delta k] + [\delta\Pi/\delta k](\rho_r).$$

The first term is positive. The second term contains $\delta\Pi/\delta k$, which is negative. A higher value of k (i.e., a weaker legal environment) implies that $(\delta\Pi/\delta R)/\Pi$ increases, so that the value of the firm, P, becomes more sensitive in percentage terms to a variation in the rate of return, R. The same result holds if they allow firms to borrow debt as well as issue equity. However, the presence of debt implies a range of values for R within which a lower value of R actually means reduced stealing because the manager steals less (or even transfers funds into the firm if that is possible) in order to enable the firm to service its debt and therefore preserve the possibility of future stealing. If R falls sufficiently low, however, then the manager will choose to loot the firm and it will go

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[11] Differentiating absolute responsiveness with respect to k gives:
$\delta\rho_a/\delta k = \delta^2\Pi/\delta R\delta k = (-\delta S/\delta k) + [-R(\delta^2 S/\delta R\delta k)]$.

The first term is always negative: a larger value of k increases the absolute level of stealing. But the second term is positive - when k is larger, a given variation in R induces a smaller change in the level of stealing (due to the convex stealing costs). When the second term is relatively high in absolute terms, i.e., when R is large, then $\delta^2\Pi/\delta R\delta k$ will be positive.

out of existence. Therefore, in the data, Johnson et.al. (2000a) look at the percentage variation in firm values.

Besides the model by Johnson et.al. (2000a), Mitton (2002) further finds that firms which have poorer minority shareholder protection have a negative impact on firm performance during the East Asian financial crisis. His study complements the study by Johnson et.al. (2000a) that corporate governance particularly minority shareholder protection is a significant determinant of firm performance during periods of financial crisis.

Jiang and Peng (2011) find that during the Asian financial crisis, family firms tend to select certain control structures associated with principal-principal conflict. These control structures are corporate pyramidal structures which provide family controlling shareholders excess control rights as well as the appointment of an owner Chief Executive Officer (CEO).

Based upon the empirical evidence by Johnson et.al. (2000a), Mitton (2002) and Jiang and Peng (2011), minority shareholder protection is indeed a significant issue during periods of financial crisis as the likelihood of principal-principal conflict occurring is the highest. Since minority shareholder expropriation is a significant corporate governance problem in emerging markets particularly during times of financial crisis, corporate governance mechanisms can possibly be used to mitigate this problem.

2.4   CORPORATE GOVERNANCE MECHANISMS

Traditionally, corporate governance mechanisms are designed to mitigate the principal-agent conflict which is prevalent in developed economies (Young et.al., 2008). These include internal corporate governance mechanisms such as board of directors, ownership concentration, executive compensation packages and external corporate governance mechanisms such as product market competition, managerial labour market

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and the market for corporate control (Demsetz and Lehn, 1985; Fama and Jensen, 1983b). Figure 2.4 illustrate these mechanisms.

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│                         ┌───────────────────────────┐                         │
│                         │   Corporate Governance    │                         │
│                         │    Mechanisms Designed to  │                         │
│                         │  Mitigate the Principal-Agent│                       │
│                         │         Conflict           │                         │
│                         └───────────────────────────┘                         │
│                                                                               │
│   ┌─────────────────────────────┐     ┌─────────────────────────────┐        │
│   │ Internal Corporate Governance │     │ External Corporate Governance │      │
│   │        Mechanisms:            │     │        Mechanisms:            │      │
│   │                               │     │                               │      │
│   │     Board Of Directors        │     │   Product Market Competition  │      │
│   │                               │     │                               │      │
│   │   Ownership Concentration     │     │    Managerial Labour Market   │      │
│   │                               │     │                               │      │
│   │    Executive Compensation     │     │  Market For Corporate Control │      │
│   └─────────────────────────────┘     └─────────────────────────────┘        │
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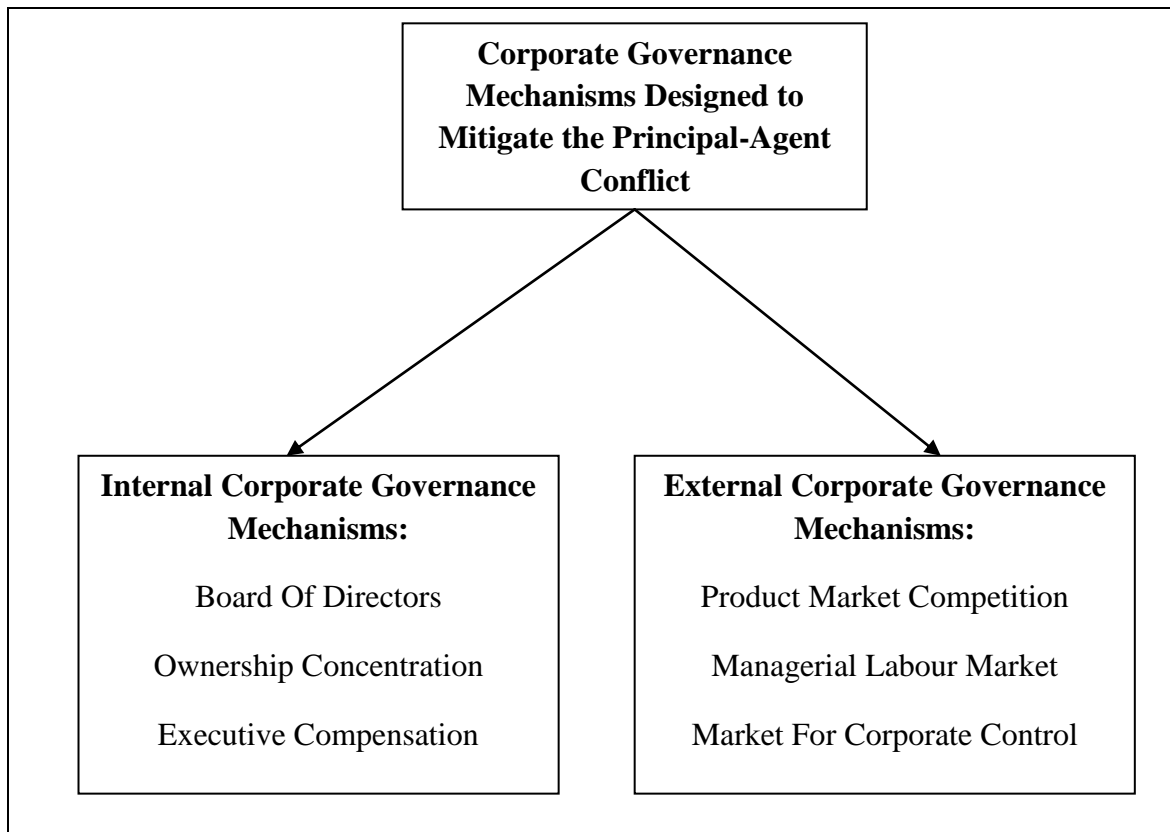
Figure 2.4: Corporate Governance Mechanisms Designed to Mitigate the Principal-Agent Conflict
Source: Demsetz and Lehn (1985), Fama and Jensen (1983b)

Figure 2.4 depicts a bundle of corporate governance mechanisms designed to mitigate the principal-agent problem. It comes in a bundle as the effectiveness of a particular corporate governance mechanism depends on the effectiveness of other mechanisms (Davis and Useem, 2002; Rediker and Seth, 1995). In other words, one mechanism may act as a substitute for or complement another mechanism. If one or more mechanisms are less effective, then others will be relied on more heavily (Rediker and Seth, 1995; Suhomliva, 2006).

However, in emerging markets, since the major corporate governance problem is the principal-principal conflict instead of principal-agent conflict; a different bundle of corporate governance mechanisms are needed rather than those depicted in Figure 2.4 (Young et.al., 2008). This is because the institutional setting in emerging markets where the principal-principal conflict is dominant and different from the institutional setting in developed economies such as USA where the principal-agent conflict is more prevalent. Such bundle may include bank monitoring, more effective independent directors, etc and this bundle differs across different countries as each bundle is dependent upon the institutional setting in each country (Guillen, 2000, 2001; La Porta et.al., 1997, 1998, 2002; Suhomliva, 2006).

2.5   INSTITUTIONAL SETTING IN MALAYSIA

One of the emerging markets, which possess different institutional setting from developed economies such as USA is Malaysia. Institutional setting in Malaysia is unique in certain ways. This uniqueness is possibly one of the factors which may contribute to the prevalence of principal-principal conflict in Malaysia. The institutional setting in Malaysia constitutes three major parts, its political economy, corporate governance reforms and regulatory framework.

2.5.1   Malaysia's Political Economy

In Malaysia, the principal-principal conflict to a certain extent can be influenced by its political economy. The main landscape for Malaysia's political economy from 1970 onwards was shaped by the New Economic Policy (NEP). The primary objective of the NEP, formed in 1970, was to achieve national unity by eliminating poverty, regardless of race and by 'restructuring society' to achieve inter-ethnic economic equality between the predominantly Malay bumiputras and the predominantly Chinese non-bumiputras (Gomez and Jomo, 1997; Searle, 1999). The New Economic Policy (NEP) was

implemented during the last thirty-two years with the aim of promoting national unity through the eradication of poverty among all Malaysians and the restructuring of society to eliminate the identification of race with economic function. The NEP and later the National Development Policy (NDP)[12] basically, involves restructuring of corporate stock ownership, employment and education (with the latter two often considered together).

Although, the NEP has been successful to a certain extent, this restructuring has generated a group of elite minorities who usually possess huge shareholding stakes in large public-listed firms. This group of elite minorities are also very well politically connected. In other words, the NEP had encouraged ownership concentration by an elite group of minorities who are also politically connected (Gomez and Jomo, 1997; Liew, 2007; Searle, 1999). This political connection enables large business groups to practice political patronage and one of the major benefits is that these conglomerates could obtain bank loans effortlessly from domestic banks via bank-directed lending as the government has a huge influence on the loans provided (Ang, 2009; Ang and Sen, 2011; Gomez and Jomo, 1997).

This widespread practice of political patronage by business corporations, particularly large business groups, in this country (Gomez and Jomo, 1997; Liew, 2007; Searle, 1999), can possibly motivate firms' controlling shareholders particularly those from family firms, to expropriate minority shareholders by devoting some of the firms' resources obtained through political patronage and connections, for their own private benefits or for the purpose of empire building by engaging in unprofitable business ventures and excessive unrelated business diversification. In short, the NEP encourages a rent-seeking culture among business corporations in this country (Gomez and Jomo, 1997; Liew, 2007; Searle, 1999) and hence, can possibly encourage minority

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[12] The NDP is an extension of the NEP with the same original objectives promulgated by the ruling government in 1990.

shareholder expropriation by controlling shareholders. Furthermore, the easy access to the banking sector for funding needs due to bank-directed lending, encourages debt expropriation by controlling shareholders as debt provides incentives for expropriation in emerging markets (Faccio et.al., 2001c).

Since, the political economy could possibly encourage minority shareholder expropriation in Malaysia; it is not surprising that the 1997 financial crisis revealed the corporate governance flaws in this country which was previously unknown to investors (Boubakri, Guedhami and Mishra, 2010). As the crisis alerted investors to Malaysia's poor corporate governance, the government had undertaken major reforms to improve the level of governance within the corporate sector (Boubakri et.al., 2010).

2.5.2   Corporate Governance Reforms in Malaysia

Since the 1997 Asian Financial Crisis, the Malaysian government had implemented major corporate governance reforms to improve corporate governance. This is shown in Figure 2.5:
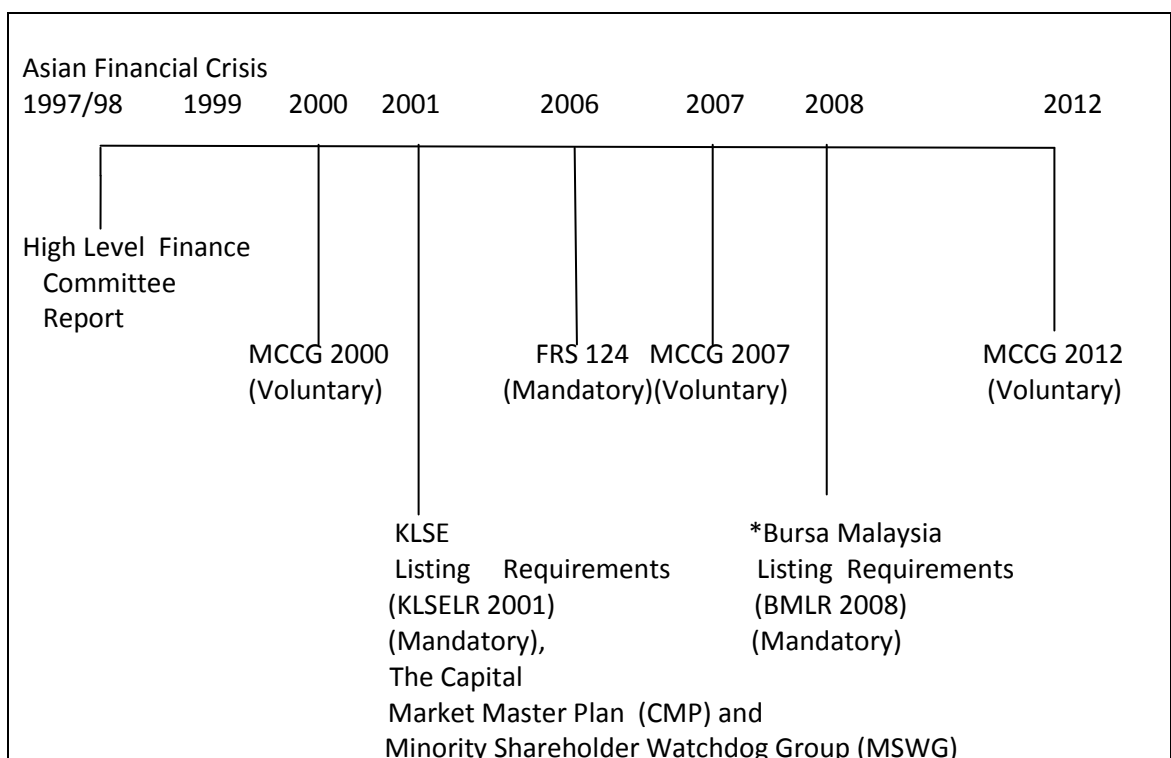
Figure 2.5: Major Corporate Governance Reforms in Malaysia

One of the major post-1997 corporate governance reforms in this country is the establishment of the High Level Finance Committee on March 24, 1998 in response to the urgent need to raise standards of corporate governance by setting up a sound corporate governance and best practices framework in Malaysia (Shim, 2006). The Finance Committee on Corporate Governance chaired by the Secretary General of Treasury, Ministry of Finance, was a smart partnership between the government and the private sector. Its twelve member committee was represented by almost all sectors of the business and regulatory communities including the Securities Commission, the Financial Reporting Foundation, the Malaysian Accounting Standards Board (MASB), the Registrar of Companies (ROC), the KLSE (later called Bursa Malaysia), the Central Bank, Federation of Public-Listed Companies and the Association of Banks. Extensive consultations with government ministries, private sector, independent consultants and professional bodies were conducted during the term of office of the committee (Shim, 2006).

The terms of reference of the Finance Committee (Shim, 2006) are:

(i)   to develop an acceptable definition of corporate governance for Malaysian companies

(ii)   to identify and clarify the role and responsibilities of key participants in the corporate sector

(iii)   to raise standards of corporate governance

(iv)   to promote training and education for directors and

(v)   to ensure effective enforcement mechanisms

The Committee started on the premise that corporate governance standards in Malaysia were lacking and that there was a need to increase these standards. It submitted its final report (after consultation with the various professional and administrative bodies) to the Minister of Finance in February, 1999. The 275 page Report (commonly known as the Green Book) has eight chapters. It broadly covers three areas namely: the establishment of the Malaysian Code of Corporate Governance (MCCG), the reform of laws, regulations and rules relating to corporate governance and training and education for directors. It has made seventy recommendations. Many of them have been implemented and some of them were even updated or implemented before the release of the report, a move which was highly praised by those involved in the capital market (Shim, 2006). Central to the report on corporate governance is the recommendation for the establishment of the Malaysian Code on Corporate Governance (MCCG).

The Malaysian Code of Corporate Governance (MCCG) was established in 2000. The recommendations set out in the MCCG are prescriptive in nature and fall under four main parts:

Part (1)   Principles;

Part (2)   Best Practices;

Part (3)   Exhortations to Other Participants; and

Part (4) Explanatory Notes (Wahab, How and Verhoeven, 2007).

In part (1) on Principles it addresses four main issues: board of directors, directors' remuneration, shareholders, and accountability and audit. A narrative statement in the annual report of how the relevant principles have been applied is perceived adequate disclosure for investors to assess the firms. In part (2) on the area of best practices; it provides a set of guidelines or practices relating to the board of directors and

accountability and audit to assist firms in designing their approach to corporate governance. Compliance is voluntary but firms are required to state in their annual reports the extent of their compliance, with an explanation for any deviations. Part (3) advice other participants addresses primarily institutional investors and auditors and the enhancement of their role in corporate governance. In part (4) explanatory notes provide further explanation of the three parts mentioned above. However, unlike part (2) Best Practices, part (4) Guidelines on Explanatory Notes does not require firms to justify deviations from best practices (Wahab et.al., 2007).

Despite significant improvements, the code was revised in 2007 (Securities Commission, 2007). The MCCG 2007 emphasised strengthening the Board of Directors and Audit Committees and ensuring that the Board of Directors and Audit Committees discharge their roles and responsibilities effectively (Securities Commission, 2007). To increase reforms, the Securities Commission (SC) further established the Corporate Governance Blueprint 2011 in 2011 (Securities Commission, 2011b). This blueprint consists of recommendations focusing on shareholder rights, role of institutional investors, board's role in governance, improving disclosure and transparency, role of gatekeepers and influencers and public as well as private enforcement (Asian Corporate Governance Association, 2012). In order to implement the Corporate Governance Blueprint 2011, the Securities Commission further revised the MCCG 2007 in 2012 (Securities Commission, 2012). The MCCG 2012, which supersedes the 2007 code, sets out principles on structures and processes for companies' board so that the board could incorporate good corporate governance into their firms' business dealings and corporate culture (Securities Commission, 2012).

Despite the issuance of the MCCG in 2000, 2007 and 2012, these codes of corporate governance are possibly ineffective in improving corporate governance (i.e. reducing minority shareholder expropriation) due to the voluntary nature of the adoption of its principles. Controlling shareholders in Malaysia possibly view the adoption of these principles as not mandatory, and this provides them incentives to expropriate minority shareholders, even though, they are still required to state in their annual reports the extent of their compliance, with an explanation for any departure (Securities Commission, 2007, 2012; Wahab et.al., 2007).

Subsequent to the establishment of MCCG in 2000, another significant corporate governance reform in this country is the issuance of the revamped listing requirements in January, 2001 by Bursa Malaysia (Shim, 2006). This was a move widely seen as a major effort to strengthen the capital market and the securities industry in Malaysia. The new listing requirements are perceived to be highly effective in the area of financial reporting, disclosure of corporate governance matters and continuing listing obligations. The revamped listing requirements of 2001 have devoted an entire chapter (chapter 15) to corporate governance. It requires the listed issuer and its directors to conform with the requirements of Chapter 15 which deals with board composition (at least one third of the total board must be independent directors), restrictions on the number of directorships which may be held by a person to not more than 25 directorships), prescribing an audit committee of no less than three members with a majority being independent directors, provisions as to external auditors including their role, appointment and removal, adaptation of MCCG with a comply or explain approach, .responsibility statements' by the directors and the training of directors (Shim, 2006).

In 2008, the listing requirements were further revamped to further strengthen the capital market and the securities industry in this country. The Bursa Malaysia listing requirements is argued to be a more effective tool in promoting good corporate governance among Malaysian public-listed firms because it is mandatory unlike the MCCG which is voluntary. Bursa Malaysia has the power to reprimand, fine or suspend a listed firm and/or its defaulting dealer's representative. It also has the power to issue a caution letter, private or public reprimand, impose a fine, suspend trading, or delist an issuer from the official list of the exchange, with public reprimand and fines being the most common disciplinary actions (Shim, 2006). However, the powers exercisable by Bursa Malaysia, being an inferior tribunal are not absolute. They are always subject to the usual remedy of judicial review with the usual test of good faith and legality. Hence, although Bursa Malaysia listing requirements can be argued to be a more effective tool in promoting good corporate governance, it is not an entirely effective one due to the possibility of judicial review of its decisions (Shim, 2006). Hence, this may provide opportunities for controlling shareholders to expropriate minority shareholders as they view that the disciplinary actions taken by Bursa Malaysia can be subjected to judicial review. In the same year Bursa Malaysia issued its revamped listing requirements in 2001, The Malaysian Capital Market Master Plan (CMP) was also established.

The Capital Market Steering Committee was formed in 2001 under the auspices of the Securities Commission with a vision of having an internationally competitive capital market in all core areas (Shim, 2006). The committee has the following terms of reference (Shim, 2006):

(i)   formulate a comprehensive vision and programme for the development of the Malaysian Capital Market going forward;

(ii)   formulate a framework for the orderly and effective sequencing of further deregulation and liberalisation; and

(iii)   identify and map the direction for the strategic positioning of the Malaysian capital market both domestically and externally.

The works of the Committee were largely undertaken by the Securities Commission. The seven men Committee chaired by the Chairman of the Securities Commission undertook extensive consultations with experts in the industry at home and internationally, professional bodies, government ministries as well as members of the public. Its 291 page report is most comprehensive and prolifically written. It has six key objectives, 24 strategic initiatives and 152 specific recommendations, 10 of which relating to corporate governance and 15 relating to regulatory framework. In so far as corporate governance is concerned, the Steering Committee recommended as follows:

Table 2.4: Corporate Governance Recommendations in Capital Market Masterplan (2001)

No.	Recommendation
1	The recommendations contained in the report on corporate governance will be effected in a timely and comprehensive manner.
2	The Securities Commission (SC) will further facilitate efforts towards enhancing shareholder rights, especially those of minority shareholders and broadening avenues for private enforcement of these rights.
3	Minority shareholders' rights in respect of related transactions will be further strengthened.
4	Public-listed firms will be required to provide appropriate shareholder value disclosures for securities issuance, restructuring, takeovers and merger exercises.
5	A set of principles best practices and standards will be developed to encourage institutional investor activism in corporate governance and the promotion of shareholder value recognition. The SC will strongly support the efforts of Minority Shareholder Watchdog Group (MSWG) in promoting shareholder activism in Malaysia.
6	The SC will work with relevant industry bodies in enhancing the quality and independence of auditors of public-listed firms.
7	The SC will encourage the improvement of channels of communication between firms and their shareholders.
8	The SC and Bursa Malaysia will initiate further measures to promote timely, comprehensive and regular dissemination of material and relevant company information to shareholders.
9	Efforts to further enhance disclosures in annual reports by public-listed firms will be examined.

Source: Shim (2006)

The futuristic CMP can be characterised into three distinct phases premised on the vision, objectives and strategic initiatives and simultaneously taking into account the practical issues involved in their implementation (Shim, 2006):

(1) Phase 1 (2001-2003): Strengthen domestic capacity and develop strategic and nascent sectors,

(2) Phase 2 (2004-2005): Further strengthen key sectors and gradually liberalise market access,

(3) Phase 3 (2006-2010): Further expansion and strengthening of marker processes and infrastructure towards becoming a fully-developed capital market and enhancing international positioning in areas of competitive advantage.

An implementation task force through the Capital Market Advisory Council was appointed by the SC to advise the Commission on issues relating to the implementation of the CMP. As part of the CMP implemented initiatives, a tripartite High Level Enforcement Committee on corporate governance was established with the involvement of the SC, Companies Commission of Malaysia (CCM) and the Royal Malaysian Police Force (PDRM) as members to implement strong and proactive market surveillance and enforcement mechanisms to promote good corporate governance. The tripartite Committee reports directly to the Prime Minister (Shim, 2006). So far, there is no direct evidence of the committee in making arrests, charges or convictions against white collar criminals. Hence, the effectiveness of CMP i.e. through the tripartite High Level Enforcement Committee in proactively enforcing good corporate governance among Malaysian public-listed firms is questionable. This provides an opportunity for controlling shareholders to take advantage of this ineffectiveness to expropriate minority shareholders.

Aside from Bursa Malaysia's revamped listing requirements and the CMP, another important corporate governance reform in Malaysia is with respect to RPTs disclosure. In Malaysia, all RPTs have to be disclosed (Rachagan, 2006). In 2006, the International Accounting Standard (IAS) 24 on related party disclosures has been adopted as an accounting standard in Malaysia and it is called Financial Reporting Standards (FRS) 124 (Rachagan, 2006). The objective of this standard is to ensure that a firm's financial statements contain the necessary disclosures to draw attention to the possibility that its financial position may have been affected by the existence of RPTs (Financial Reporting Standard 124, 2010). Some examples of RPTs which need to be disclosed include those transactions which are analysed in this study. These are RPTs which are likely to result in expropriation such as asset acquisitions, asset sales, equity sales, trading relationships and cash payments to a related party (Financial Reporting Standard 124, 2010). Since the purpose of FRS 124 is to disclose RPTs to investors, it is logical to argue that this disclosure requirement can possibly help increase the awareness of investors on RPT activities. As a consequence of this increased awareness, it is also rational to assert that investors may increase their shareholder activism to counter minority shareholder expropriation through RPTs.

However, despite the implementation of FRS 124 since 2006, it is found that there is a possibility of insufficient information on RPTs being disclosed by companies' controlling shareholders (CFA, 2009). With insufficient RPTs disclosure, minority shareholders tend to lose out because those undisclosed RPTs could be detrimental to their interests. Moreover, relevant material information on RPTs is not always easily identifiable and this information may not easily be tracked by the company's internal controls. All these make it difficult for all relevant information on RPTs to be properly disclosed (CFA, 2009). Therefore, the implementation of FRS 124 can be considered to

be not entirely effective in raising the awareness and increasing shareholder activism on expropriation through RPTs due to the possibility of incomplete disclosure.

Another important corporate governance development in Malaysia is the creation of external corporate governance mechanisms to ensure fair treatment and protection of minority shareholder rights (Wahab et.al., 2011). Given the fact that ownership structure in Malaysian companies is highly concentrated, minority shareholder protection becomes more significant. Therefore, to monitor and protect the rights of minority shareholders and to promote shareholder activism, the High Level Finance Committee recommended the establishment of the Minority Shareholder Watchdog Group (MSWG) in February, 1999 (Wahab et.al., 2011). In 2001, MSWG was formally established and funded by five local institutional investors, namely; Employees Provident Fund (EPF), The National Equities Corporation (PNB), The Armed Forces Fund Board (LTAT), Pilgrims Fund Board (Lembaga Urusan Tabung Haji) and the Social Security Organisation (SOCSO).

The main roles of MSWG are to act as a platform in initiating collective shareholder activism on unethical or disputable practices by management of public-listed firms; monitoring of breaches and non-compliance in corporate governance practices by public-listed companies; to disclose current corporate governance practices to stakeholders and provide training, education and awareness programmes to promote shareholder activism and the benefits of good corporate governance practices (Wahab et.al., 2011). With the formation of MSWG, it is expected that the conflict of interest between the controlling shareholders and minority shareholders can be reduced as this is one avenue of market discipline to encourage good corporate governance amongst public listed companies with the objective of raising shareholder value over time (MSWG, 2012). However, the effectiveness of MSWG in reducing minority shareholder expropriation is disputable because unlike the Securities Commission (SC),

it does not possess the legal authority to bring cases of minority shareholder expropriation to the courts. Its main role is only to promote shareholder activism to protect the rights of minority shareholders by acting as external monitors of corporate governance practices in public-listed firms. Therefore, the role of MSWG in reducing the problem of minority shareholder expropriation is deemed to be not entirely effective. In fact, Azizan and Ameer (2012) investigate the effect of shareholder activism led by MSWG on the level of RPTs in Malaysian family-controlled firms and find that it had not much impact on the level of these transactions within these firms. This provides an additional support to the argument that shareholder activism promoted by MSWG is not entirely effective in reducing the problem of minority shareholder expropriation particularly through RPTs in family-controlled firms.

Although corporate governance reforms can be considered to play a central role in assisting the improvement of corporate governance in Malaysia, the existing regulatory framework is also crucial as corporate governance activities such as RPTs are regulated by it. Two significant regulatory frameworks which regulate RPTs are the Companies Act (1965) Sections 131-133 and the Listing Requirements (World Bank, 2005).

2.5.3 Regulatory Framework on Related Party Transactions (RPTs) in Malaysia

In Malaysia, the Companies Act (1965) plays a significant role in regulating RPTs. For this purpose, the relevant sections in the Companies Act (1965) are Section 131, 131A, 132C, 132E, 133 and 133A (Thillainathan, 1999). However, these sections contain loopholes, which could be taken advantage of by controlling shareholders. A closer review of these Sections reveals several weaknesses, which could be manipulated by controlling shareholders particularly from family firms to expropriate through RPTs (Thillainathan, 1999):

a) Section 132E of the Companies Act (1965) only embraces transactions with directors or persons connected with directors. It does not embrace transactions between a company and a substantial shareholder. Section 132G recognises the concept of a substantial shareholder in RPTs. Therefore, the ambit of Section 132E should be extended to cover substantial shareholders and persons connected to substantial shareholders.

b) Section 132E of the Companies Act (1965) only requires that RPTs be disclosed and approved by shareholders but it does not prohibit the related party from exercising its voting rights on such transactions (World Bank, 2005). Amendments should be considered to require the related parties (and in particular when the ambit of the section is expanded to cover substantial shareholders) to abstain from voting on interested party transactions (World Bank, 2005).

c) There are also weaknesses in existing legal provisions with respect to a substantial acquisition or disposal, which requires shareholders approval. Koh (1997) argued that Section 132C of the Company's Act (1965) is ambiguous with respect to the scope of the meaning of "undertaking", "property" and "substantial values"; leading to doubts as to whether in any one transaction, approval of a general meeting is needful. Furthermore, it can be disputed that only acquisition or disposal, which materially and adversely affects the performance or financial position of the company, would require general meeting approval. It can also be debated in anyone case whether the transaction is adverse to the performance of the company or its financial position.

These regulatory loopholes indicate a weak legal system in the governance of RPTs, which could be taken advantage by family controlling shareholders. Coupled with low cash-flow-to-control rights ratio (Claessens et.al., 2000a) and poor legal enforcement (Thillainathan, 1999; World Bank, 2005), minority shareholder expropriation is indeed a significant corporate governance problem in Malaysia particularly in family-controlled firms. Hence, the following section provides a detailed explanation of family firms and how its existence impedes the minority shareholders through expropriation activities.

2.6   CONCLUSION

This chapter explain the various issues related to the Malaysian institutional environment and ownership structure and how they relate to minority shareholder expropriation. Basically, this chapter discuss the differences between the traditional principal-agent conflict and principal-principal conflicts as outlined in Table 2.3. The next chapter will explain issues related to family firms and minority shareholder expropriation.

CHAPTER THREE

FAMILY FIRMS AND MINORITY SHAREHOLDER EXPROPRIATION

3.1   INTRODUCTION

This chapter will discuss issues related to family firms and minority shareholder expropriation. Section 3.2 will discuss issues related to family firms. Section 3.3 will discuss issues related to minority shareholder expropriation in family firms. Section 3.4 will discuss about RPTs. Section 3.5 will discuss about the tenure of independent directors. Section 3.6 will discuss the issues related to the domestic banking channel used by firms. Section 3.7 will discuss the moderating effects of controlling shareholders' ownership. Section 3.8 concludes.

3.2   FAMILY FIRMS

3.2.1   Definition of Family Firms

Family firms have always been significant to free-market economies. They have been defined in various ways by theorists in accordance with the research being conducted at that time. First, family firms is defined based on the degree of ownership and/or management by family members, e.g. Alcorn (1982), Barnes and Hershon (1976), Barry (2004), Dyer (1986), Lansberg, Perrow and Rogolsky (1988). Second, others use the degree of family involvement to define family firms (Beckhard and Dyer, 1983; Davis, 1983). Third, some theorists define family firms as a potential for generation transfer (Churchill and Hattern, 1987; Ward, 1987).

Furthermore, according to empirical studies e.g. McConaughy, Walker, Henderson and Mishra (1998), Mishra and McConaughy (1999) and Sraer and Thesmar (2007); they view family controlled firms as firms whose CEOs are either the founder or a descendant of the founder. Furthermore, others define firms as family firms when

families hold shares in the firms according to a certain level of equity stake, and also whether family members appear on the board (Anderson and Reeb, 2003; Yammeesri and Lodh, 2004; Yeh, Lee and Woidtke, 2001). In fact, in the case of a public family business, the term ownership brings a similar meaning for control (Churchill and Hatten, 1987).

This study utilises the definition of family firms as suggested by Barnes and Hershon (1976) whereby a firm is classified as a family firm if an individual or members of a single family is the controlling shareholder; that is a person (rather than a state, corporation, management trust or mutual fund) can obtain enough shares to assure at least 20% of the voting rights and the highest percentage of voting rights in comparison to other shareholders (Bjuggren, Johansson and Sjogren, 2011; Chakrabarty, 2009; De Vries and Manfred, 1993; La Porta et.al. 1999). The definition by Barnes and Hershon (1976) as well as the 20% threshold is used in this study as the majority (i.e. 76%)[13] of family firms' controlling shareholders in the Main Market of Bursa Malaysia holds at least 20% shareholding.

Moreover, in order to be classified as a family firm, there must be family involvement in the management of the firm and this requires at least one member of the controlling family hold a managerial position (i.e. board member, CEO or chairman, chairman of the syndicate pact) (Cascino et.al. 2010). Hence, the definition of family firms used in this study is based upon a threshold of 20% family shareholding as well as family involvement in the management of the firm. This definition is stricter than those used by Ibrahim (2009) and Munir and Gul (2011), where these authors also studied Malaysian family firms. Ibrahim (2009) define family firms as firms which have the presence of a family member on the board or the family members must hold at least

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[13] As found from the sample data in this study.

20% equity stake in the firm. Munir and Gul (2011) define family firms as firms where the family holds at least 10% equity stake in the firm.

Apart from the definition of family firms, there are also certain characteristics and problems within these types of firms.

3.2.2 Family Firm Formation

Social scientists have discussed various reasons which can explain the existence of family firms (Bhaumik and Gregoriou, 2010). Economists argue that the existence of family firms is a consequence of imperfections in the market for managerial talent or a market for corporate control (Burkart, Panunzi and Shleifer, 2003). In the absence of a market for managerial talent, for example, firms may need to depend on successive generations of the founding families to provide managerial personnel. Similarly, if there is no market for takeovers, such that it is difficult to credibly threaten the management of poorly performing firms with the prospect of a takeover, the convergence of management and ownership could be a (second best) response aimed at mitigating Agency Problem Type I. The latter argument has been extended to argue that family ownership of firms is an optimal outcome in situations where the cost of contract enforcement is high, such that informal agreements or social norms backed by the threat of social sanctions are used to facilitate transaction of resources and output, thereby explaining the ubiquity of family firms (Redding, 1990; Peng and Heath, 1996).

Furthermore, the concentrated ownership structure found in family firms is a rational response to the institutional environment confronting these firms. The lower investor protection and lack of legal development in emerging markets such as those in East Asia increase the cost of enforcing arm's-length contracts. As a result, concentrated ownership arise within family firms as family owners possess the incentives to increase their control of the firm in order to extract private benefits and outside investors do not

have the incentives to invest in these firms due to the lower minority shareholder rights protection offered by the institutional structures in these markets (Redding, 1990; Yeung, 2006).

On the other hand, the market imperfections argument suggests that family firms might be an outcome of factors such as altruism, externalities associated with social capital and high cost of contract enforceability. It is now well established in the labour economics literature that even in firms which are not characterised by familial relationship among sections of the management and employees, individual effort is determined by reciprocal altruistic gestures the genesis of which lie in norms (Akerlof, 1982). The collaboration that results from such reciprocal gestures can lead to better firm performance (Rizov and Croucher, 2009).

Similarly, reciprocal altruism among family members could reduce their reservation price for key resources, thereby allowing them to outbid (or undercut) non-family firms in the product market (Eaton, Yuan and Wu, 2002). Similarly, while a firm can prosper with addition to its social capital, it may not acquire this social capital from a widely dispersed group of individuals because the private benefits of these individuals would be much less than the aggregate social capital of the firm. If the firm is owned by a family, it can however acquire the social capital of the family, an institution which heavily invests in social capital (Arregle, Hitt, Sirmon and Very, 2007).

Basically, when family firms are formed, they have certain characteristics which differentiate them from non-family firms.

3.2.3 Family Firm Characteristics

Family firms differ from non-family firms in that family firms are governed and/or managed by members of the same family or a small number of families with a vision of continuing the business across generations (Chua, Chrisman and Sharma, 1999). Daily and Dollinger (1992) argue that family businesses reflect different structural, process and strategic differences as compared with professionally managed non-family firms. They also suggest that family owners behave differently from professional managers and that firms managed by families are generally characterised by centralised decision-making processes. In addition to that, the type of strategic and operational planning undertaken by these two groups differs because family owners have distinct goals from professional managers. Ward (1988) further argues that strategic planning for family firms differs from professionally managed non-family firms because family owners must incorporate family issues into their strategies and planning processes. He finds that family firms are reluctant to utilise strategic planning and strategy formulation as well as implementation due to a lack of formal training, insufficient knowledge of management techniques (Dyer, 1989), fear of losing control (Hutchinson, 1995; Storey, 1994) and beliefs that professionalisation is unnecessary. Family firms also have their own business goals and objectives which are different from professionally non-family managed firms. Furthermore, File, Prince and Rankin (1984) and Dunn (1995) argue that family firms possess complex, multiple goals and varying priorities compared to non-family firms.

In terms of financing decisions, Croci, Doukas and Gonenc (2011) find that family-controlled firms raise less equity capital and more debt capital compared to non-family firms. The financing policies of the former are influenced by control motives. While information asymmetry in family firms favour debt financing, control considerations exert a larger influence on debt over equity financing. Moreover, Croci et.al. (2011) find

that family-controlled firms are more likely to issue long-term than short-term debt, indicating that they are viewed by credit markets as non-risk-seeking firms. The non-risk-seeking behaviour of family firms is confirmed by the nature of their investment decisions. Barth, Gulbrandsen and Schone (2005) and Croci et.al. (2011) find that family-controlled firms commit less capital resources in R&D expenditures and high-risk investments compared to non-family firms; and thus, family firms could miss profitable investment opportunities. Feng and Li (2009) further point out that family firms tend to pay fewer cash dividends compared to non-family firms.

Gama and Galvao (2012) argue that there are particular attributes of family firms. Some of these attributes include long CEO tenures (typically more than 15 years) and concern for subsequent family generations. Family firms are also more likely to take a long-term orientation in making strategic investments (Lee, 2006). These type of firms also have to deal with additional issues, namely family ones (Schulze et.al., 2001), which might be resource-consuming. Gomez-Mejia, Larraza-Kintana and Makri (2003) argue that family firms are less innovative compared to non-family firms. Dalton and Daily (1992) further argue that family firms are more efficient forms of organisation than non-family firms due to less separation between ownership and control.

Fan, Wong and Zhang (2005) argue that family firms tend to control their listed firms through pyramidal structures[14] due to difficulties in obtaining external financing. This is consistent with the studies by Williamson (1985) and Stein (1997) who believe that the internal capital market based upon the pyramidal structure can relieve a family-controlled firm from funding difficulties.

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[14] Pyramidal structures will be discussed in more detail in Sections 3.3.2 and 3.3.3 of this research.

Aside from the differences between family firms and non-family firms, these types of firms are also mostly found in most parts of the world outside USA and UK. La Porta et.al. (1999) document that most large firms in most other countries besides USA and UK are family-owned. Fukuyama (1996) and Rajan and Zingales (1998) find that East Asian firms are highly concentrated and usually owned by families. In most East Asian countries, wealth is very much concentrated in the hands of a few families and links between government and business are extensive (Claessens et.al., 1999b). Another significant characteristic of family firms is the family business group structure.

3.2.4 Family Business Groups

Another common feature of corporations in emerging markets is family business groups (Ghemawat and Khanna, 1998; Peng and Delios, 2006). A business group is a collection of legally independent firms that are bound by economic (such as ownership, financial and commercial) and social (such as family, kinship and friendship) ties (Yiu, Bruton and Lu, 2005). Each member firm in a business group may be a distinct legal entity that publishes its own financial statements, possess its own board of directors, and is responsible to its own shareholders. This is different from conglomerates in developed markets where individual lines of business typically do possess any of these properties (Khanna and Rivkin, 2001). Large family businesses in emerging economies often are organised around business groups with different affiliated companies being run by various family members or branches (Biggart and Hamilton, 1992; Wilkinson, 1996). Business group networks, together with family structure are some of the key institutional features characterising emerging economies (Hamilton and Biggart, 1988). In family business groups, informal ties such as cross-holdings, board interlocks and coordinated actions are strong (Chung, 2006; Dieleman and Sachs, 2006).

Family business groups can be further divided into those that emphasise vertical strategies versus those that emphasise horizontal strategies. Vertical strategies are primarily used to overcome product market and labour market failures, while horizontal strategies are more useful in overcoming capital market failures (Li, Ramaswamy and Petit, 2006). In general, family business groups especially those with high levels of horizontal product diversification may provide advantage in emerging economies (Chakrabarti, Singh and Mahmood, 2007; Khanna and Palepu, 2000, Wan, 2005). This is primarily because they can substitute capital for weak institutional environments (Guillen, 2000; Li et.al., 2006; Wan, 2005). For example, they could facilitate technology transfer or inter-group capital allocation which otherwise might not be possible because of insufficient infrastructure (Zheng, Anand and Mitchell, 2005).

While there are benefits of family business groups, they have particular disadvantages. They tend to be large cumbersome organisations which carry coordination and administration costs (Bae, Kang and Kim, 2002; Claessens et.al., 2002; Ferris, Kim and Kitsabunnarat, 2003; Joh, 2003). Poor performance of family business groups are in part due to problems in coordinating and allocating resources between the affiliated members (Isobe, Makino and Goerzen, 2006; Mursitama, 2006). The low transparency of family business groups makes it difficult for minority shareholders to determine where control is located. Thus, this makes it hard to identify and challenge unfair intra-group transactions (Chang, 2003) since family business networks provide significant collusion opportunities or unethical transactions (Hoskisson et.al., 2000; Woodruff, 1999). Therefore, business group affiliation provides a means by which controlling shareholders can expand control and thus increase the likelihood of minority shareholder expropriation (Khanna and Rivkin, 2001).

One of the Asian countries which possess a large number of family business groups is Malaysia (Ibrahim and Samad, 2010).

3.2.5　Family Businesses in Malaysia

Family businesses form an essential part of the Malaysian economy. It is estimated that family firms contribute more than half of Malaysia's Gross Domestic Product (GDP) (Ngui, 2002). Family firms do not embrace openness in the firm's practices and they still practice a similar business culture to the founders (Ow-Yong and Cheah, 2000). A survey by Jasani (2002) finds that the majority of Malaysian family firms are small-scale; the founders manage the firm with assistance from their children and relatives; and the founders do not force the children to join the firms, unless the children themselves are willing to work with their families. Gomez (2004) argues that family firms emerged in Malaysia due to the difficulties migrants encountered in securing start-up capital and recruiting labour. Chinese family businesses in Malaysia possess a history of intra-ethnic business partnership. This business tradition exists among migrants in the colonial period with some firms failed and some still operating until today (Gomez, 2004). In Malaysia, most public-listed firms are owned or controlled by families and they are inherited from their own ancestors (Rahman, 2006). Such firms include Genting Group, Kuok Group, Lion Group, YTL Group, Mah Sing Group, etc.

The number of Malaysian firms is increasing yearly due to the positive economic growth (Pricewaterhouse Coopers, 1998; Claessens and Fan, 2002; Haniffa and Cooke, 2002; Soederberg, 2003). Although, some of the established Malaysian family business groups such as Sapura, Melewar, Kuok, Genting, YTL, Tan Chong, IOI, Oriental and Berjaya Group have ventured into diverse economic sectors; there are also smaller firms such as Habib and Kamdar which maintain their business within their respective sectors.

The established family business groups also contribute to the number of richest people in Malaysia (Forbes, 2012). According to the top 40 list of Malaysia's richest people, Tan Sri Robert Kuok dominates the chart. His outstanding wealth accounted for

approximately RM 38 billion or 19.24 percent of the wealth of the 40 richest. The top ten wealthiest, account for 72.64 percent of the top 40's wealth (Forbes, 2012).

Tan Sri Robert Kuok, also known as the "Sugar King", conquered the fundamentally typical economy assets such as consumer edibles, property and shipping, which combined to provide him a RM 7.6625 billion disparity with his closest rival, telecommunications tycoon T. Ananda Krishnan (Forbes, 2012). Singh (2008) states that Kuok acquired the remaining 55.5 percent stake in his media group of SCMP Group Ltd with a cash offer of HKD 2.37 billion or HKD 2.75 per share. Previously, he was also successful in taking over the Singapore based Pacific Carriers and had a huge investment with the flagship of PPB Group Bhd. The PPB Group, which is involved in the government project of "Iskandar Malaysia", is one of the biggest property development projects in Malaysia.

Despite the enormous wealth that some of the family owners garner, the overall concentration of control among Malaysian public-listed family firms is still high as discussed earlier and presented in Table 2.1 (Carney and Child, in press). Due to the high concentration of control, Morck and Yeung (2003) and Bloom and Van Reenen (2007) argue that in emerging markets such as Malaysia, family controlled firms may give rise to serious corporate governance problems such as the principal-principal conflict. The next section discusses the reasons why principal-principal conflict or minority shareholder expropriation is more prevalent in family firms.

3.3   MINORITY SHAREHOLDER EXPROPRIATION IN FAMILY FIRMS

There are several reasons why principal-principal conflict is more prevalent in family firms particularly in emerging markets. One of these reasons is the relatively high separation of ownership rights to control rights.

3.3.1   Separation of Cash-flow Rights (Ownership Rights) to Control Rights (Voting Rights)

Edwards and Weichenrieder (2004) defines cash-flow rights (or ownership rights) of a controlling shareholder as the fraction of the firm's profits to which he is entitled whereas his control rights (or voting rights) refers to his ability to influence the way the company is run. The control rights of ownership of firms can be separated from the cash-flow rights in two main ways. Firstly, firms can issue classes of shares that differ in terms of their relative proportion of voting rights and dividend entitlement. Secondly, even if all shares have the same voting rights, but engages in pyramiding, i.e. ownership via a chain of firms provides another method of separating control and cash-flow rights (Edwards and Weichenrieder, 2004). The process of how pyramiding can separate cash-flow rights and control rights will be shown in the next section. Edwards and Weichenrieder (2004) further argue that the distinction between the control rights and cash-flow rights of the controlling shareholder has been central to the analysis of conflict of interest. A low cash-flow-to-control rights ratio of the controlling shareholder indicates his higher ability to influence how the firm is run with lower ownership stakes. This increases his ability to obtain private benefits of control at the expense of minority shareholders. Vice versa, a high cash-flow-to-control rights ratio signifies that his incentives are closer aligned with those of minority shareholders. Thus, the incentives of the controlling shareholder to expropriate minority shareholders will be lower (Edwards and Weichenrieder, 2004). Table 3.1 shows that overall, the

cash-flow rights –to-control rights ratio of family firms in East Asia is relatively lower compared to non-family firms for 1996 and 2008 (Carney and Child, in press). These statistics shows that East Asian family firms particularly those from emerging markets are more prone to minority shareholder expropriation compared to non-family firms due to their lower cash-flow-to-control rights ratio.

Table 3.1: Cash-flow-to-Control Rights Ratio across Different Types of Firms

Country	Family	State	Widely Held Financial	Widely Held Corporation
1996				
Hong Kong	0.860	1.000	0.884	0.981
Indonesia	0.666	0.9555	1.000	0.984
Japan	0.974	1.000	0.531	1.000
South Korea	0.861	0.981	0.873	0.949
Malaysia	0.791	0.973	1.000	0.954
Philippines	0.821	0.948	0.938	0.961
Singapore	0.712	0.690	0.923	0.935
Taiwan	0.755	1.000	0.901	0.885
Thailand	0.923	0.990	1.000	1.000
East Asia	0.818	0.948	0.894	0.961
2008				
Hong Kong	0.891	0.879	0.859	1.000
Indonesia	0.836	0.962	0.719	0.859
Japan	0.879	0.836	1.000	0.976
South Korea	0.757	0.917	0.905	0.818
Malaysia	0.743	0.911	1.000	0.784
Philippines	0.836	0.961	0.601	0.980
Singapore	0.809	0.871	0.770	1.000
Taiwan	0.870	0.902	0.822	0.944
Thailand	0.829	0.817	1.000	0.941
East Asia	0.827	0.895	0.853	0.922
Change				
Hong Kong	0.031	-0.121	-0.025	0.019
Indonesia	0.170	0.007	-0.281	-0.125
Japan	-0.095	-0.164	0.469	-0.024
South Korea	-0.104	-0.064	0.032	-0.131
Malaysia	-0.048	-0.062	0.000	-0.170
Philippines	0.015	0.013	-0.337	0.019
Singapore	0.097	0.181	-0.153	0.065
Taiwan	0.115	-0.098	-0.079	0.059
Thailand	-0.094	-0.173	0.000	-0.059
East Asia	0.01	-0.053	-0.042	-0.039

Source: Carney and Child (in press)

The cash-flow rights and control rights in family firms can be separated using corporate pyramidal structures.

3.3.2 Corporate Pyramidal Structures

Pyramidal ownership structure is defined as an entity whose ownership structure displays a top-down chain of control (La Porta et.al., 1999). In such structures, the controlling shareholders which are usually family owners are located at the apex and what follows below are successive levels of firm subsidiaries. With a pyramid structure, a family controls multiple firms, each becoming a member of an informal business group (Almeida and Wolfenzon, 2006). Guillen (2000) argue that the proponents of the resource-based view emphasises controlling shareholders' contributions, which suggest that corporate pyramidal structures may be beneficial to a firm's performance. Essentially, business groups form an internal capital market where resource allocation is made within groups. Other group members in the pyramid may provide useful information, access to finances and technologies, and significant social interactions (Carney, Gedajlovic, Huegens, Van Essen and Van Oosterhout, 2011; Khanna and Yafeh, 2007). If the holding company fails to perform financially, other member firms may come to rescue it by injecting assets such as funds and talents (Estrin, Poukliakova and Shapiro, 2009; Gedajlovic and Shapiro, 2002; Hoskisson, Cannella, Tihanyi and Faraci, 2003; Li et.al., 2006). As a result, pyramid firms may outperform independent firms without such pyramid/business group affiliations (Bruton, Ahlstrom and Wan, 2003; Peng, 2003). However, it is argued that this is unlikely to occur because the cost of corporate pyramidal structures outweigh its benefits as the internal capital market in the pyramidal structures is very likely to be abused by controlling shareholders in countries with weak investor protection such as those in emerging markets.

This abuse occurs as a result of the separation of actual ownership and control in firms located at the lower part of the pyramid structure (Claessens et.al., 2000a). Ownership and control is separated because the pyramid structure enables the controlling shareholders particularly from family firms to garner control disproportionately to the amount of ownership he has in every one of the successive levels of firm subsidiaries. With such structures, the family controlling shareholder's actual ownership becomes smaller and relative to his control farther down the pyramid and this evidently creates some negative consequences (Ariffin, 2009). These negative implications refer to the opportunity for family owners to expropriate minority shareholders through tunnelling funds from firms at the lower level of the pyramidal structure to the holding company or to other subsidiaries or associated companies; due to the discrepancy between the controlling shareholders' ownership and control rights which gets larger farther down the pyramid (Morck and Yeung, 2003; Jiang and Peng, 2011). This explains why principal-principal conflict is more prevalent in emerging markets as corporate pyramidal structures is very common in these regions particularly among large family business groups (La Porta et.al., 1999; Morck and Yeung, 2003). Figure 3.1 explains how family owners can expropriate via corporate pyramidal structures:
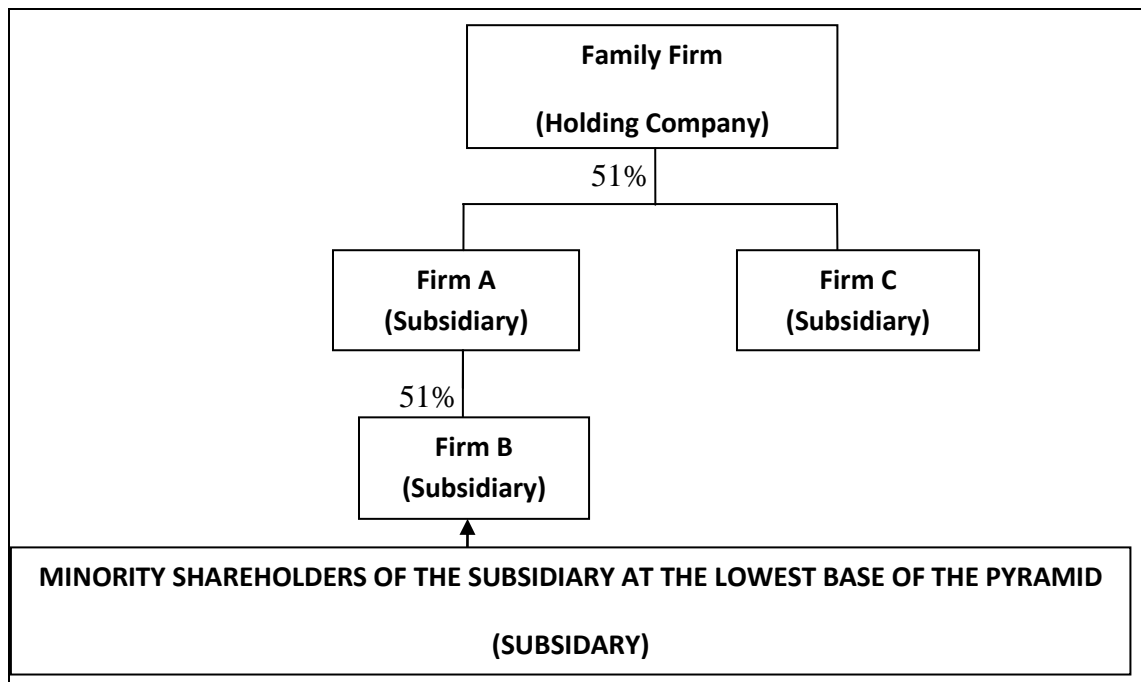
Figure 3.1: Example of a Corporate Pyramidal Structure in a Family Group
Source: Morck and Yeung (2003)

Expropriation by controlling shareholders particularly from family firms can actually be proven as shown by the above diagram. Assuming the business owner controls 51% of its subsidiary firm, A which in turns control 51% of firm B. This means the owner controls 51% x 51% ≈ 26% of firm B. Therefore, the control stake of the business group on the firm at the lowest level of the corporate pyramidal structure if each firm controls 51% of its subsidiary will be $f(a)= 0.51^n$, where -

a: control stake in subsidiary; and

n: number of subsidiaries controlled by the business group.

In the example given, the family business group owns approximately 26% of firm B. Since, firm B is controlled by firm A (51% majority stake) and firm A is controlled by the family business group holding company (51% majority stake); the family business group holding company can actually direct policies and management activities in firm B with only a net approximate 26% shareholding. This means the holding company only bear 26% of the cost of any losses by firm B while being able to direct its policies and

management activities. The lower the firm at the corporate pyramidal structure, the lower the cost of any losses of the subsidiary that the holding company has to bear assuming it controls at least 51% at every level.

As a result, managerial entrenchment occurs (due to the affiliation of the managers to the controlling shareholders) and other people's money problems left unattended. Thus, the risk of expropriation is highest at the bottom of the corporate pyramidal structure. The cost to minority shareholders as a result of managerial entrenchment in a corporate pyramidal structure is the minority shareholder expropriation cost. This cost is basically due to the deviation of cash-flow rights from control rights, whereby the family controlling shareholder owns only 26% of the cash-flow rights of the subsidiary at the base of the pyramid but 51% control rights (adopting the 1-share-1-vote principle). As pyramidal structures enable controlling shareholders to expropriate minority shareholders, there are certain incentives which encourage their usage for expropriation purposes.

3.3.3 Incentives for Corporate Pyramidal Structures To Be Used For Expropriation

In Malaysia, most firms particularly family businesses are highly diversified (Ayoib, Zuaini and Nor Aziah, 2003). Overall, there is a high level of investment needed due to the different businesses that the firm engages in. The relatively low investor protection and mediocre corporate governance (CG) (Joint Asian Corporate Governance Association (ACGA) and Credit Lyonnaise Securities Asia (CLSA) total average investor protection and CG score of 55 out of 100 (ACGA, 2012b)), encourage family firms to utilise pyramidal structures to structure their different subsidiaries in order to expropriate minority shareholders. This can be done by tunnelling profits from the subsidiary at the bottom of the corporate pyramidal structure to the holding company or

to other subsidiaries or associated companies. Tunnelling is a common method of expropriation in corporate pyramidal structures because family controlling shareholders are able to control their subsidiaries at the bottom of their pyramidal structures with little cash-flow rights. The usage of corporate pyramidal structures by family owners for expropriation purposes further support the argument that the principal-principal conflict is more prevalent in family firms compared to non-family firms.

Riyanto and Toolsema (2008) further argue that the existence of corporate pyramidal structures in family firms is attributed to the anticipation of tunnelling and propping by rational outside investors. Although tunnelling will be discussed in more detail in later sections, in the context of the study by Riyanto and Toolsema (2008); tunnelling refers to RPTs which move funds from a lower-level firm to a higher-level firm in the corporate pyramidal structures and propping refers to transfers of funds in the opposite direction (Friedman, Johnson and Mitton, 2003). Tunnelling involves expropriation of minority shareholders of the lower-level firm. Propping however, is only optimal to the controlling shareholder when it is used to guarantee future cash-flows, say to save the lower-level firm from insolvency, and thereby usually benefits minority shareholders (Riyanto and Toolsema, 2008). Riyanto and Toolsema (2008) point out that when investors are rational, tunnelling alone does not justify the existence of corporate pyramidal structures. Rational shareholders anticipate the expropriation and adjust their willingness-to-pay for the firm's shares accordingly. This fully eliminates the potential benefit to the family of self-dealing in the pyramidal structure, and the family will prefer the independent, horizontal structure. Empirical evidence indicates that investors may be myopic and underestimate the extent of tunnelling. However, a justification for pyramidal ownership relying on myopic investors may not be very attractive from a modelling perspective.

When the pyramidal structure does not only involve tunnelling but also propping, Riyanto and Toolsema (2008) argue that the family may indeed prefer to use the pyramidal ownership structure. The possibility of propping in pyramidal business groups implicitly provides outside investors with an intercorporate insurance in case of financial distress. In this case, rational outside investors are willing to be expropriated to some extent via tunnelling in exchange for a larger probability of realising positive returns from their investment in the future. This explanation is consistent with Morck et.al. (2005), who argue that the benefit of intercorporate insurance is one of the factors that underlies the creation of pyramidal business groups. Cheung et.al. (2006) analyze a sample of 328 filings of RPTs between Hong Kong public-listed companies and their controlling shareholders during the period 1998-2000, and find evidence that market participants do not discount firms with potential for expropriation beforehand. This indicates that investors may deliberately accept tunnelling in exchange for the insurance against financial distress. Basically, the explanation by Morck et.al. (2005) and the findings by Cheung et.al. (2006) support the arguments by Riyanto and Toolsema (2008).

Furthermore, the higher prevalence of principal-principal conflict in family firms is also due to the private objectives of family firms.

3.3.4   Private Objectives of Family Firms

The presence of private objectives within family firm owners can cause them to take actions, which advance their family welfare at the expense of minority shareholders (Schulze et.al., 2001). These preferences cannot be fully quantified financially (Bergstrom, 1989). In addition, the utility that family firm owners gain from indulging in private objectives is indistinguishable from the utility that they obtained from rationally motivated actions (Becker and Murphy, 1988; Thaler and Shefrin, 1981).

These private objectives can translate in many forms and one of these is the appointment of family members as agents of the firm (Faccio et.al., 2001a; Young et.al., 2008). Founding families of family firms can expropriate minority shareholders by appointing less-than-qualified family members or associates, friends or cronies to be agents of its firm (Faccio et.al., 2001a). They can decide who sits on the board, therefore, effectively neutralize a board's ability to oversee the family controlling shareholder. In addition, legal recourse for boards not overseeing minority shareholders' interests is limited. Such arrangements coupled with limited legal recourse provide family controlling shareholders the power to expropriate (Young et.al., 2008). Hence, it is argued that principal-principal conflict is more prevalent in family firms as compared to non-family firms. Besides private objectives, the higher occurrence of principal-principal conflict in family firms can also be attributed to the stock market abuses by family owners and the negative perception of minority shareholders.

3.3.5 Stock Market Abuses and Perception of Minority Shareholders in Asia

Stock market abuses by family owners and the negative perception of minority shareholders are additional possible reasons why family firms are more prone to expropriation. Backman (2001) argues that in Asian emerging markets, founding families of business groups only list unprofitable firms in stock exchanges. Profitable firms are kept as privately limited companies in their groups. In other words, founding families list only unprofitable firms with the hope of securing capital for expropriation purposes. When the founding family controlling shareholder expropriate resources from the firm, its creditors, minority shareholders and other unaffiliated major shareholders (blockholders) share the cost and risk of expropriation with the family controlling shareholder. In the case of firm insolvency, family controlling shareholders will still be able to claim some of the firm's assets and profits (if any) after the principal

and interests have been repaid to the creditors (Radcliffe, 1997). This explains why family controlling shareholders expropriate because they have more to gain through expropriation compared to what they can lose in the case of insolvency.

After the family controlling shareholder had expropriated extensively from the listed firm in the stock exchange, the latter suffer extensive value losses and underperformance of stock returns. In this situation, the family controlling shareholder might no longer find it in their best interest to keep the firm public. Hence, they might take the firm private (Du, He and Yuen, in press). Du et.al. (in press) further argue that to minimise the compensation costs of privatisation, the family controlling shareholder might first increase their shareholding at a preferential share price through insider trading before the public disclosure of the privatisation plan, which helps them reduce the premium payment to minority shareholders in the subsequent privatisation scheme. Ultimately, the family controlling shareholders publicly announce their privatisation plan and squeeze out minority shareholders by taking the firm private. Hence, minority shareholders are expropriated by the family controlling shareholder when the firm is taken private (Du et.al., in press).

The fact that minority shareholders are expropriated by Asian family controlling shareholders shows that minority shareholders of Asian family firms are often viewed as outsiders. Personal connections and relationships are everything in Asian businesses (Backman, 2001). The concept of minority shareholder protection is alien to most Asian businesses particularly in developing countries. Thus, Asian family controlling shareholders from emerging markets have a strong incentive to engage in minority shareholder expropriation (Backman, 2001). Although stock market abuses by family owners and negative perception of minority shareholders could encourage minority shareholder expropriation in family firms, this problem can also be attributed to the altruistic behaviours of family owners.

3.3.6 Altruism of Family Owners

Since, family-controlled firms are often run by the family controlling shareholder and his selected family members, there is a likelihood of altruistic behaviours within family controlling shareholders (Buchanan, 1975). He argues that in family firms, control over the firm's resources makes it possible for family controlling shareholders to be unusually generous to their family members who serve in the management of the firm. For example, the family controlling shareholder could provide family members with secure employment and perquisites and privileges that they would not otherwise receive (Gersick, Hampton and Lansberg, 1997; Ward, 1987). Hendry (2002) argues that family firms are vulnerable to honest incompetence and shortage of expertise because they often have a self-imposed personnel selection criterion that provides preferential treatment or exclusive consideration to family stakeholders. Generally, the altruistic behaviour of family owners is detrimental to the interests of minority shareholders due to the benefits and privileges given to family members, thus, contributing to the agency problem of self-control. The agency problem of self-control refer to the attempts of individuals or families to maximise their welfare (in this case, their altruistic behaviours) which can lead to a loss of control and cause them to take actions that do not advance the common (economic) good (such as the interests of minority shareholders) (Schulze, Lubatkin and Dino, 2002). This altruistic behaviour of family owners may also lead to reduction in firm monitoring.

3.3.7   Lack of Firm Monitoring

Schulze, Lubatkin and Dino (2003) argue that altruism reduces the family controlling shareholder's ability to effectively monitor and discipline family agents. Altruism systematically biases the family owner's perceptions and hence, the information that they filter and process about the family members that are employed. Altruism reduces the effectiveness of a family controlling shareholder's monitoring function because family agents tend to free ride on the controlling shareholder whenever the responsibilities of the family controlling shareholder and family agent overlap (Lindbeck and Weibull, 1988). The family owner's ability to discipline family agents is compromised by both the owner's altruism and by the consequences that such actions might have on familial relationships within the firm and the extended family outside the firm (Donovan, 1995). Dharwadkar et.al. (2000) further argues that since the family agents are representing the controlling shareholders, they are able to circumvent the traditional monitoring functions such as board of directors, resulting in lack of firm monitoring (Liu et.al., 2010). The lack of firm monitoring as a result of family owners' altruism and close relationship between the family members and the owner, encourage opportunistic behaviours of controlling shareholders. In addition to lack of firm monitoring, opportunistic behaviours by family owners also could be encouraged by information asymmetry between family owners and non-family shareholders (Villalonga and Amit, 2010).

3.3.8   Information Asymmetry

Information asymmetry may also encourage family owners to engage in minority shareholder expropriation. This can be prevalent among family firms in industries where there is a large information asymmetry between family owners and non-family owners (Villalonga and Amit, 2010). Using a sample of 8,104 firms from different industries in USA, Villalonga and Amit (2010) find that family firms with lower transparency in certain industries performed poorer compared to those with higher transparency in other particular industries. They also find that firms with lower transparency are associated with higher family control. Both these findings indicate the likelihood of expropriation by family owners in particular industries when there is information asymmetry between them and non-family owners. The rationale for these findings is that family owners within a particular industry who possess information advantage compared to non-family owners, have a high tendency to take advantage of this information differences to fulfil their expropriation objectives. Although the study by Villalonga and Amit (2010) is conducted in USA, their findings show that even in developed markets such as the USA with strong investor protection; information asymmetry between family owners and non-family owners could encourage opportunistic behaviours of the family owners. In emerging markets with lower investor protection, the likelihood of this scenario occurring is even higher.

Aside from information asymmetry between family owners and non-family owners, the higher prevalence of the principal-principal conflict in family firms can also be attributed to the non-dilution of the family owner's private benefits of control among other blockholders in the firm.

3.3.9 Undiluted Private Benefits of Control

Villalonga and Amit (2006) argue that the private benefits of family controlling shareholders are undiluted even though there are other blockholders in the firm such as institutional investors, individual investors, etc. On the other hand, if the controlling shareholder is a non-family owner, the dilution of private benefits of control will occur among the non-family owner and other blockholders. Hence, family owners may possess a higher incentive to expropriate wealth from minority shareholders compared to non-family owners because the former's private benefits cannot be diluted among other blockholders. This argument implies that Agency Problem Type II might be more prevalent in family firms compared to non-family firms (Setia-Atmaja, Tanewski and Skully, 2009).

Part of the undiluted private benefits of control which encourage minority shareholder expropriation in family firms may include opportunistic investment by family owners.

3.3.10 Opportunistic Investment

The personalised authority structures of family firms provide huge latitude to family owners in allocating their investments and this is another factor which encourages minority shareholder expropriation in family firms (Carney, 2005). Carney (2005) defines opportunistic investment as the ability to allocate organisational resources without regard to internal and external processes of accountability. Controlling shareholders may analyse their investment decisions on the back of an envelope or utilise heuristic methods or mental calculus rather than a careful and exact accounting calculation (Redding, 1990). This approach to analysis encourages fast decision making and provides advantages in pursuing fleeting opportunities where time is of the essence and in situations where it is "better to be always first than always right" (Williamson, 1997, p.55).

Controlling shareholders possess larger latitude to allocate resources on the basis of 'animal spirits' or 'gut feel' and to pursue opportunities which can only be rationalised by particularistic or intuitive criteria. Accountable only to themselves, controlling shareholders are free to donate, hide, liquidate and generally shift assets into and out of unfavourable environments; hence, opportunistic investment provides them the ability to expropriate minority shareholders. This liberty is an advantage in environments characterised by corruption and weak property rights such as those in emerging markets (Carney, 2005).

In contrast to the factors that encourage minority shareholder expropriation, reputational effects play a positive role in influencing family firms to treat minority shareholders well rather than expropriating them.

3.3.11 Reputational Effects in Family Firms

One of the pioneering studies on reputational effects in emerging markets is by Gomes (2000). In a multi-period model, Gomes (2000) argues that a family can build a reputation for treating minority shareholders well by retaining large shareholdings and voluntarily bearing the cost of under-diversification. This represents a credible commitment because the family will repeatedly need to raise capital and any expropriation will be penalized by discounts of its future stock offerings. The Gomes model predicts that the reputational effect is actually more intense when cash-flow and control rights are separated. A non-expropriating controlling family derives payoff mainly from future sales of shares. The ability to subsequently sell the shares without losing control improves the credibility of the family's initial ownership retention signal. Based upon the Gomes model, family controlling shareholders possess the incentives to preserve its corporate reputation due to their need to raise external capital. Any

minority shareholder expropriation that takes place will discount future stock offerings. Hence, they have the tendency to treat minority shareholders well.

Khanna and Palepu (2000) argue that reputational effects of treating minority shareholders well enable family business groups in emerging markets to obtain credibility for new business ventures among suppliers and customers. Family firms also can have superior access to foreign capital and technology if they possess a good reputation in treating minority shareholders well. Therefore, these benefits encourage family controlling shareholders not to engage in minority shareholder expropriation.

Khanna and Yafeh (2007) further reiterate that family controlling shareholders in emerging markets have the incentives to preserve corporate reputation by risk sharing. The risk sharing is conducted by providing assistance to poorly performing companies within the family business group. This feature reduces the default risk of group-affiliated companies. This risk sharing is viewed positively by minority shareholders as it portrays an image to them that the firm is taking care of their interests. Therefore, the engagement by family controlling shareholders in risk sharing within their business groups, enhances the interests of minority shareholders.

In Malaysia, reputational effects could possibly have a positive influence on the treatment of minority shareholders in family firms. This could occur in the aftermath of the Transmile case. In the Transmile case, the firm's revenue was inflated in the financial statement (Securities Commission, 2011c). The aftermath of this incident have possible reputational effects on family firms because investors' confidence was shattered after the incident (Song, 2010). This reputational effect is particularly prevalent in large family business groups where family controlling shareholders possess very high ownership stakes. This is because Transmile is a subsidiary of the Kuok Group of Companies and this family business group is an established family business

conglomerate in Malaysia. The dent in the reputation of Transmile provides incentives for other large family owners to improve their reputation. The reputational effects operate in the following manner. As the shareholding of family controlling shareholders increases, they possess higher ownership of their firms. Consequently, they possess higher incentives to preserve their reputation considering the Transmile negative publicity. Low reputation can affect them and their family members in terms of their future job prospects and raising external capital for their firms (Gomez, 1999; Loy, 2010). Thus, when the shareholding of family controlling shareholders increases, the reputational concerns help align their incentives to those of minority shareholders.

The Transmile experience not only affects the family controlling shareholders but their independent directors as well (Oh, 2011). Independent directors particularly in family firms, would like to preserve their corporate reputation (Abdullah et.al., 2010; Watts and Zimmerman, 1978) because poor reputation can lower their job prospects as independent directors with non-family firms (Othman and Rahman, 2010). Consequently, as their tenure increases, independent directors in family firms may fully utilise their knowledge and experience gained to improve firm performance in order to maintain the company's reputation.

Despite the possible reputational effects on family firms in emerging markets, these effects are considered a poor substitute for weaknesses in the institutional structures such as poor minority shareholder rights protection (Peng and Jiang, 2010). The reason is that in these markets, even reputable firms expropriate particularly during periods of economic recessions (Johnson et.al., 2000a). However, this line of reasoning is incomplete because it does not take into consideration the effect of corporate governance fiascos such as the Transmile case in Malaysia, which could have a strong reputational impact on the corporate governance of family firms. For that reason, the

assertion that reputational effect is a poor substitute for institutional deficiencies may not be valid.

One of the methods of minority shareholder expropriation which reputational effect can help to reduce is through related party transactions (RPTs).

3.4   RELATED PARTY TRANSACTIONS (RPTs)

Related party transactions (RPTs) are diverse complex business transactions between a company and its managers, directors or principal owners (Gordon, Henry and Pahlia, 2004b).   RPTs are defined as transactions entered into by the listed issuer or its subsidiaries which involves the interest, direct or indirect of a related party (Bursa Malaysia, Listing Requirements, Part E, Section 10.02 para k).   A related party can be a subsidiary, joint venture partner, a family member or a company affiliated with any of the related individuals within the firm (Gordon et.al., 2004b, 2004c).   RPTs can be classified by three categories (Cheung et.al., 2006). Table 3.2 illustrate these three different categories of RPTs.

Table 3.2: Classifications of Related Party Transactions (RPTs)

Type of connected transaction	Description
Panel A: Transactions that are a priori likely to result in expropriation of the listed firm's minority shareholders	
Asset acquisitions	Transactions that involve the acquisition of tangible or intangible assets by the listed company from a connected person or from a private company majority-controlled by this person.
Asset sales	Transactions that involve the sale of tangible or intangible assets by the listed company to a connected person or to a private company majority-controlled by this person.
Equity sales	Transactions that involve the sale of equity stake in the listed company to a connected person or a private company majority-controlled by this person.
Trading relationships	Transactions that involve the trade of goods and services between the listed company and a private company majority-controlled by a connected person. They can be purchases by the listed company or sales or both.
Cash payments	Transactions that involve direct cash payments by the listed company to a connected person or to a company controlled by this person or to a subsidiary (including loans and cash assistance) and the provision of cash guarantees by the listed company for debts owed by the connected person or by the companies controlled by this person.
Panel B: Transactions likely to benefit the listed firm's minority shareholders	
Cash receipts	Transactions that involve direct cash assistance or loans provided by the connected person to the listed company.
Subsidiary relationships	Transactions between a listed company and one of its subsidiaries. They could involve acquisitions or sales of equity stakes or assets and trading relationships.
Panel C: Transactions that could have strategic rationales and perhaps are not classified as expropriation	
Takeover offers and joint ventures	Cases in which the listed company receives a takeover offer by another publicly listed company that holds a toehold, and cases in which the listed company forms a joint venture or strategic alliance with another company that already holds a stake in the listed company.
Joint venture stake acquisitions	Transactions that involve acquisitions by the listed company from a third party of a stake in a joint venture in which the company participates as a joint venture partner. The connected person is the third party in his or her capacity as subsidiary shareholder.
Joint venture stake sales	Transactions that involve the sale by the listed company to a third party of a stake in a joint venture in which the company participates as a joint venture partner. The connected person is the third party in his or her capacity as subsidiary shareholder.

Source: Cheung et.al. (2006)

Panel A lists the transactions that are likely to result in expropriation whereas transactions listed in Panel B and C are unlikely to be used for expropriation. Based upon these classifications, it is the transactions listed in Panel A which raise concerns as these transactions can be detrimental to the interests of minority shareholders.

Aside from these classifications, there are two opposing views on RPTs held by scholars. The 'efficient transactions' view argue that RPTs promote better co-ordination and feedback between related parties and the firm because information flows faster, information reliability is higher, contracting efficiency increases and holdup problems are reduced[15] (Ryngaert and Thomas, 2007). RPTs can also be more cost effective and cost efficient to firms compared to transactions with unrelated parties (Gordon et.al., 2004b, 2004c; Ryngaert and Thomas, 2007). Moreover, these transactions also fulfil the economic demands of a company by helping to secure in-depth skills and expertise from related parties as well as providing alternative forms of compensation to them (Wahab et.al., 2011).

Pizzo (2011) argues that the efficient transaction hypothesis assumes RPTs represent sound business exchanges, efficiently fulfilling the underlying economic needs of the firm. These transactions do not harm the interests of shareholders and they constitute efficient contracting arrangements where there is incomplete information. Pizzo (2011) further contends that RPTs represent internal dealings, alternative to contractual or market exchanges, enables the reduction of transactions costs and overcome difficulties obstructing production which is consistent with the transaction cost theory (Coase, 1937; Williamson, 1985) and supporting evidence has been provided by numerous studies (Fan and Goyal, 2006). Specifically, in institutional contexts without efficient capital, labour and product markets such as those in emerging markets; information

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[15] The holdup problem is a situation where two parties may work most efficiently by cooperating but they are refrained from doing so due to concerns that they may give the other party increased bargaining power and thereby reducing their own profits (Che and Sakovics, 2008).

asymmetry, agency problems and market imperfections increase risks related to firm activity, while group structures and internal dealings may provide a better allocation of financial resources, economies of scale, easier access to finance, more opportunities, increased influence, etc (Pizzo, 2011). Therefore, internal markets may be created with beneficial effects for the entire group when external funds are scarce and uncertain (Khanna and Palepu, 1997). Furthermore, the scale and scope of internal markets also help resolve difficulties related to the impairment of production in emerging markets (Fisman and Khanna, 2004). It also contributes to profitability, supplementing inefficient capital markets and reducing transaction costs (Chang and Hong, 2000).

Unfortunately, the 'efficient transaction' view is not considered a persuasive view by many scholars. Empirical evidence is not always supportive of its premises and the idea that RPTs always satisfy economic needs is still not accepted by many scholars. RPTs are often deemed to be harmful to shareholders and lowering confidence in the capital markets. It is not surprising that the rules affecting RPTs disclosure and monitoring have been largely influenced by this negative view which is called the 'conflict of interest' view (Pizzo, 2011).

The 'conflict of interest' view argues that RPTs are detrimental and value decreasing to shareholders. Under this view, RPTs compromise agents' responsibilities to shareholders or the board of directors' monitoring function (Gordon et.al., 2004b, 2004c). This argument is based on the notion of agency costs that arise due to Agency Problem Type I and II. Gordon et.al. (2004b, 2004c) argue that RPTs are detrimental to shareholders due to the agency costs which arise as a result of being used as a tool for expropriation by managers and controlling shareholders. Gordon, Henry, Louwers and Henry (2007) assert that involvement in RPTs will increase the incentives for directors to manage their earnings to justify their perquisites or mask their expropriation. They

argue that this scenario not only represents expropriation of firm resources but they can conflict and eliminate the monitoring function of the board of directors.

Pizzo (2011) further argues that RPTs may imply moral hazard and may be carried out in the interest of directors in order to expropriate wealth from shareholders. The disadvantages of RPTs are listed in Table 3.3.

The disadvantages of RPTs are often associated with abnormal stock returns (Cheung et. al., 2006), firms' poor performance (Chen and Chien, 2004) or lower firm value (Gordon et. al., 2004b,c; Jian and Wong, 2004). Claessens and Fan (2002) also argue that investors discount share prices in order to take into consideration potential agency issues such as RPTs. The drawbacks as shown in Table 3.3 supports the idea that these transactions represent conflicts of interest and they are inconsistent with shareholder wealth maximisation (Emshwiller, 2003).

Within this framework, RPTs are often associated with the misuse of firm resources and the misrepresentation of private information as well as potential bias in financial statements, with a negative impact on their reliability and relevance. This creates more uncertainty and weakens the contractual effectiveness in mitigating agency conflicts (Pizzo, 2011).

Table 3.3: Disadvantages Of Related Party Transactions (RPTs)

No.	Disadvantages Of Related Party Transactions (RPTs)
1	RPTs may weaken corporate governance of the firm. RPTs may undermine non-executive directors' functions, changing them into affiliated or "grey" directors (Denis and Sarin, 1999; Klein, 2002; Vicknair, Hickman and Carnes, 1993; Weisbach, 1988). Furthermore, weaker corporate governance makes these transactions more likely to occur and reducing board independence (Kohlbeck and Mayhew, 2004; Gordon et.al., 2004b,c).
2	RPTs may encourage earnings management. Earnings management is defined as a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gains (Schipper, 1989). Directors possess the incentives to manage earnings to increase or legitimise their perquisites or to hide expropriation wealth. RPTs may turn out to be a useful tool for managing earnings (Jian and Wong, 2010; Aharony, Yuan and Wang, 2005) and operating results for the purposes to avoid delisting, new equity issue placement, etc (Jian and Wong, 2004; Ming and Wong, 2003).
3	RPTs also encourage tunnelling such as wealth transfers out of a company for the benefit of shareholders with a controlling interest (Johnson et.al., 2000a). A company may pay a related party above market prices or pay market prices for goods or services of inferior quality. Transfer of assets and profits, although common in developed markets, becomes more prevalent and frequent in emerging economies where external markets are insufficient or corporate governance rules are lacking and presumably, less effective (Jian and Wong, 2004; Jiang et.al., 2010).
4	RPTs encourage employment of relatives in family firms. A director can be appointed or promoted owing to his family influence over the firm.
5	RPTs are considered unreliable compared to arm's length transactions.

Source: Pizzo (2011)

Figure 3.2 provides a brief explanation of the efficient transactions and the conflict of interest view on RPTs.
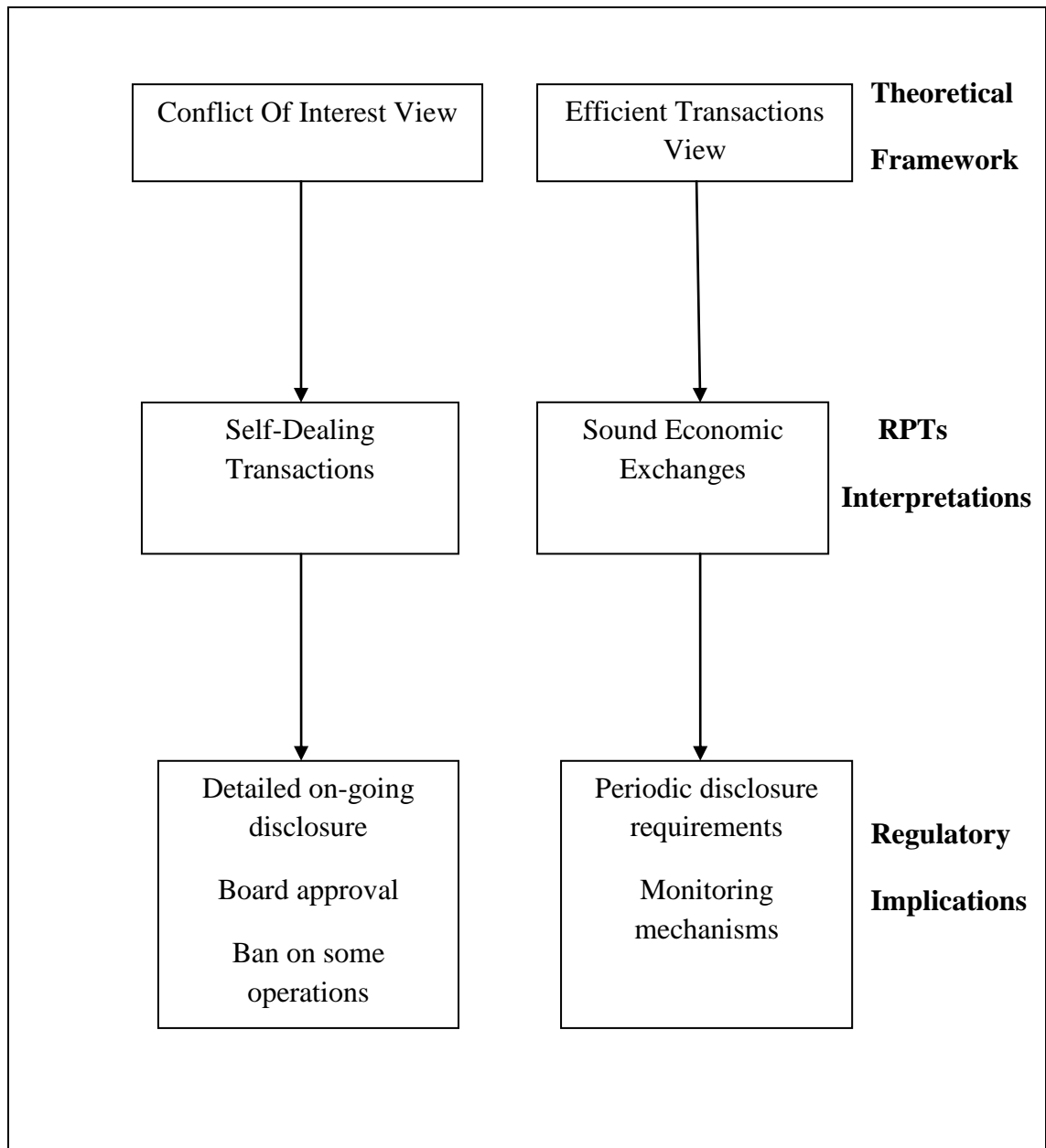
Figure 3.2: Traditional Views on RPTs

Source: Pizzo (2011)

Alternatively, Pizzo (2011) argues for a contingency approach towards RPTs. He argues that RPTs should be viewed as transactions which may fulfil sound business needs (efficient transactions view) as well as be intended for deceptive or fraudulent purposes (conflict of interest view) and stresses that the organisational context and the institutional environment play a fundamental role in shaping the nature and purpose of these transactions. Figure 3.3 portrays the contingency approach to RPTs.
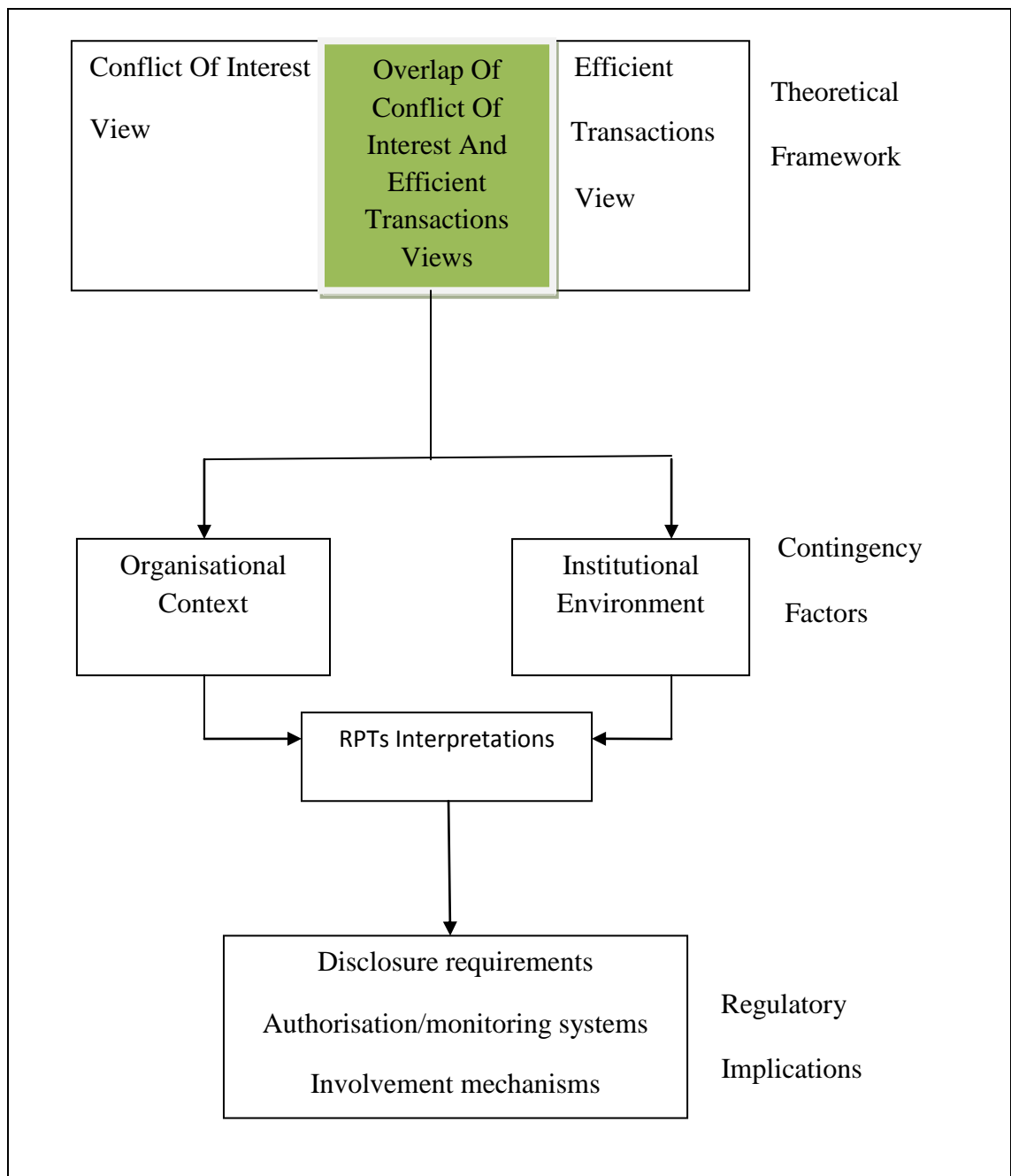
Figure 3.3: RPTs under a Contingency Perspective

Source: Pizzo (2011)

Based upon the contingency approach, it is argued that weak corporate governance practices (Young et.al., 2008) and poor investor protection (ACGA, 2012b) in emerging markets ultimately provides a conducive environment for RPTs to be used as an expropriation tool by controlling shareholders. Hence, in these markets, RPTs are more likely to be detrimental to the interests of minority shareholders rather than benefiting them. As a result, a firm value is reduced.

Although, the usage of RPTs is generally considered to have a negative impact on the interests of minority shareholders, there is still limited empirical evidence which proves that the usage of specific types of RPTs is detrimental to firm value particularly in family firms (Jiang et.al., 2010). The type of RPTs that is being referred here is those transactions classified in Panel A Table 3.2 which include asset acquisitions, asset sales, equity sales, trading relationships and cash payment to related parties.

The scarcity in these studies is due to the fact that in most corporate governance research, expropriation is indirectly inferred by separation of ownership and control rights (ratio of cash-flow rights to control rights) (Claessens et.al., 2002; Krishnamurti et.al., 2005; Mitton, 2002; among others), dividend rates (Faccio et.al., 2001a; La Porta et.al., 2000a; among others), price paid for corporate control (Zingales, 1994; Dyck and Zingales; Nenova, 2003; Atanasov, 2005) and the legal system (Djankov et.al., 2008; Johnson et.al., 2000a; La Porta et.al., 1998; 2000b; among others).

Claessens et.al (2002) examine 1,301 public-listed firms in eight East Asian firms for 1996 and find that firm value increases with the cash-flow ownership of the controlling shareholder, consistent with the incentive alignment effect. However, firm value decreases when the control rights of the largest shareholder exceed its cash-flow ownership, consistent with the entrenchment effect. Krishnamurti et.al. (2005) conducted a study on 2,980 East Asian firms between 1998 and 2000 and find that there

is no relationship between ratio of cash-flow rights to control rights and a firm value. Mitton (2002) study 398 firms from Indonesia, South Korea, Malaysia, Philippines and Thailand between 1997 and 98 and found that lower cash-flow rights to control rights ratio reduces a firm value.

Faccio et.al. (2001a) analyse 5,897 firms in France, Germany, Hong Kong, Indonesia, Italy, Japan, Malaysia, Philippines, Singapore, South Korea, Spain, Taiwan, Thailand and the United Kingdom in terms of their dividend rates between 1992 and 1996. They find that European firms generally pay higher dividends than Asian firms, suggesting that expropriation is higher among the latter. La Porta et.al. (2000a) study 4,103 firms from 33 countries globally in terms of dividend payout between 1989 and 1994 and find that firms in countries which protect minority shareholders better pay higher dividends.

Zingales (1994) examines all public-listed firms which have both a voting and non-voting stock in the Milan Stock Exchange, Italy between 1987 and 1990 and finds that private benefits of control i.e. the price paid for corporate control is worth more than 60% of the value of nonvoting equity. The relatively high private benefits of control encourage expropriation of minority shareholders. Dyck and Zingales (2004) analyse the private benefits of control i.e. the price paid for corporate control in 39 countries globally between 1990 and 2000 and find that these private benefits are smaller in countries with better investor protection, better tax enforcement and more media pressure. Nenova (2003) examines the value of corporate voting rights, specifically of the control block of votes for 661 dual-class firms in 18 countries for 1997 and discovers that the value of control block votes ranged from -2.88% of firm value in Hong Kong to 48% of firm value in South Korea. They argue that minority shareholder expropriation problems will arise if a value of control-block votes has a range up to one-half of firm market capitalisation. Atanasov (2005) analyse 81 privatisation funds in Bulgaria for 1996 and find that the price for corporate control is 85% of firm value

which suggest a high private benefits of control which encourage minority shareholder expropriation.

Djankov et.al. (2008) present a new measure of legal protection of minority shareholders against expropriation by corporate insiders, namely, the anti-self-dealing index. This index is calculated for 72 countries based on legal rules prevailing in 2003 and focuses on private enforcement mechanisms, such as disclosure, approval and litigation which govern a specific self-dealing transaction. Johnson et.al. (2000a) examine 25 emerging markets between 1996 and 1999 and found that the rule of law is one of the factors which can explain the extent of exchange rate depreciation and stock market decline in the Asian financial crisis. La Porta et.al. (1998) study 49 countries globally on the legal rules covering protection of shareholders and creditors, the origin of these rules and the quality of legal enforcement and found that common-law countries possess the strongest legal protection of investors and creditors, followed by German and Scandinavian civil law countries and the French civil law countries had the weakest protection. La Porta et.al. (2000b) conduct a similar study by describing the legal differences and the enforcement effectiveness across countries, discuss the possible origins of these differences, summarise their consequences and assess potential strategies of corporate governance reform. They argue that the legal approach is a more fruitful way to understand corporate governance and its reform than the conventional distinction between bank-centred and market-centred financial systems.

Although these studies analyse and indirectly infer the existence of expropriation, they do not examine the specific types of transactions that could be used for minority shareholder expropriation. In addition, the firm value effects of these transactions have not been widely examined (Jiang et.al., 2010). Basically, the extant literature only provides limited evidence with respect to these transactions.

Cheung et. al. (2006) find that RPTs which are likely to result in expropriation reduces the cumulative abnormal returns (CARs) in Hong Kong public-listed companies. Cheung et. al. (2009) and Peng et. al. (2011) also find similar results for companies listed in the Chinese Stock Exchange. However, they used an event study approach which is based upon the market reaction (market valuation) to the announcement of RPTs which are likely to result in expropriation. The time period which they used to assess the market reaction is within a maximum of twenty days (i.e. maximum ten days before the announcement and maximum ten days after the announcement). The studies conducted by Cheung et.al. (2006), Cheung et.al. (2009) and Peng et.al. (2011) contain certain weaknesses. Their research results do not provide a comprehensive understanding of the firm value effects. Event studies only deal with changes around a particular time and are usually conducted within a short timeframe surrounding the events that occur (MacKinlay, 1997).

In studies related to minority shareholder expropriation, event studies do not provide a complete picture of the effects of expropriation because a firm value effects should not be assessed within a short period of time i.e. days. An examination over a longer period, in terms of years, would be more appropriate because minority shareholder expropriation can last for years within the firm as shown by the studies of Faccio et.al. (2001a), Krishnamurti et.al. (2005), La Porta et.al. (2000a), Mitton (2002), among others.

Therefore, the measurement of the effects of expropriation over a period of several years, for example, will provide a more comprehensive understanding of the effects of minority shareholder expropriation. This helps provides a better indication of whether expropriation by controlling shareholders exists within the firm or not. A regression which analyse a period of a few years is able to provide a clearer analysis of expropriation because it emphasises the change of a particular variable over a period of

time. Any changes on that variable can be discerned more clearly as the process involves repeated measurements of that same variable over time (Diggle et.al., 1994; Rajulton, 2001).

Since, there is a an absence of this kind of studies on RPTs which are likely to result in expropriation particularly in family firms and that these transactions are likely to be detrimental to the interests of minority shareholders; this research examines the firm value effects of RPTs which are likely to result in expropriation using an approach which analyses a period of a few years (i.e. 3 years) rather than an event study approach. This enhances the robustness of empirical evidence on RPTs in extant literature.

In addition, there is insufficient evidence with respect to whether expropriation through RPTs is more prevalent in Malaysian family firms or non-family firms. So far, only Munir and Gul (2011) provide some evidence with regards to this issue. However, their study did not examine those specific RPTs which are likely to result in expropriation. Furthermore, they examined the period prior to 2007. In periods after 2007, particularly after the Transmile case, reputational effects as well as enhanced corporate governance reforms as set out in MCCG 2007 and Bursa Malaysia Listing Requirements 2008 may have an influence on firms' corporate governance practices. Hence, their studies are limited to a certain extent in terms of the timeframe analysed and their research results do not reflect changes in the corporate governance environment post 2007. This study compares the firm value effects of RPTs which are likely to result in expropriation between family firms and non-family firms post 2007. This is conducted so that an assessment can be made whether expropriation through RPTs is more prevalent in family firms or non-family firms within the context post 2007 institutional setting in Malaysia.

With respect to the research gaps highlighted as well as the discussions in the literature, the following research questions are being examined:

Is there a negative relationship between related party transactions (RPTs) which are likely to result in expropriation and firm value in Malaysian firms?

If there is a negative relationship between related party transactions (RPTs) which are likely to result in expropriation and firm value in Malaysian firms, is this negative relationship stronger in family firms compared to non-family firms?

Since, RPTs are likely to be detrimental to the interests of minority shareholders, board oversight is important particularly the role of independent directors (Securities Commission, 2012).

3.5   ROLE OF INDEPENDENT DIRECTORS

Fama (1980) argues that independent directors are professional referees whose task is to ensure the effectiveness of the firm's top management. Gregory (2000) defines an independent director as one who is capable of performing his duties independently from the management, controlling shareholders and the corporation. Chapter one, page 5, para.4 of the Bursa Malaysia Listing Requirements 2012 defines independent directors as directors who are independent from management and do not have any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interests of a firm (Bursa Malaysia, 2012b). The Malaysian Code of Corporate Governance (MCCG) 2007 Part 2 Para.3 defines independent directors as persons of calibre, credibility and who have the necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources including any appointments and standards of conduct of the firm. Part 2 Para.3 further proposes that independent directors need to comprise at least one-third of the firm's board membership. In addition to the one-third requirement, the Companies

Act (1965) also requires independent directors to become members of the audit, remuneration and also nominations committee. The audit committee is established to ensure the integrity of financial statements issued by the firm and also to ensure that there are proper internal checks and controls with respect to financial management. In the remuneration committee, independent board members must ensure that management does not over-compensate them. In the nomination committee, the independent directors are responsible for searching and screening incoming directors and filling senior appointments. They must ensure that the new directors have sufficient skills, knowledge and contribute to the diversity of the board.

Considering the various functions that they need to perform, independent directors are believed to be a crucial part of the internal control and monitoring mechanism of firms (Sulong and Nor, 2008). Fama and Jensen (1983b) argue that the inclusion of independent directors increase the board's monitoring efficiency and independence because they possess incentives to develop their reputation as experts in decision control. Board independence particularly matter in firms held by controlling shareholders, especially, family firms (Dahya, Dimitrov and McConnell, 2009). Dahya et.al. (2009) note that an increase in board independence among these firms is associated with an increase in their market-based performance measure.

There are two conflicting views concerning the effectiveness of board independence, namely, the agency theory perspective and the managerial hegemony theory perspective (Abdullah, 2004). The supporters of agency theory believe that having independent directors provides an effective monitoring tool for the board (Fama and Jensen, 1983a). On the other hand, managerial hegemony theorists[16] question the ability of independent directors to fulfil their duties when the management dominates and controls the board of

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[16] Managerial hegemony theorists are theorists who argue that management may pursue their own interests at the expense of owners (Spear, Conforth and Aiken, 2007).

directors (Abdullah, 2004). In Malaysia, due to the dominant role played by controlling shareholders in selecting directors, it is argued that independent directors may not be able to perform their duties effectively. This raises the concern about the efficacy of independent directors (Abdullah, 2004). Ineffective independent directors may not monitor controlling shareholders' expropriation activities.

Consistent with the managerial hegemony theory, one of the reasons why independent directors failed to be truly independent as expected by shareholders is that there are no proper plans by the firm's board with respect to the tenure of the independent directors. Independent directors could stay as long as they want once they are hired. The longer the directors stay on the board; the likelihood of their independence being compromised is higher (MSWG, 2010; Thillainathan, 1999). For example, the average tenure of independent directors for family firms in this research is 6.03 years and for non-family firms is 5.53 years. The length of these periods could possibly affect the "true independence" of independent directors as they are relatively long. A definite term for independent directors would be better as it would increase the likelihood that non-performing directors are not re-elected (Patton and Baker, 1987). Hence, MCCG 2012 Part 3, Para.3.3, recommends that the tenure of independent directors should be limited to a maximum of nine years (Securities Commission, 2012) due to the potential negative effects of tenure on directors' independence and the fact that a majority of firms which already recognise this, as well as trends in other countries' jurisdictions (Securities Commission, 2011a).

Since long tenured independent directors are likely to compromise their independence, the entrenchment and negative firm value effects due to long board tenure is likely to occur in Malaysia given the relatively mediocre investor protection (ACGA, 2012b) as well as the voluntary nature of the adoption of the principle to limit the maximum tenure of independent directors to nine years in MCCG 2012 (Securities Commission,

2012). As a consequence of the voluntary adoption, Malaysian firms have no urgency to comply with this principle as they are only required to state their level of compliance to the Malaysian Code of Corporate Governance (MCCG) in their annual reports (Securities Commission, 2012). Hence, they have the tendency to continue to allow independent directors to have long tenure attachment with the firm so that their controlling shareholders could influence them as the voluntary nature of codes of corporate governance may reduce the effectiveness of codes of corporate governance as a governance tool for firms (Aguilera and Cuervo-Cazurra, 2009).

Despite the possible impact of independent directors' tenure on firm value in Malaysia, conventional wisdom based on agency theory assumes that the more independent the board, the more effective the board as well as the firm's performance. While some empirical studies support the former link (Dahya, McConnell and Travlos, 2002; Perry and Shivdasani, 2005; Weisbach, 1988), those studying the latter have produced inconclusive or negative results (Agrawal and Knoeber, 1996; Bhagat and Black, 1999; Vafeas and Theodorou, 1998; Weir, Laing and McKnight, 2002). It is important to note that these earlier studies consider independent directors as a homogenous group. This approach does not analyse the differences in directors' characteristics and the potential effects of these characteristics on the firm. It is only recently that research has started unbundling the characteristics of directors and started investigating the link between individual director characteristics and a firm's value. Examples of such analyses include the investigation of the effects of an independent director's tenure. However, the extant literature provides very limited empirical evidence with respect to this analysis. Particularly lacking is the evidence on the effects of an independent director's tenure in family firms. Previous studies only provide evidence on the effects of independent directors' tenure on CEO compensation (Vafeas, 2003), timeliness of corporate internet reporting (Abdelsalam and El-Masry, 2008) and earnings

management (Liu and Sun, 2010). However, the evidence is for all types of firms and not restricted to family firms.

Vafeas (2003) using a sample of 800 firms listed on the 1994 Forbes list finds that longer tenured independent directors are associated with higher CEO compensation. He finds that senior independent directors who are members of the firms' compensation committees pay CEOs significantly higher compensation compared with other positions, particularly in cases where the CEO is most powerful. Vafeas (2003) concludes that given the opportunity, senior independent directors compromise shareholder interests by inflating CEO salaries. He argues that the presence of directors with twenty or more years of service on the board appears to be a sign of CEO entrenchment.

Abdelsalam and El-Masry (2008) find that for a sample of 44 Irish public-listed companies, the average tenure of independent directors is positively related to the firm's timeliness of corporate internet reporting. Their studies use independent directors' tenure as a proxy for board independence and find that the latter does play a positive role in influencing the timeliness of corporate internet reporting.

Using a sample of 7,700 US firms for the period 1998 to 2005, Liu and Sun (2010) find that longer tenured independent directors on the independent audit committees are negatively associated with earnings management, suggesting that independent audit committee members with long board tenure possess greater expertise and experience to effectively oversee financial reporting.

Although these three studies analysed the effects of independent directors' tenure, they did not analyse directly the effects of independent directors' tenure on firm value. This type of analysis provides a more effective and more direct measurement of the influence of independent directors' tenure on minority shareholder expropriation.

Therefore, in this study, the relationship between independent directors' tenure and firm value is examined. This would contribute to the corporate governance literature in evidencing whether this relationship is more prevalent in Malaysian family firms or non-family firms. Therefore, a comparison of the research results of this relationship between family firms and non-family firms is conducted.

With respect to the research gaps highlighted as well as the discussions in the literature, the following research questions are being examined:

Is there a negative relationship between independent directors' tenure and firm value in Malaysian firms?

If there is a negative relationship between independent directors' tenure and firm value in Malaysian firms, is this negative relationship stronger in family firms compared to non-family firms?

Since, the tenure of independent directors may affect their impartiality in performing their duties, other corporate governance mechanisms are needed to mitigate corporate governance problems. One such mechanism is bank monitoring. Studies that examine the economic effects of loan announcement agreements between firms and banks provide empirical evidence regarding the ability of banks to act as good corporate governance mechanisms in terms of being an external monitor of firms (Byers, Fields and Fraser, 2008). A point to note is that domestic banks are considered to act as good monitors (Boot and Thakor, 2000; Fok et. al., 2004).

3.6   DOMESTIC BANKING RELATIONSHIP

Generally, in certain countries where the economic system is characterised by bank financing as external sources of funds, corporate governance is enhanced through direct ownership or financing mechanisms (Charkham, 1995). One of these countries where bank financing is extensive is Malaysia. In Malaysia, foreign-owned banks comprise only 16.7% of the total assets of financial institutions whereas domestic banks comprise 57% of the total assets (Detragiache and Gupta, 2006).

Since bank financing is extensive in emerging markets such as Malaysia, it is expected that banks play a significant corporate governance role in monitoring their clients. The objectives of bank monitoring is to reduce the banks' credit risk by preventing borrowers from engaging in opportunistic behaviours before and after the loan is approved. Prior to the loan approval, borrowers can take opportunistic actions to indicate higher borrowing capacity, obtain lower interest rates and lower contract costs (Mishkin and Eakins, 2003). Borrowers have the incentives to manage their earnings to achieve such objectives. In this instance, earnings management is not only conducted by managing discretionary accruals in financial statement reporting but also through real activities (Hermawan and Dina, 2011). After the loan is approved, borrowers still possess incentives to perform opportunistic actions. One of the reasons is to avoid defaults due to inability to meet debt covenants. Some covenants are accounting-based measures, which depends on the borrowers' financial performance. Generally, violations of debt covenants would have a negative effect such as higher interest rates, obligations for early repayment of loans and additional restrictions on the borrowers' activities (Beneish and Press, 1993). Hence, banks have specific interest to reduce the possibility of borrowers taking such opportunistic actions which can reduce their repayment capacity.

Basically, bank monitoring complements the monitoring function of internal corporate governance mechanisms of firms (Hermawan and Dina, 2011). Treacy and Carey (2000) find that major banks in USA use qualitative and quantitative measurements for evaluating their credit risk. Their study shows that banks examine borrowers' risk factors such as the financial statements reliability, the management quality and the financial conditions. These findings support the significance of effective bank monitoring on management actions in order to achieve good corporate governance.

In general, domestic banks are able to act as good monitors due to their business of issuing relationship loans. The distinctive feature of relationship loans is repeated borrower-lender interactions. These repeated interactions allow the bank to accumulate information about borrowers and therefore, enhance firm monitoring (Boot and Thakor, 2000). Although domestic banks can act as good monitors, this monitoring becomes ineffective when a company deals with many banks as its source of debt financing (Hermawan and Dina, 2011). This is because each bank might rely on other banks to perform the monitoring function on their borrowers and does not do the monitoring on its own (Hermawan and Dina, 2011). This monitoring inefficiency may encourage opportunistic behaviours on the part of the borrowers such as loan expropriation as debt provides incentives for expropriation particularly in emerging markets (Faccio et.al., 2001c). In emerging markets, these opportunistic behaviours are further aggravated by the availability of bank-directed lending through the domestic banking system (Ang and Sen, 2011). The prevalence of bank-directed lending in Malaysia (Ang, 2009; Ang and Sen, 2011; Claessens and Fan, 2002; IMF, 1998; Kroszner, 1998; Kwack, 2000; Laeven, 1999; Oh, 1998; Perera, 2011; Sharma, 2001; Thillainathan, 1999) may increase expropriation activities by controlling shareholders. In essence, the opportunistic behaviours of borrowers (i.e. controlling shareholders of firms) induced

by multiple domestic banking relationships may ultimately be detrimental to the interests of minority shareholders and reduce firm value.

However, these opportunistic behaviours may be reduced due to the credit crunch in emerging markets such as Malaysia during the global financial crisis (Tong and Wei, 2011). Shortage of liquidity were strongly felt in these markets during this period (Claessens, Dell'Ariccia, Igan and Laeven, 2010) due to the reduced bank-lending. During this crisis, domestic banks experienced a reduction in cross-border lending which ultimately reduced their own lending capacity (Cetorelli and Goldberg, 2010). When domestic bank-lending capacity is reduced, controlling shareholders particularly from family firms have less opportunities to expropriate from the domestic loans which their firms undertake.

Despite these arguments, the extant corporate governance literature only provides limited evidence with regards to the impact of the number of banking relationships as well as the number of domestic banks that the firm engages with and firm value. Degryse and Ongena (2001) examine all the Norwegian public-listed companies for the period 1979 to 1995 and reveal that an increase in the number of banking relationships decreases sales profitability. Castelli, Dwyer and Hasan (2012) investigate a sample of 4,680 Italian manufacturing firms for the period 1998 and 2000 and show that an increase in the number of banking relationships decreases the return on equity (ROE) and return on assets (ROA) of those firms. They also find that the decrease in ROE and ROA is stronger for smaller firms compared to larger firms. On the other hand, Angelini, Di Salvo and Ferri (1998) study a sample of Italian firms and find that firms borrowing from a limited number of banks have a positive effect on firm performance. Although the studies by Degryse and Ongena (2001), Castelli et.al. (2012) and Angelini et.al. (1998) show the effects of multiple banking relationships on firm value, their studies did not analyse specifically the effects of the number of domestic banks that the

firm engages with on firm value. Instead, their studies were merely focused on the number of banking relationships in general, without analysing in detail, the effects of domestic banking relationships on firm value. Fok et.al. (2004) evidence this in their study of the relationship between the number of domestic banks that the firm engages with and firm value in Taiwan. Fok et. al. (2004) use a sample of 178 public-listed firms in Taiwan and find that there is a negative relationship between the number of domestic bank relationships and firm value before the Asian financial crisis (1994-1996) and after the Asian financial crisis (1997-1998). Fok et. al. (2004) attribute this negative relationship to the domestic banks' lower operating efficiency compared to that of foreign banks.

However, Fok et.al's. (2004) findings are contextual by nature because the strength of monitoring in domestic banks is dependent upon its institutional context (Thillainathan, 1999). Therefore, the relationship between the number of domestic banks that the firm engages and firm value in countries other than Taiwan may differ. Even if it is the same, the institutional context behind it could be different. Currently, the extant literature does not provide any evidence on this relationship in Malaysia particularly for family firms. Malaysia possesses a unique institutional setting which encourages such analysis to be conducted. The unique institutional setting refers to the existence of bank-directed lending in the domestic banking system (Ang, 2009; Ang and Sen, 2011; Economic Planning Unit, 1981, 2001, 2006, 2011). With the presence of bank-directed lending, loan expropriation is encouraged because debt provides incentives for expropriation in emerging markets particularly in family firms (Faccio et.al., 2001c). In Malaysia, loans are also issued without much proper scrutiny (Bhattacharya, 2001; Laeven, 1999; Perera, 2011; Sharma, 2001; Thillainathan, 1999). Hence, the more domestic banks are engaged by the firm, the more loans the firm can obtain via bank-directed lending (IMF, 1998; Kroszner, 1998; Kwack, 2000; Oh, 1998; Perera, 2011;

Sharma, 2001; Thillainathan, 1999). Therefore, an increase in the number of domestic banks that the firm engages with provides more opportunities for loan expropriation by controlling shareholders particularly from family firms and as a result, it is likely that the firm value is reduced. This study therefore, examines the effects of the number of domestic banks that Malaysian firms engage with on firm value.

Furthermore, the extant literature does not provide any evidence with respect to whether this relationship is more prevalent in Malaysian family firms or non-family firms. Therefore, a comparison of the research results of this relationship between family firms and non-family firms is also conducted.

With respect to the research gaps highlighted as well as the discussions in the literature, the following research questions are being examined:

Is there a negative relationship between the number of domestic banks that the firm engages with and firm value in Malaysian firms?

If there is a negative relationship between the number of domestic banks that the firm engages with and firm value in Malaysian firms, is this negative relationship stronger in family firms compared to non-family firms?

Since, domestic banks may not act as effective monitors in emerging markets; it may be possible to improve corporate governance by controlling shareholders self initiatives. This may occur when controlling shareholders' ownership increases (Jensen and Meckling, 1976).

3.7 MODERATING ROLE OF CONTROLLING SHAREHOLDERS' OWNERSHIP

In corporate governance research, it is generally assumed that ownership concentration leads to better governance because these owners possess higher incentives to monitor and control the managers (Yoshikawa and Rasheed, 2010). Morck and Yeung (2003) argue that while this view may be valid in the United States (USA), it is by and large insufficient, if not in error, with regards to family-controlled business firms in countries outside USA. They identify at least three specific problems which affect the wealth and interests of minority shareholders. These are referred to as "other people's money", managerial entrenchment and tunnelling. The "other people's money" problem refers to a situation where a family may possess effective control over a firm with very little investment in that firm (Yoshikawa and Rasheed, 2010). 'Managerial entrenchment' refers to a decline in firm value which occurs when managerial ownership rises beyond a certain threshold (Shleifer and Vishny, 1997). 'Tunnelling' refers to self-dealing within a family-owned business group, whereby through non-market prices the controlling family transfers profits to firms within the group in which they possess higher shareholding from firms with lower shareholding (Yoshikawa and Rasheed, 2010).

Family-controlled firms may also encounter two additional agency problems. Firstly, because of large ownership by family owners, there is no market for corporate control and hence, the capital market possesses little ability to discipline family owners. Secondly, there may be a significant difference in the risk preferences of family owners and minority shareholders. Minority shareholders, especially those who seek financial gains, typically possess diversified portfolios and hence, would prefer individual firms to undertake higher levels of risk. Family owners, on the other hand, have most of their wealth tied up with the firm and hence, are likely to be more risk averse than minority shareholders (Yoshikawa and Rasheed, 2010).

Although ownership concentration may not resolve the principal-principal conflict especially in emerging markets; there is still limited empirical evidence on this issue. Past studies have generally examined the role of ownership structure as a form of corporate governance but they did not specifically examine the moderating role of controlling shareholder's ownership on minority shareholder expropriation. Table 3.4 summarises the past key research on ownership as a form of corporate governance.

Table 3.4: Summary of Past Key Research on Ownership Structure as a Form Of Corporate Governance

Owner Type	Key Issues	Studies Addressing The Issue
Executive ownership	• Empirical support for the agency theory benefits of executive ownership has been mixed. Studies show conflicting evidence on how executive ownership influences risk-taking and goal alignment.	Dalton, Daily, Certo and Roengpitya (2003); McGuire and Matta (2003); Rajgopal and Shevlin (2002), Desai and Dharmapala (2006); Devers, Cannella, Reilly and Yoder (2007).
Board ownership	• Board ownership signals long-term earnings potential. Independent directors differ considerably in their ownership but less empirical research focuses on this group.	Certo, Covin, Daily and Dalton (2001); Hermalin and Weisbach (2003); Kosnik (1990).
Employee ownership (non-executive)	• Creates a social-psychological bond that is linked with effectiveness, satisfaction and performance.	Blasi, Kruse and Berstein (2003); Jones and Kato (1995); Welbourne and Gomez-Mejia (1995); Buchko (1993).
Blockholders	• Empirical research on individual ownership is focused on insiders, usually ignoring individual outsiders or lumping them together with institutional shareholders. • Family ownership rarely creates value as these owners seek to protect their socio-emotional endowment. • Corporate ownership can have negative effect for the target firm. • Empirical research highlights the problems associated with state ownership, such as soft budgets, decreased innovation, corruption and limited competition. • Multiple blockholders create power-dependencies.	Holderness (2003); Shleifer and Vishny (1997); Mehran (1995). Anderson and Reeb (2003); Gomez-Mejia, Larraza-Kintana and Makri (2003). Bogert (1996); Rosentein and Rush (1990). Tihanyi and Hegarty (2007); Megginson and Netter (2001); Shirley and Walsh (2001). Maury and Pajuste (2005)
Agent owners	• Overcome obstacles to governance encountered by other shareholders, but also create a dual agency relationship. • Pressure-sensitive institutional shareholders are poor governors of firm activity. • Pressure-indeterminate institutional shareholders do not possess a systematic governance role. • Pressure-resistant institutional shareholders possess a strong influence on a wide range of firm outcomes. • Short-term and long-term institutional shareholders possess different and sometimes competing interests.	Arthurs, Hoskisson, Buscnitz and Johnson (2003); Grinstein and Michaely (2005). Edwards and Hubbard (2000). Brickley, Lease and Smith (1988). Tihanyi, Johnson, Hoskisson and Hitt (2003); David, Hitt and Gimeno (2001). Connelly, Tihanyi, Certo and Hitt (2010); David, O'Brien, Yoshikawa and Delios (2010).
Private equity	• Venture capitalists may be inactive, active-advice-giving, or hands-on; they may work together in syndicates. • The influence of business angels and venture capitalists varies with their institutional environment.	Elango, Fried, Hisrich and Polonchek (1995); Lockett and Wright (2001). Bruton, Filatotchev, Chahine and Wright (2009).

Source: Connelly et.al. (2010)

In fact, the extant literature only provides limited empirical evidence on the moderating effects of different kinds of ownership on minority shareholder expropriation. So far these studies are limited to Iskandar et.al. (2012) and Yoshikawa and Rasheed (2010).

Iskandar et.al. (2012) conduct a study on a sample of 477 public-listed companies in Malaysia for the year 2005 and find that foreign and managerial ownership positively moderates the relationship between free cash-flow and asset utilisation. Asset utilisation is an indirect indicator of expropriation as low asset utilisation indicates lower efficiency of asset usage, thus, increasing agency costs. Poor asset utilisation may increase agency costs as managers do not act in the best interests of minority shareholders in terms of efficiently utilising the firm's assets (Fleming, Heaney and McCosker, 2005). The presence of free cash-flow may lead to inefficient asset utilisation as it encourages opportunistic behaviours of managers in using the firm's financial resources (Jensen, 1986). Basically the study by Iskandar et.al. (2012) shows the significance of the moderating role of foreign and managerial ownership in reducing expropriation via free cash-flow in Malaysian public-listed firms.

Yoshikawa and Rasheed (2010) analyse the entire population of Over-The-Counter (OTC) family-controlled firms in Japan between 1998 and 2002 and show that bank ownership positively moderates the relationship between family directors and dividend payout. However, they find no conclusive evidence on the moderating effect of foreign ownership on the relationship between family directors and dividend payout as well as between family directors and firm value. Dividend payouts are an indirect indicator of expropriation (Gomes, 2000; Jensen, 1986). Dividend payouts signify a reduction in agency problems because less discretionary cash-flows are available to family owners and directors for them to engage with opportunistically. This helps reduce their expropriation activities (Yoshikawa and Rasheed, 2010). Yoshikawa and Rasheed

(2010) findings show that bank ownership plays a significant moderating role in reducing minority shareholder expropriation in Japanese OTC firms.

Although the studies by Iskandar et.al. (2012) and Yoshikawa and Rasheed (2010) show the significance of the moderating role of foreign, managerial and bank ownership on expropriation; they did not analyse the moderating effects of controlling shareholders' ownership on the relationship between RPTs, independent directors' tenure and the number of domestic banks that the firm engages with, against the firm value. Therefore, this study will analyse the moderating role of controlling shareholders' ownership on these relationships.

Furthermore, it is also likely that the positive moderating effect of controlling shareholders' ownership on expropriation is stronger in family firms due to the corporate reputational effects as predicted previously. Hence, it would be timely to investigate empirically whether this positive moderating effect is stronger in Malaysian family firms or non-family firms.

With respect to the research gaps highlighted as well as the discussions in the literature, the following research questions are being examined:

Is there a positive moderating effect of controlling shareholders' ownership on the relationship between related party transactions (RPTs) which are likely to result in expropriation and firm value in Malaysian firms?

Is there a positive moderating effect of controlling shareholders' ownership on the relationship between independent directors' tenure and firm value in Malaysian firms?

Is there a positive moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value in Malaysian firms?

If there is a positive moderating effect of controlling shareholders' ownership on the relationship between related party transactions (RPTs) which are likely to result in expropriation and the firm value in Malaysian firms, is the positive moderating effect stronger in family firms compared to non-family firms?

If there is a positive moderating effect of controlling shareholders' ownership on the relationship between independent directors' tenure and firm value in Malaysian firms, is the positive moderating effect stronger in family firms compared to non-family firms?

If there is a positive moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value Malaysian firms, is the positive moderating effect stronger in family firms compared to non-family firms?

3.8   CONCLUSION

This chapter discusses and synthesises the relevant literature related to minority shareholder expropriation and family firms in order to identify the research gaps. Specific focus is given to family firms in terms of their inclination towards expropriation. Furthermore, the relevant research questions have been identified. The next chapter will discuss the research paradigm, theoretical framework and hypotheses development.

CHAPTER FOUR

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

4.1   INTRODUCTION

This chapter discusses the research objectives, the research paradigm and how the research is to be concluded. The rest of the chapter is organised as follows. Section 4.2 discusses the philosophical paradigm used in this research. Section 4.3 discusses the theoretical framework. Section 4.4 discusses the hypotheses development.

4.2   RESEARCH PARADIGM

The hypotheses developed in the previous sections are based upon the functionalist research paradigm. The functionalist paradigm assumes that society has a concrete existence and follows certain orders. These assumptions lead to the existence of an objective and value-free social science, which can produce true explanatory and predictive knowledge of the reality out there (Ardalan, 2007). It assumes that scientific theories can be assessed objectively by reference to empirical evidence (i.e. from the regression results in this research). It attributes independence to the observer from the observed. It also assumes there are universal standards of science, which determine what constitutes an adequate explanation of what is observed (e.g., the findings are based upon the statistical significance, the coefficients and the coefficient signs of the research results). Furthermore, it assumes there are external rules and regulations governing the external world. The goal of the researcher is to find the orders that prevail within that phenomenon (i.e. finding the coefficient signs, coefficients and the statistical significance in the research results) (Ardalan, 2007).

I believe that corporate governance is a technical matter and focus on this aspect in my research. The corporate governance principle used is basically based on agency theory. I contend that corporate governance is based on the existence of potential agency problems that arise from separation of ownership and control in modern corporations (Ardalan, 2007). Hence, a functionalist approach would be a better approach to study corporate governance compared to other approaches (such as interpretative approach, etc) because there is a dominant theory (i.e. agency theory) which could be used to explain what is observed (Ardalan, 2007). Generally, the functionalist paradigm has become dominant in mainstream academic finance, which includes corporate governance (Ardalan, 2007).

4.3   THEORETICAL FRAMEWORK

In emerging markets, the principal-principal conflict (Agency Problem Type II) constitutes a main concern particularly among family firms such as those in Malaysia and this creates the incentives for expropriation by family controlling shareholders (Morck and Yeung, 2003; Young et.al., 2008). The following justifications explain why expropriation involves the following variables and how it affects firm value as well as the moderating effects on the relationship between these variables and their firm value. In addition, the relevant theories are also discussed.

From the discussions earlier, RPTs can be used by controlling shareholders to tunnel resources out from the firm. Hence, these transactions are one of the channels of expropriation and ultimately, it can reduce firm value. Since, RPTs can be used for tunnelling purposes; the Conflict Of Interest Hypothesis is applicable here as RPTs are more likely to result in negative effects on firm value. The conflict of interest hypothesis constitutes part of agency theory as RPTs can be abused by controlling

shareholders and this is against the interests of minority shareholders. Another aspect of agency theory which is involved in this research is its assumptions.

Agency theory assumes that independent directors are able to carry out their tasks in providing checks and balances to board decision-making in an effective manner without being influenced by controlling shareholders. This constitutes one of the basic assumptions of agency theory (Fama and Jensen, 1983b). However, managerial hegemony theorists argue that this assumption may not hold in emerging markets. Managerial hegemony theorists argue that minority shareholders and management who are aligned with the controlling shareholder possess differing interests. However, the controlling shareholder controls the main levers of power in the firm. As a result, the controlling shareholder may pursue further own interests at the expense of minority shareholders (Spear et.al., 2007) by influencing the independent directors for expropriation purposes which further aggravates Agency Problem Type II. This is likely to occur especially in emerging market firms with poorer investor protection. Hence, longer directors' tenure will likely reduce firm value in the context of emerging markets such as Malaysia.

Furthermore, according to agency theory, due to the issue of moral hazards that affect domestic banks as well as the prevalence of bank-directed lending in the context of the Malaysian institutional setting; it is postulated that firms that possess more domestic banks as their principal bankers, engage in more debt expropriation, i.e. more expropriation of bank loan; which reduces firm value compared to those with less domestic banks as their principal bankers.

Aside from agency theory, the theory of ownership structure is also relevant in this research. The theory of ownership structure explains how changes in ownership structure such as changes in ownership concentration, identity of owners, etc affect firm value and hence, shareholders' interests, directly or indirectly (Demsetz and Lehn, 1985). It is postulated that the moderating effects of controlling shareholders' ownership on the relationship between RPTs, independent directors' tenure and the number of domestic banks that the firm engages with, and firm value will be positive for family firms, due to the reputational effects after the Transmile case. This postulation adds to the theory of ownership structure.

Finally, an assessment whether expropriation as well as the moderating effects of controlling shareholders' ownership on expropriation, are more prevalent in Malaysian family firms or non-family firms is conducted. It is postulated that expropriation is likely to be more prevalent in family firms because according to agency theory, principal-principal conflict (i.e. minority shareholder expropriation) may be more prevalent in these types of firms (Fama and Jensen, 1983b; Shleifer and Vishny, 1997). In addition to that, the positive moderating effects of controlling shareholders' ownership on expropriation, is likely to be more prevalent in family firms due to the corporate reputational effects after the Transmile fiasco. These comparisons provide a new perspective to agency theory by empirically examining its interplay with corporate reputational effects and financial crisis in one single study.

Considering these justifications, Figure 4.1 shows the theoretical framework for this research:

       Dependent Variable

Agency Theory

Related Party
Transactions
(RPTs) Which
Are Likely To
Result In
Expropriation

Independent
Directors'
Tenure

The Number of
Domestic Banks
That The Firm
Engages With

Agency Theory

Firm Value

Accounting-based
& Market-based
Firm Value
Measures

The Theory Of Ownership Structure

Controlling
Shareholders'
Ownership
Concentration

Moderating Variable

Figure 4.1: Theoretical Framework

4.4   HYPOTHESES DEVELOPMENT

4.4.1   Related Party Transactions (RPTs)

Although there are benefits of RPTs as according to the Efficient Transaction Hypothesis (Gordon et.al., 2004b,c; Ryngaert and Thomas, 2007)[17]; the Conflict Of Interest Hypothesis is more applicable as RPTs are more likely to result in negative effects towards firm value. This is because these transactions are used by controlling shareholders for tunnelling purposes (Djankov et.al., 2008).

The 'conflict of interest' hypothesis and the potential for tunnelling is demonstrated in well-known corporate scandals in the world such as Enron, Adelphia, and Tyco, as shown in excerpts from the business press below (Gordon, Henry and Pahlia, 2004a) :

"Enron told the world that these [dozens of off balance sheet] partnerships allowed it to hedge against fluctuations in the value of its investments. Well, hedge, schmedge. It was the disclosure, in October, that $1.2 billion of its market value had disappeared as a result of these "related party" transactions with private partnerships caused Enron to slash its reported earnings since 1997 by almost $600 million. A week later, those pesky side deals caused Enron to reveal that it was out another $700 million. Investors trust understandably collapsed, and, presto, Chapter 11".

> "What Was Enron?' Editorial, <u>Wall Street Journal</u>, December 12, 2001. A.18 (as cited in Gordon et.al., 2004a)

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[17] Ryngaert and Thomas (2007) outlined several potential benefits from related party transactions. The first benefit is coordination of activities and feedback between contracting parties as it would be worthwhile to have related parties on board of directors as means to obtain quick feedback on operations. They argue that these benefits arises from the need of fast information from vendors, the available information obtained from related parties are more reliable than from unrelated parties and the due process of renegotiating contracts could be achieved with less hassle with related parties. Secondly is to promote contract efficiency facilitated from related parties' familiarities with each other. The third potential benefit is mitigation of holdup problems in the contracting process and the facilitation of investment in firm-specific relationships. They argue related parties have financial incentives to avoid holdup if they have substantial investment in related firms. Ryngaert and Thomas (2007) also argue on the viewpoint of purely strategic business decision (e.g. advertising strategy) that related parties' transactions could be beneficial.

Warning that corporate crimes will result in "handcuffs and a jail cell," federal authorities arrested the founder of Adelphia Communications and two sons Wednesday on charges they looted the now-bankrupt cable giant and used it as their "personal piggy bank."

> "Government Arrests Founder of Adelphia, Two Sons."   Associated Press Newswires, July 25, 2002 (as cited in Gordon et.al., 2004a).

From 1997 to 2002, the SEC said Mr. Kozlowski improperly borrowed $242 million from a Tyco program intended to help executives pay taxes on restricted stock grants. Instead of using the funds for that purpose, Mr. Kozlowski spent the money on yachts, fine art, estate, jewellery and luxury apartments. Mr. Swartz similarly used $72 million in loans from the program for personal investments and business ventures, the SEC said.

> "Former Tyco Executives Are Charged --- New York Prosecutors Say Ex-CEO, Finance Officer Ran `Criminal Enterprise.'" <u>Wall Street Journal</u>, September 13, 2002 (as cited in Gordon et.al., 2004a).

These scandals provide extreme examples of probable abuses of RPTs by executives and board members of the firm (Gordon et.al., 2004a). In general, the view that RPTs represent a conflict of interest is consistent with agency problems argued by Berle and Means (1932) and Jensen and Meckling (1976). Jensen and Meckling (1976) explain the agency conflict between a manager and outside shareholders as the manager's incentive to extract private benefits from the firm for personal consumption, like perquisites. As such, RPTs present the potential for the expropriation of the firm's resources and hence, reduces firm value. This is detrimental to the interests of minority shareholders (Gordon et.al., 2004a).

RPTs are basically detrimental to minority shareholders when the expected benefit from it is less than the value of an unrelated party transaction (Ryngaert and Thomas, 2007). This could occur as RPTs provide direct opportunities for related parties such as controlling shareholders to extract cash and other resources from listed companies through tunnelling activities (Djankov et.al., 2008). Tunnelling refers to the transfer of resources out of a company to its controlling shareholder (Johnson et.al., 2000b). Tunnelling comprises two forms.

First, a controlling shareholder can transfer resources from the firm for its private benefits through self-dealing transactions. Such transactions include outright theft or fraud; asset sales and contracts which utilise transfer pricing advantages to the controlling shareholder; excessive executive compensation; loan guarantees; expropriation of corporate opportunities, etc. Atanasov, Black and Ciccotello (2008) provide further explanations and examples of these transactions. They point out that cash-flow tunnelling includes sale of a firm's output at below-market prices to another firm in which the family has significant or complete cash-flow rights, or overpayment for inputs purchased from such firms. Cash-flow tunnelling may also result in excessive salaries or perquisites for family members (or insiders). Asset tunnelling could also occur and it involves the transfer of a firm's assets to firms (usually) fully owned by the families and it can significantly affect a firm's long-term ability to generate cash-flows.

Second, the controlling shareholder can increase his or her share of the firm without transferring any assets through dilutive share issues, minority freeze-outs, or other financial transactions that discriminate against minority shareholders (Johnson et.al., 2000b). Atanasov et.al. (2008) further argues that such form of tunnelling include equity tunnelling. Equity tunnelling involves actions which benefit the families at the expense of a reduction in the value of the shares owned by the other investors, e.g. sale

of new shares to the families at a below-market price, delisting and taking a firm private, and the issue of loans to the families which would not have to be repaid if the associated business venture were unsuccessful.

Djankov et.al. (2008) argue that the first form of tunnelling enables controlling shareholders to utilise RPTs to expropriate resources from their firms. This can be easily achieved if the family firm have low cash-flow rights-to-ownership rights ratio (Johnson et.al., 2000b). Evidence of tunnelling by family owners in emerging markets has been found in Bulgaria (Atanasov, 2005); China (Gao and Kling, 2008) and India (Betrand et.al., 2002).

Since RPTs is a tool for tunnelling, Atanasov et.al. (2008) summarises the impact of tunnelling on firm value in terms of its impact on share value. They assume that tunnelling is stealing such that, unlike in the case of transfer pricing, there is zero cash-flow accruing to the firm from which cash-flow or assets are being tunnelled. In the absence of tunnelling, the value of each share is given by the following:

$$V_{NT} = (ROA \times A) / K$$

ROA: Return On Assets

A: Stock of Assets

K: Cost of Capital

If now, a proportion δ of the cash-flow is tunnelled away, the value of each share would be the following:

$$V_{CT} = [(1- \delta) \times ROA \times A] / K$$

If, however, π proportion of the assets itself is tunnelled away, and if this act reduces the ROA by λ percent, then, the value of each share would be as following:

$V_{AT} = [(1- \pi) \times (1- \lambda) \times ROA \times A] / K$

One possible reason for the negative firm value effects of RPTs is the assumption that non-controlling shareholders (i.e., non-affiliated blockholders and minority shareholders) will anticipate this expropriation and price protect against it (Jensen and Meckling, 1976). In Malaysia, this is possible as investors could view previous years' RPTs that are disclosed in annual reports due to FRS124 mandatory disclosure requirements. With access to previous years' RPTs information, non-affiliated blockholders and minority shareholders could anticipate what kind of RPTs that controlling shareholders could use for expropriation purposes for the current year as well as their estimated transaction value and subsequently price protect against it. Kohlbeck and Mayhew (2010) argue that in corporations with controlling shareholders holding less than 100% equity stake, equilibrium of controlling shareholder opportunism and non-controlling shareholders price protection could exist. Controlling shareholders benefit from RPTs expropriation while non-controlling shareholders price protect against the consequences of this expropriation, and neither has reasons to change their actions (Kohlbeck and Mayhew, 2010). This results in reduction in a firm value and it is likely to persist as long as it does not become so severe that the market-for-corporate control is utilised to change the firm's ownership (Kohlbeck and Mayhew, 2010).

It is argued that the anticipation of RPTs and the subsequent price protection (i.e. firm value reduction) occurs in firms which possess significant divergence between voting and cash-flow rights and those that are closely affiliated to groups (Faccio et.al., 2001a). Claessens et.al. (2002) find that in East Asia, divergence between cash-flow rights and voting rights of family firms reduces Tobin's Q of the firms. They estimated that a 10 percentage point divergence between cash-flow and voting rights triggered a 6 percentage point discount in the market valuation of a firm. Similarly, the anticipation

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of RPTs and subsequent price protection also could occur in affiliated Indian firms, which facilitate tunnelling (Khanna and Palepu, 2000). This occurs as Indian investors and creditors are aware of the propensity among group-affiliated firms to transfer financial resources to other group companies which are inefficient and hence incapable of raising capital on their own, usually in the form of inter-corporate loans. As a result, insolvency of any of the group of companies results in a significant reduction in access to investment and credit for all remaining firms in the group (Gopalan, Nanda and Seru, 2007).

As tunnelling facilitates expropriation through RPTs, it is argued that the negative effects of RPTs on firm value are more severe in family firms compared to non-family firms. It is also argued that these effects are more profound in family firms with family members involved in management. The reason is that family controlling shareholders possess incentives to enhance the interests of their family members within their firms. This could be achieved through related sales, related lending, loan guarantees and related borrowings (Yeh, Shu and Su, 2012). For example, loan guarantees can be provided to family members so that they can obtain financing at a lower interest rate from the bank. These loan guarantees provide family members with the option of loan default, thus, leaving the burden of repayment to family controlling shareholders (Berkman, Cole and Fu, 2009).

Furthermore, related sales or related purchases, which benefit family members could also take place (Cheung et.al., 2006; Lo, Wong and Firth, 2010). Family members could purchase assets from their company such as properties or vehicles at a discounted rate in comparison with the market value. Vice versa, family members could also sell these assets at inflated prices to the company. Both these RPTs enhance the interests of family members at the expense of minority shareholders (Cheung et.al., 2006; Lo, Wong and Firth, 2010). Jian and Wong (2010) further shows that related sales could be

used to prop up earnings of private companies controlled by family members, resulting in negative effects on family firm performance. This could happen in family firms that engage related sales transactions with its family members.

Considering all the above explanations, the following hypotheses are developed:

H_{1a}: *There is a negative relationship between related party transactions (RPTs)(which are likely to result in expropriation) and firm value in Malaysian firms.*

H_{1b}: *The negative relationship between related party transactions (RPTs)(that are likely to result in expropriation) and firm value in Malaysian family firms will be stronger in family firms compared to non-family firms.*

4.4.2   Independent Directors' Tenure and Firm Value

One of the scepticisms about the 'true independence' of independent directors is with regards to the effects of their tenure. However, there are conflicting views with respect to the effect of directors' tenure on directors' behaviour. The expert's hypothesis suggests that long-term directors' engagement is associated with higher experience, commitment and competence; because it provides them with important knowledge about the firm and its business environment (Vafeas, 2003). Vance (1983) argues that forcing directors to retire leads to a waste of talent and experience. Buchanan (1974) finds that extended tenure enhances organisational commitment and willingness to expend effort towards company goals. Salancik (1977) suggests organisational commitment increases with tenure because employees make certain 'side bets' within the firm (for example, buying company stock). Organisational commitment increases because seasoned employees are more likely to have developed confidence and competence in doing their job.

Watts and Zimmerman (1978) and Abdullah et. al. (2010) further argue that reputational effects could have a positive influence on independent directors' behaviour. This could occur after the Transmile fiasco in 2007. Subsequent to the Transmile case, independent directors of family firms may prefer to increase their productivity as they want to increase the image and reputation of their firms (Oh, 2011). Poor reputation will likely reduce their chances of working as independent directors with non-family firms (Othman and Rahman, 2010). As a result, the longer they work with the firm; the firms' value may increase as they productively contribute their experience and skills gained to add value to the firm.

However, corporate reputational effect is generally considered a poor substitute for weaknesses in the institutional setting in emerging markets (Peng and Jiang, 2010). These weaknesses include poor legal protection of minority shareholders, voluntary adoption of corporate governance policies, etc. This is because even reputable companies are shown to expropriate minority shareholders in these markets especially during periods of economic crisis (Johnson et. al., 2000a).

Nevertheless, this line of reasoning is insufficient as it does not consider the effect of corporate governance fiascos such as the Transmile case in Malaysia, which indicate a strong reputational effect on the behaviour of independent directors of family firms. Hence, the argument that reputational effect is a poor substitute for institutional deficiencies may not be valid.

On the contrary, Katz (1982) finds that extended tenure reduces intra-group communication, and isolates groups from key information sources. He finds that the performance of groups is non-linearly related to tenure, increasing because of a learning effect initially, and declining thereafter. Lipton and Lorsch (1992) recognise that lead directors may attempt to usurp some of the CEO's functions through time, and

therefore, advocate term limits for directors. Vafeas (2003) proposes a management friendliness hypothesis, suggesting that seasoned directors are more likely to befriend, and less likely to monitor managers. Over time, directors may be co-opted by management as directors become less mobile and less employable. This phenomenon is more likely to occur in firms with more powerful CEOs. Vafeas (2003) further suggests that the length of board tenure serves as an observable proxy for the extent to which non-executive directors are affiliated with management.

Anderson et.al. (2004), Lin et.al. (2011b) and Yunos et.al. (2011) further argue that board independence is likely to be compromised by long-serving independent directors as these directors may be highly influenced by controlling shareholders or managers related or aligned to them, to suit their expropriation incentives which result in the increased social cohesion between the CEO and the independent directors (Westphal, 1999). This particularly applies to firms in emerging markets as firms in these markets possess high ownership concentration and are mostly family-controlled (Claessens et.al., 2000a; Morck and Yeung, 2003). Furthermore, studies by Bebchuk, Fried and Walker (2002) and Bebchuk and Fried (2003) suggest that management may use their power to influence the nomination process of directors as well. Independent directors with strong personal ties with the management are more likely to be re-appointed and survive a longer term. These directors will not operate independently because they already possess strong personal ties with the management (Canavan, Jones and Potter, 2004). In addition to that, long tenure directors are less mobile and less employable (Vafeas, 2003). As business operations become more sophisticated and frequently changing, long tenure directors increasingly find it difficult to keep track of the changes in technology, financial dealings, and business strategies as compared to their new counterparts (Bantel and Jackson, 1989; Canavan et.al., 2004). The former also lack talent to deal with new issues (Canavan et.al., 2004).

Moreover, it can be argued that the entrenchment effects of long board tenure could be higher in family firms compared to non-family firms in the Malaysian capital markets because family controlling shareholders have the incentives to exert more influence on the independent directors due to their interest in managing the firm in their own way to fulfil their private objectives at the expense of minority shareholders (Anderson and Reeb, 2003).

Hence, the MCCG 2012 Part 3, Para.3.3 recommends that independent directors' tenure be limited to a maximum of nine years. The entrenchment effects of long board tenure is likely to persist in Malaysia as the adoption of the principle to limit the maximum tenure of independent directors to nine years as stated in the Malaysian Code of Corporate Governance (MCCG) 2012 is voluntary. Hence, Malaysian firms possess no urgency to comply with this principle as they will continue to allow independent directors to have long tenure attachment with the firm so that their controlling shareholders could influence them as the directors' tenure increases.

Considering the literature on long tenure directors as well as in line with the proposal by MCCG 2012 to limit the maximum tenure of independent directors to nine years, I would argue that long tenure directors are more likely not to be beneficial to Malaysian family firms.

Thus, the following hypotheses are developed:

H_{2a}: There is a negative relationship between independent directors' tenure and firm value in Malaysian firms.

H_{2b}: The negative relationship between independent directors' tenure and firm value in Malaysian firms will be stronger in family firms compared to non-family firms.

4.4.3   The Number of Domestic Banks that the Firm Engages With

In emerging markets, it is argued that controlling shareholders undertake debt such as bank loans to expropriate minority shareholders rather than to discipline management (Grullon and Kanatas, 2001; Ellul, Guntay and Lel, 2007; Faccio et.al., 2001b; Harvey et.al., 2004). The theoretical underpinning of this scenario is as follows. Firms with concentrated ownership and control in emerging markets usually belong to business groups where inside shareholders have control rights that are often in excess of their cash-flow or ownership rights. This is achieved through various types of corporate control structures such as pyramids and cross-shareholdings (La Porta et.al., 1999). Under pyramidal control structures, business groups are organised through a chain of companies with firms higher in the pyramid possessing higher ownership rights compared to firms lower in the pyramid. The affiliate at the top of the pyramid, in which a controlling shareholder has direct control, controls another group affiliate next in the pyramidal chain, which in turn controls another affiliate, etc (Claessens et.al., 2000a).

According to established literature, in an environment of weak investor protection and large private benefits of control, such ownership structures enable inside shareholders to expropriate minority shareholders through the use of unfair priced transactions to divert or 'tunnel' resources from affiliated companies lower down in the pyramid where the divergence between control and cash-flow rights are relatively higher than those higher up the pyramid where the divergence is lower (Bertrand et.al., 2002; Johnson et.al., 2000b). Under such a scenario, debt such as bank loans, alone can facilitate expropriation by enabling shareholders to increase their control over group affiliates. By increasing the proportion of debt relative to equity in the capital structure, insiders can possess greater control over the resources of group affiliates without having to commit additional equity (Harris and Raviv, 1988a; Stulz, 1990). This increase in

control, transmitting through pyramids as well as cross-shareholdings, in turn can create more tunnelling opportunities for expropriating minority shareholders. Furthermore, by undertaking additional bank loans in affiliates where they possess low cash-flow but high control rights, controlling shareholders can potentially increase the resources that can be diverted from these affiliates through related lending or transfer pricing to ones where their cash-flow rights are higher (Ellul et.al., 2007; Faccio et.al., 2001b).

Nevertheless, in an emerging market setting where investor protection is relatively poorer and debt expropriation has a higher likelihood to occur; it is argued that the disadvantages of the domestic banking system in this country outweigh its benefits as it could be used as a tool for expropriation particularly by family controlling shareholders. The more domestic banks that are engaged by highly concentrated firms such as family firms; the more opportunities are available for expropriation by the family controlling shareholders. Therefore, it is expected that an increase in the number of domestic banks engaged by the family firm will increase the agency costs of the firm, thus, reducing firm value.

Furthermore, the issue of loan expropriation from bank-directed lending can be argued to be potentially more severe in family firms compared to non-family firms because family owners can use the bank-directed loans to enhance their private objectives such as firm survival at the expense of minority shareholders (Anderson and Reeb, 2003). This difference is attributed to the failure of the disciplinary effects of debt to impose higher costs on family controlling shareholders compared to their expropriation benefits (Ellul et.al., 2007; Faccio et.al., 2001b). Firstly, in family firms, controlling shareholders usually take up managerial positions and their performance is not necessarily tied to the debt liabilities of the firm. This is different from professional managers who generally care about the associated loss of job tenure or reputation as a result of debt default and insolvency (Sarkar and Sarkar, 2008). Secondly, reputational

considerations in family firms with pyramidal ownership and cross-shareholdings can be intrinsically weak because if an affiliated firm goes bankrupt because of excessive leverage, it may be difficult to pin accountability on the controlling shareholder immersed in the complex corporate structure of its firm. Both of these factors contribute to the failure of the disciplinary effects of debt on family firms and due to this failure; family controlling shareholders may expropriate the loans obtained from banks (Sarkar and Sarkar, 2008). Hence, loan expropriation from bank-directed lending is argued to be potentially more severe in family firms compared to non-family firms. As a result, the negative impact of the number of domestic banks that the firm engages with on firm value is argued to be more severe in family firms compared to non-family firms.

Aside from agency costs of loan expropriation, there are other factors which also influence firm value within the bank-firm relationship. Domestic banks possess lower operating efficiency compared to foreign banks, resulting in higher interest costs for firms and reducing firm value (Fok et.al., 2004). It is argued that this interest cost effect towards firm value is controlled by leverage (control variable) in the research model of this study because the larger the amount of loans undertaken by the firm, the higher their leverage and the larger the interest cost that the firm have to pay to service their bank loans.

Moreover, multiple banking relationships by the firm also influence a firm value through the reduction of the firm's liquidity risk (Detragiache, Garella and Guiso, 2000) and costly reduction in information asymmetry (Diamond, 1984). The latter results in the firm's higher financing costs (interest costs) (Diamond, 1984). In addition to that, bank loans too could have a positive effect on the firm value (Fama, 1985; Yosha, 1995).

In the research model of this study, it is argued that the effects of liquidity risk towards firm value is controlled by firm's risk (control variable) because liquidity risk of the firm is part of the firm's idiosyncratic risk which is a component of the firm's total risk[18]. The effects of higher bank financing costs (as a result of costly reduction of information asymmetry) and bank loans towards firm value is controlled by leverage (control variable) because bank loans are part of the firm's leverage and the higher the amount of bank loans undertaken by the firm, the higher the leverage and the larger the cost of bank financing for the firm.

Therefore, it is argued that the resulting effect of the number of domestic banks engaged by the firm towards its firm value can be attributed to the characteristics of the loans provided by these domestic banks to the firm; which are more likely to be relationship and bank-directed loans (Fok et.al., 2004) and they are prone to be expropriated by controlling shareholders particularly from family firms (Ellul et.al., 2007; Faccio et.al., 2001b; Grullon and Kanatas, 2001; Harvey et.al., 2004).

Thus, the following hypotheses are developed:

H_{3a}: *There is a negative relationship between the number of domestic banks that the firm engages with and a firm value in Malaysian firms.*

H_{3b}: *The negative relationship between the number of domestic banks that the firm engages with and firm value in Malaysian firms will be stronger in family firms compared to non-family firms.*

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[18]   Total firm risk constitutes the firm-specific risk (idiosyncratic risk) and the market risk (Beja, 1972; Modigliani and Pogue, 1974; Radcliffe, 1997; Brigham and Ehrhardt, 2002; Howard, 2006; Crundwell, 2008).

4.4.4   The Moderating Effects of Controlling Shareholders' Ownership

The moderating role of ownership concentration on expropriation is a significant issue to be investigated particularly in emerging markets, due to the prevalence of high ownership concentration (Claessens et.al., 2000a; Morck and Yeung, 2003). Analysis of this role requires a prior understanding of the theory of ownership structure. Morck et.al. (1988) argue that controlling shareholders respond to two opposing forces when their ownership increases. They argue that the relationship between ownership concentration and firm value depends on which force dominates over any particular range of equity ownership by the controlling shareholder (McConnell and Servaes, 1990; Morck et.al., 1988). The opposing forces work in the following way.

As controlling shareholders' ownership increases, they are naturally inclined to allocate their firms' resources to their own best interests, which may conflict with the interests of minority shareholders, hence, the entrenchment effect (McConnell and Servaes, 1990; Morck et.al., 1988). Simultaneously, as controlling shareholders' ownerships increase, their interests are also likely to be more aligned with the interests of minority shareholders because the former bear higher cost of the non-pecuniary benefits that they could enjoy from the firm, hence, the incentive alignment effect (Jensen and Meckling, 1976). The first of these forces has a negative effect on firm value, and hence, a negative moderating effect of ownership concentration on expropriation whereas, the second has a positive effect, and hence a positive moderating effect of ownership concentration on firm value effects (McConnell and Servaes, 1990; Morck et.al., 1988). Morck et.al. (1988) argue that it is not possible to predict which force will dominate at any level of ownership concentration beforehand. Therefore, the relationship between firm value and ownership concentration as well as the moderating effects of ownership concentration on expropriation remains an empirical issue.

Until today, this empirical issue has been mostly analysed in developed markets. In these markets, Amzaleg and Barak (2013), Anderson and Reeb (2003), Arosa, Iturralde and Maseda (2010), Bhabra, G.S. (2007), Davies, Hillier and McColgan (2005), Emma and Pedro (2011), McConnell, Servaes and Lins (2008), McConnell and Servaes (1990, 1995), Miguel, Pindado and Torre (2004), Morck et.al. (1988), Setia-Atmaja et.al. (2009), Short and Keasey (1999), Stulz (1988) and Thomson and Pedersen (2000) found that this relationship is concave.

Initially, there is a positive effect of ownership concentration on firm value and hence, a positive moderating effect of ownership on expropriation. This occurs because as ownership concentration initially increases, the firm's owner possesses fewer incentives to expropriate from the firm (Jensen and Meckling, 1976; Maury, 2006). In this process, the interests of the owner are aligned with those of minority shareholders. As ownership concentration increases after a certain point, the entrenchment effect dominates the owner and he will extract resources from the firm, thus, reducing firm value and hence, a negative moderating effect of ownership on expropriation. The reason this occurs is when ownership exceeds a particular threshold, increased ownership reduces the efficacy of corporate governance mechanisms which limit the owner's expropriation (Shleifer and Vishny, 1997). The resulting concave relationship shows that there is an optimal ownership structure for the firm (Demsetz, 1983; McConnell, McKeon and Xu, 2010). This optimal ownership structure is the peak of the concave curve where firm value is maximised (Demsetz, 1983; McConnell et.al., 2010).

However, the concavity findings as explained is not the only finding available in the literature. Aside from the curvilinear (concave) relationships, some scholars such as La Porta et.al. (2000b) have found a positive relationship between ownership concentration and firm value (hence, a positive moderating effect of ownership concentration on firm

value effects). On the other hand, Loderer and Martin (1997) have found a negative relationship (hence, a negative moderating effect of ownership concentration on firm value effects). Moreover, in Asia, Heugens et.al. (2009) specifically argue that there is no clear cut solution with regards to the costs and benefits of concentrated ownership. Theoretically compelling arguments can be furnished in favour of each finding (Heugens et.al., 2009).

In the context of the developing countries particularly in Asia, it is argued that there is a positive relationship between ownership concentration and firm value (Heugens et.al., 2009)(hence, a positive moderating effect of ownership concentration on firm value effects). In institutional setting where markets are underdeveloped such as those in Asia, investors have no choice but to accept their role as firm monitors, which they can only exercise effectively by concentrating their equity holdings. Concentrated ownership provides them both more powerful incentives to become involved in governance, as well as a means to influence managers by means of direct access strategies and the threat of using their concentrated voting rights (David, Hitt and Liang, 2007). Consequently, controlling shareholders can stimulate or even coerce the corporate leadership to work in their interest (Heugens et.al., 2009). Hence, increased ownership concentration may possibly allow controlling shareholders to increase their corporate control and this reduces Agency Problem Type I i.e. the conflict between controlling shareholders and managers and hence, induce a positive relationship between ownership concentration and firm value (hence, a positive moderating effect of ownership concentration on firm value effects).

In addition, in the context of the Malaysian institutional setting and corporate governance environment, I would further argue that after the Transmile case, reputational concerns possibly play a role in influencing a positive moderating effect of family controlling shareholders' ownership on expropriation. These reputational effects

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are particularly prevalent in family owners in large family firms who usually hold high equity stakes. These family owners would like to improve their reputation after the Transmile case because Transmile is owned by the Kuok Group of Companies which is an established family business conglomerate in Malaysia. Large family owners would like to see that their reputation improved because poor corporate reputation can affect them and their family members (Gomez, 1999; Loy, 2010). It is argued that the reputational effects work the following way. As the shareholding of family owners increases, they possess higher ownership stakes of their firms. Consequently, they have higher incentives to take care of their reputation by reducing minority shareholder expropriation. Thus, increased ownership helps align the incentives of family owners to those of minority shareholders due to the reputational effects (Loy, 2010). In other words, reputational effects help align the incentives of family owners to those of minority shareholders and this help reduce Agency Problem Type II i.e. the conflict between the controlling shareholder and the minority shareholders. Ultimately this induce a positive moderating effect of controlling shareholders' ownership on firm value effects i.e. a positive moderating effect of controlling shareholders' ownership on the impact of controlling shareholders' expropriation on firm value.

Considering both these arguments, it is hypothesised that controlling shareholders' ownership is likely to positively moderate the firm value effects of the key variables analysed in this research.

Hence, the following hypotheses are developed:

H_{4a}: *There is a positive moderating effect of the controlling shareholder's ownership on the relationship between related party transactions (RPTs) that are likely to result in expropriation and firm value in Malaysian firms.*

H_{4b}: *The positive moderating effect of the controlling shareholder's ownership on the relationship between related party transactions (RPTs) and firm value in Malaysian firms will be stronger in family firms compared to non-family firms.*

H_{5a}: *There is a positive moderating effect of the controlling shareholder's ownership on the relationship between independent directors' tenure and firm value in Malaysian firms.*

H_{5b}: *The positive moderating effect of the controlling shareholder's ownership on the relationship between independent directors' tenure and firm value in Malaysian firms will be stronger in family firms compared to non-family firms.*

H_{6a}: *There is a positive moderating effect of the controlling shareholder's ownership on the relationship between the number of domestic banks that the firm engages with and firm value in Malaysian firms.*

H_{6b}: *The positive moderating effect of the controlling shareholder's ownership on the relationship between the number of domestic banks that the firm engages with and firm value in Malaysian firms will be stronger in family firms compared to non-family firms.*

4.5   CONCLUSION

This chapter discussed the research paradigm, hypotheses development and theoretical framework. The next chapter will discuss the research models, variables measurements, sampling design and data analysis methods used.

CHAPTER FIVE

RESEARCH DESIGN AND METHODOLOGY

This chapter discusses the various issues related to research design and methodology. Section 5.1 discusses the research model. Section 5.2 discusses the variable measurements. Section 5.3 discusses the sampling design and finally, Section 5.4 discusses the data analysis techniques used in this research. Section 5.5 discusses the assumptions of statistical analysis. Section 5.6 discusses the model selection criteria. Section 5.7 discusses the relevant statistical issues such as endogeneity, correlation, multicollinearity and normality. Section 5.8 discusses the robusting testing method. Section 5.9 concludes.

5.1   RESEARCH MODEL

This research uses panel data analysis that are the pooled ordinary least square (OLS) regression model and the Fixed Effect Least Square Dummy Variable (LSDV) Model to empirically test the hypotheses proposed in this research. The pooled ordinary least square (OLS) and the Fixed Effect Least Square Dummy Variable (LSDV) method used also control for heteroscedasticity problems in the data. The model for this study is similar to the model used by Anderson and Reeb (2003), Claessens et.al. (2002) and Xu and Wang (1999), which do not allow for non-linearity in order to maintain model parsimony as well as to prevent significant multicollinearity problems from arising (Gujarati and Porter, 2009). The models for this research are as follows:

Family Firm Model

1. $Q_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

2. $MBVR_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

3. $ROE_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

4. $ROA_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

Non-Family Firm Model

5. $Q_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

6. $MBVR_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

7. $ROE_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

8. $ROA_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

Pooled Model (Family And Non-Family Firms)

9. $Q_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \beta_{19}FT_{it} + \mu_{it}$

10. $MBVR_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \beta_{19}FT_{it} + \mu_{it}$

11. $ROE_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \beta_{19}FT_{it} + \mu_{it}$

12. $ROA_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \beta_{19}FT_{it} + \mu_{it}$

Q_{it}: Performance measured by Tobin's Q at time t.

$MBVR_{it}$: Performance measured by Market-to-Book Value Ratio at time t.

ROE_{it} : Performance measured by Return On Equity at time t.

ROA_{it} : Performance measured by Return On Asset at time t.

RPT_{it}: Amount of Related Party Transactions That Are Likely to Result in Expropriation at year t divided by Total Related Party Transactions Value at year t.

$Tenure_{it}$: Average tenure of independent directors in the firm at year t

$Banks_{it}$: Quantity of domestic banks engaged by the firm at year t

OC_{it}: Controlling shareholders' ownership concentration in the firm at year t (%)

$(OC)_{it}(RPT)_{it}$: Controlling shareholders' ownership concentration in the firm at year t multiplied by the amount of related party transactions that are likely to result in expropriation ratio at year t.

$(OC)_{it}(Tenure)_{it}$: Controlling shareholders' ownership concentration in the firm at year t multiplied by average tenure of independent directors in the firm at year t.

$(OC)_{it}(Banks)_{it}$: Controlling shareholders' ownership concentration in the firm at year t multiplied by quantity of domestic banks engaged by the firm at year t

Control Variables

$SIZE_{it}$: Firm Size (Ln(Total Assets)) at year t

$RISK_{it}$: ln(Firm Risk (Standard Deviation of monthly stock returns between 2007-2009)) at year t

LEV_{it}: ln(Leverage (Long-term Debt/Total Assets)) at year t

IDR_{it}: Independent Directors Ratio (No. of independent directors/Board Size) at year t

NAB_{it}: Non-affiliated Blockholder Shareholding at year t

AGE_{it}: ln(Age) at year t

SG_{it}: Sales Growth at year t

RDS_{it} : Research and Development Expenditure-to-Sales at year t

CS_{it}: Capital Expenditure-to-Sales at year t

MS_{it}: Marketing and Advertising Expenditure-to-Sales at year t

GDP_{it}[19]: Gross Domestic Product at year t

FT_{it} : Firm type dummy variable at year t, 1 for family firms, 0 for non-family firms.

μ_{it}: Stochastic error term at year t

5.2 MEASUREMENTS OF DEPENDENT VARIABLE AND INDEPENDENT VARIABLES

The following are the definitions and measurement of the variables used in this study:

5.2.1 Dependent Variable: Firm value

This study investigates the relationship between related party transactions (RPTs) which are likely to result in expropriation, independent director's tenure and the number of domestic banks that the firm engages with and firm value. This research also investigates the moderating effects of controlling shareholders' ownership concentration on these relationships.

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[19]   GDP could only be included in the Pooled OLS Model and not the Fixed Effects Model due to near singular matrix problems as well.

For these reasons, this study utilises financial accounting information, which can be divided into accounting measures and market-based measures to acquire the empirical findings on firm values.

5.2.2   Accounting-Based Firm Value Measurement

Financial accounting can be expressed as an area of accounting related with reporting financial information to interested external parties such as investors, lenders, management, suppliers, customers and also other users of financial information. Financial accounting information is the company's accounting and external reporting systems that present the quantitative data relating to the financial position and company firm value for a specified period.   According to Sloan (2001), the company's management must provide financial statements for external audit to verify that all financial statements are prepared in accordance with the commonly applicable statutory and professional principles. Furthermore, Sloan (2001) argued that for corporate governance, accounting data provides a significant information source, which can reduce the firm's agency problems.

The accounting data used to measure firm value can be categorized into operational analysis, resource management and profitability from the management's viewpoint. However, not all these firm value measures will be implemented in this research. The selection of firm value measures are based on the ease of natural calculation and their acceptability to academicians and practitioners (Ibrahim, 2009).

Hence, this study will use two measurement tools on accounting data to measure firm value of the firm. The first, is profitability measured by return on assets (ROA), which concerns the management of the organisation who are responsible to monitor the short and long-term firm value. The other tool is return on equity (ROE) which relates to the investors' perspective who expect something in return for their investment. Both tools

have been selected because these measures use profit as the main focus and this is very important to management and owners of organisations (Ibrahim, 2009). ROA is measured by Net Income / Total Assets (Anderson and Reeb, 2003; Holderness and Sheehan, 1988). ROE is measured by Net Income / Total Common Equity (Holderness and Sheehan, 1988; Rechner and Dalton, 1991).

5.2.3   Market-Based Firm Value Measurement

Most past studies formerly adopted the accounting measures as an indicator of firm value and placed less attention on the market measures. According to Oswald and Jahera (1991) and Chakravarthy (1986), academicians and researchers have made an argument that accounting measures are insufficient as an indicator to evaluate the efficiency of firm value. Hence, this study will utilise market-based firm value measures to gauge firm value.

A market-based performance measure is used as the firm value indicator because unlike accounting-based measures, market-based measures are not influenced by firm-specific reporting, idiosyncrasies and potential managerial manipulation. The stock of well-managed firms has been favoured by most investors and is believed to be superior to stock price performance, which increases market value, and hence, experiences superior growth and profitability (Antunovich, Laster and Mitnick, 2000). In this research, Tobin's Q is chosen as a market-based measure for firm value because it has been used extensively among academicians, researchers and practitioners and it is claimed to be one of the established market measurement tools. Tobin's Q is one of the market measures pioneered by James Tobin who wanted to examine the causal relationship between q value and investment. He introduced the variable of q as scaled by the ratio of market value to replacement cost (Brainard and Tobin, 1968; Tobin, 1969, 1978). He claims that firms possess an incentive to invest if the margin q value exceeds unity,

since the new capital investment value will exceed its cost (Lindenberg and Ross, 1981).

In this study, the q value will be used, which is an approximation of Tobin's Q that has been adopted by Chung and Pruitt (1994), Haniffa and Hudaib (2006), Mishra, Randoy and Jenssen (2001), Perfect and Wiles (1994) and Villalonga and Amit (2006). Other empirical studies, similar to this research, for example, Anderson and Reeb (2003), Faccio et.al. (2000c), McConaughy et.al. (1998), McConnell and Servaes (1990), Morck et.al. (1988), Setia-Atmaja et.al. (2009), Yermack (1996) and others also use the q value to measure the market value of the firm. Moreover, Khanna and Palepu (2000) and Cronqvist and Nilsson (2003) also adopt this similar q value measure in their studies to examine the relationship between shareholder concentration and firm value in India and corporate ownership structure in Sweden. The q value is measured by the ratio of (Total Market Value of Equity + Total Book Value of Liabilities)/ (Total Book Value of Equity + Total Book Value of Liabilities). The higher the q value the better the market's perception of company performance and the more effective the corporate governance (Anderson and Reeb, 2003).

As an alternative measure to the q value, the market to book value ratio (MBVR) is also used. MBVR is calculated as the ratio of the product of the number of equity shares and the closing price of the stock on the last day of the financial year to total equity (Reddy, Locke and Scrimgeour, 2010; Sarkar and Sarkar, 2000). MBVR is empirically a cleaner measure than the q value and has been utilised as an alternative to Tobin's Q for emerging market studies (e.g. by Xu and Wang (1997) on China), as well in other studies (Capon et.al., 1996). This measure is also more aligned to shareholders' objectives (Sarkar and Sarkar, 2000). However, it excludes debt. Hence, both the q value and MBVR are utilised in this research to check for the robustness of the results to alternative measures of market-based performance.

5.2.4   Independent Variables

5.2.4.1 Related Party Transactions (RPTs)

The number of RPTs which are likely to result in expropriation will be measured as per disclosed in the section of RPTs in the annual report and as according to the definition of Cheung et.al. (2006). For this research, RPTs which are likely to result in expropriation is proxied by the following : (1) the acquisition or sale of tangible or intangible assets by the listed company from or to a connected person or from or to a private company majority-controlled by this person (2) the sale of equity stake in the listed company to a connected person or a private company majority-controlled by this person.

The sum of values of (1) and (2) are divided by the total RPTs value to obtain the ratio. This ratio is used to reduce the number of outliers in the distribution. In an environment of highly concentrated ownership structure and high incentives to expropriate such as this country, it is expected that related party transactions that are likely to result in expropriation provide opportunities for expropriation and the higher the amount of these transactions, the lower the firm value.

5.2.4.2 Independent Directors' Tenure

The tenure of independent directors is measured by adding up the tenure of each independent director of the firm (each tenure is measured from the year he or she was appointed as an independent director until the year of the annual report being analysed) and divided by the number of independent directors in order to obtain the average value. This measurement indirectly indicates the likelihood of independent directors being influenced by controlling shareholders and therefore, no longer 'truly' independent. This measurement is used in board independence studies (Abdelsalam and El-Masry 2008; Vafeas 2003). Since, directors' independence are very likely to be

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compromised as their tenure increases (Anderson et.al., 2004; Lin et.al., 2011b; Securities Commission, 2011a; Yunos et.al., 2011), it is expected that there is a negative relationship between independent directors' tenure and firm value.

5.2.4.3 Domestic Banks

This value will be calculated based upon data as disclosed in the organisational profile of the annual report. Domestic banks are defined as banks and other bank-like institutions (i.e. institutions which take deposits and make loans) in which the majority shareholding is held by the private sector (incorporated in Malaysia), public sector or residents of Malaysia. It excludes banks, which are majority owned by foreigners (non-Malaysians). This definition is similar to the one used by Brownbridge (1998) except for the inclusion of public sector majority shareholding as part of the definition of domestic banks, as certain banks in this country are majority owned by the government such as Maybank and CIMB Bank. As argued in the hypothesis development section, the higher number of domestic banks that the firm engages provide more opportunities for firms to engage in loan expropriation, it is expected that the higher number of domestic banks that the firm engages reduces firm value.

5.2.4.4 Ownership Concentration

This is extracted from the data of the substantial shareholding in the annual report. It is measured in terms of percentage of total equity held by each controlling shareholder (Demsetz and Lehn, 1985; Gul, Kim and Qiu, 2010; Maury, 2006; Wruck, 1989). A controlling shareholder of a firm is defined as an individual or entity who can obtain enough shares to assure at least 20% of the firm's voting rights and the highest percentage of voting rights inside the firm in comparison with other shareholders (Chakrabarty, 2009; La Porta et.al., 1999; De Vries and Manfred, 1993). This translates to at least 20% of cash-flow rights and the highest percentage of cash-flow rights inside

the firm, as Malaysian public-listed firms adopt the 1-share-1-vote principle (Thillainathan, 1999). 20% of voting rights is considered sufficient for effective control of the firm (Faccio et.al., 2001a; La Porta et.al., 1999).

In the context of Malaysian annual reports, the substantial shareholding (i.e. the highest shareholding in the firm held by a shareholder) is calculated by summating the direct and indirect shareholding of that shareholder. These direct and indirect shareholding do cover (if any) shareholding via nominees or nominee companies as well as holding companies. There are notes in the annual reports stating who this substantial shareholder is through the direct shareholding as well as how this substantial shareholder is related to his or her indirect shareholding (if any).

5.2.5 Control Variables

5.2.5.1 Firm Size

Demsetz and Lehn (1985) argued that firm size is one of the general forces that could affect firm value. The firm's resources are related to the size of the firm. The larger the size of the company, the larger the company's resources of capital, and the bigger is the market value of the fraction of the ownership of the shareholder. Hence, firm size can increase firm value. However, the ability of the minority shareholder to intervene in the operations of the company is reduced when a firm's size increases. As a result, firm size can reduce a firm value. Therefore, firm size is an important control variable to be included in this research and the expected sign in its relationship with firm value can be either positive or negative. 'Firm size' in this research is measured by taking the natural logarithm of the total asset value of the firm as a proxy (Anderson and Reeb, 2003). The natural logarithm helps to reduce the number of outliers in the distribution.

5.2.5.2 Firm Risk

In finance, risk is defined as the probability that the actual return will be different from the expected return (Van Horne, 1980). The risk that a firm encounters (i.e. the firm's total risk) is comprised of 2 components i.e. systematic risk and unsystematic risk (Beja, 1972; Brigham and Ehrhardt, 2002; Crundwell, 2008; Howard, 2006; Modigliani and Pogue, 1974; Radcliffe, 1997). Systematic risk is the market risk encountered by the firm e.g. economic risks, political risks, natural disaster risks, etc., whereas unsystematic risk is the idiosyncratic or firm-specific risk that is encountered by the firm i.e. risk that is due to the firm's business, financial and organisational strategies and policies; management style, business model, etc.

The former cannot be diversified away because this is the risk encountered by all firms in the market whereas the latter can be diversified away by holding a diversified portfolio of securities or assets in accordance with Modern Portfolio Theory (MPT) introduced by Harry Markowitz in 1952 and 1959 (Beja, 1972; Brigham and Ehrhardt, 2002; Crundwell, 2008; Howard, 2006; Modigliani and Pogue, 1974; Radcliffe, 1997). Modern portfolio theory (MPT) states that the investment risk for a particular expected return of investment can be minimized by carefully selecting the proportions of various assets or securities to be invested (Markowitz, 1952, 1959; Radcliffe, 1997; Tom and Buchanan, 2007).

The Capital Asset Pricing Model (CAPM) shows that the expected returns of a particular stock is directly proportionate to the stock's systematic risk, β and the market risk premium (Mossin, 1966; Sharpe, 1964; Treynor, 1961, 1962, 1999). Empirical evidence by Chen (2003), Lau, Lee and McInish (2002) and Shum and Tang (2005) support the CAPM by showing that there is a significant positive relationship between

systematic risk, β of a stock[20] and its returns. Moreover, Goyal and Santa-Clara (2003), Huang, Liu, Ghon and Zhang (2010), Malkiel and Xu (2001) and Pukthuanthong-Le and Visaltanachoti (2009) empirically found that idiosyncratic risk is also positively related to the firm's expected returns. Therefore, it is expected that the total risk of the firm is positively related with its firm value and 'firm risk' is an important control variable in gauging firm value effects.

In this study, firm risk (i.e. total risk) is measured by the standard deviation (σ) of daily stock returns, which is similar to the measurement used by Anderson and Reeb (2003) and Crundwell (2008) which used the standard deviation (σ) of monthly stock returns. The only difference is that the standard deviation of daily stock returns is a more accurate measurement of stock price volatility as compared to the standard deviation of monthly stock returns because the sample size of the former is larger (Shintani, 2006). In this study, the standard deviations (σ) of daily stock returns between 2007 and 2009 are measured. The natural logarithm is taken to reduce the number of outliers in the distribution as taking the logarithm will reduce the dispersion between the values of the data analysed (Gujarati and Porter, 2009).

5.2.5.3 Leverage

Past study by Singh and Davidson III (2003) has shown that leverage affects firm value. Furthermore, Helfert (2003) states that the use of debt to asset ratio is important to lenders and creditors who are concerned about the degree of financial leverage employed, and the availability of specific residual asset values, which determine the margin of protection against risk. Therefore, a high debt to asset ratio indicates a greater risk for the lender. Higher debt means higher interest expense; therefore, net income will be lower and hence, affecting accounting-based firm value likes ROA and

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[20] Systematic risk, β, of a stock is defined under the Capital Asset Pricing Model (CAPM) as the amount of market risk that the stock contributes to a well-diversified market portfolio of stocks (Brigham and Ehrhardt, 2002; Sharpe, 1964).

ROE. Higher debt also means higher risk of insolvency; hence, investors will discount the share price of the firm by selling off its shares (assuming they are risk-averse). This affect market-based firm value such as stock returns. These discounts due to investor sell-off (because of higher risk of insolvency); will reduce market-based firm value such as Tobin's Q. In addition, debt-to-asset ratio or 'firm leverage' may be related to agency costs in large firms, thereby, reducing firm value.

On the other hand, leverage can also be a tool to control the firm's financial resources from being used for unprofitable investment in accordance with Free Cash-flow Hypothesis (Jensen, 1986). Thus, leverage may also help increase firm value. Leverage is measured as the ratio of Long-term Debt / Total Assets (Anderson and Reeb, 2003). Based upon the explanations, the expected sign for the relationship between leverage and firm value is either positive or negative.

5.2.5.4 Independent Directors

This variable helps control the overall effects of the independent directors. The higher, the number of independent directors; the better the monitoring of the firm; hence, firm value is expected to increase with the number of independent directors. However, an increase in independent directors may increase the board size and this may be less effective as compared to small boards (Hermalin and Weisbach, 2003). Moreover, if there are too many independent directors on the board, some independent directors may become free riders (Hermalin and Weisbach, 2003). Therefore, an increase in the number of independent directors in the firm could reduce firm value. Independent directors are measured by the fraction of the independent directors serving on the board divided by board size (Anderson and Reeb, 2003). Based upon the explanations, the expected sign for the relationship between independent directors (i.e. the proportion of independent directors) on the board and firm value is either positive or negative.

5.2.5.5 Non-Affiliated Blockholders

Other substantial shareholders such as mutual funds or pension funds etc; may also play an important role in monitoring and disciplining controlling shareholders and managers. As such, the controlling shareholder's influence in the firm may be substantially lower in the presence of outside blockholders (Anderson and Reeb, 2003). Hence, it is expected that the presence of non-affiliated blockholders have a positive effect towards firm value. The larger their block, the higher the firm value. Bursa Malaysia listing requirements defines a blockholder as a shareholder with at least 5 percent equity stake in the firm (Bursa Malaysia, 2012c). Unaffiliated blockholders are defined as an entity with no relationship with the controlling shareholder or the firm other than their equity stake (Anderson and Reeb, 2003). The shareholding of these non-affiliated blockholders is measured in percentage and it is obtained from the analysis of shareholding section (substantial shareholder subsection) in annual reports. It includes direct and indirect shareholding.

5.2.5.6 Firm Age

Firm age can influence firm value due to the market knowledge, learning curve, firm experience, reputation and survival bias (Ibrahim, 2009). Hence, it is expected that older firms are likely to be more efficient as compared to younger and newer firms. Thus, it is expected that there is a positive relationship between firm age and firm performance (Ang, Cole and Lin, 2000; Yammeesri and Lodh, 2004). Firm age is measured as the natural logarithm of the number of years since the firm's inception (Anderson and Reeb, 2003). The natural logarithm is taken to reduce the number of outliers in the distribution as taking the logarithm will reduce the dispersion between the values of the data analysed (Gujarati and Porter, 2009).

5.2.5.7 Sales Growth

Sales growth can influence firm value because faster growing companies are likely to possess higher valuation (Maury and Pajuste, 2005). Sales growth is measured by the percentage change in sales year-on-year. It is expected that there is a positive relationship between sales growth and firm value (Maury and Pajuste, 2005).

5.2.5.8 Research and Development (R&D) Expenditure

Research and development (R&D) expenditure can possibly influence firm value because it provides economic benefits to the firm (Chauvin and Hirschey, 1993). Empirically, Ben-Zion (1978), Chan, Martin and Kensinger (1990) and Chung, Wright and Kedia (2003) find that there is a positive relationship between R&D investment and firm value. Hence, it is expected that R&D expenditure has a positive relationship with firm value. In this research, R&D expenditure is measured as the ratio of R&D expense to sales revenue (Chung et.al., 2003).

5.2.5.9 Capital Expenditure

The 'theory of the firm' views investment decisions as one of the fundamental and central activities of the modern firm. The normative aspect of the theory claims that a firm's resources should be allocated to value-creating positive net present value (NPV) projects (Bhana, 2008). Nevertheless, the extant literature provides empirical evidence that firm value is positively influenced by the firm's capital expenditure (Bhana, 2008; McConnell and Muscarella, 1985; Woolridge, 1988). Hence, in this research, it is expected that capital expenditure is positively related to firm value. Capital expenditure is measured by the ratio of capital investment to sales revenue (Daley, Mehrotra and Sivakumar, 1997).

5.2.5.10 Marketing and Advertising Expenditure

Srinivasan and Hanssens (2009) argue that investment (expenditure) in marketing and advertising activities create (intangible) market-based assets, which in turn enhance firm value. These market-based assets include customer satisfaction, brand equity, customer equity, channel structure and perceived product quality (Ramaswami, Srivastava and Bhargava, 2009; Srinivasan and Hanssens, 2009). Empirical evidence found that marketing and advertising expenditures do enhance firm value (Hirschey and Weygandt, 1985; O'Brien, 2003). However, other studies found no significant relationship with firm value (Connolly, Hirsch and Hirschey, 1986) and negative relationship with firm value (Jose, Nichols and Stevens, 1986; Han and Manry, 2004). Hence, it is expected that there is a positive, negative or no significant relationship between marketing and advertising expenditure and firm value. In this research, marketing and advertising expenditure is measured by the ratio of marketing and advertising expense to sales revenue (Anderson, Fornell and Mazvancheryl, 2004; Montgomery and Wernerfelt, 1988).

5.2.5.11 Gross Domestic Product

De Miguel, Pindado and De La Torre (2004) and Lee and Grewal (2004) argue that macroeconomic variables such as economic volatility do influence a firm's performance. Economic volatility is measured by change in Gross Domestic Product (GDP) (Lee and Grewal, 2004). This is measured by annual growth of GDP in percentage (BNM, 2012). The annual GDP growth rates are obtained from the Central Bank (Bank Negara)'s website (BNM, 2012). If the economy is good (i.e. positive GDP), firm value will increase. Vice versa, if the economy is not good (i.e. negative GDP), firm value will decrease. Hence, it is expected that there is a significant negative

or positive relationship between GDP and firm value depending on the overall strength of the economy over a certain period of time.

5.3   SAMPLE SELECTION

This research analyses secondary data concerning the types of ultimate owner, financial information and board statistics for the period 2007 to 2009. The period 2007 to 2009 is chosen because this research analyses the interplay between agency theory, corporate reputational effects and the global financial crisis in a single study. All the data are obtained from companies' annual reports as well as from Bloomberg's database.

Data of firm value and the number of domestic banks that the firm engages with are extracted from the balance sheet. The amount of RPTs which are likely to result in expropriation is extracted from the RPTs disclosure section of the annual report. The data to calculate average independent directors' tenure is obtained from the directors' profile section. Data for the controlling shareholder's ownership concentration in terms of shareholding percentage is extracted from the section of substantial shareholding of the firm in the annual report.

A total of 530 firms which comprise of 379 family firms and 151 non-family firms listed on the Main Market of Bursa Malaysia are selected as a sample as at 18th January, 2011. Since this research involves family firms, it is important to have a proper definition of family firms.

To recap, the definition of family firms in this study utilises the definition of Barnes and Hershon (1976) whereby a firm is classified as a family firm if an individual or members of a single family is the controlling shareholder; with at least 20% shareholding and family involvement in the management of the firm (Cascino et.al., 2010). Hence, the definition of family firms used in this study is based upon a threshold of 20% family shareholding as well as family involvement in the management of the

firm. This study did not select firms listed on the ACE markets due to differences in the type of listed firms and listing requirements[21]. As a panel data study, it is significant to ensure that all firms were active for the entire period of study. Therefore, exclusion criterion were used on the population of listed firms (Cooper and Schindler, 2001).

To be selected in the sample, the company must be active or have survived the entire period of analysis i.e. from 2007 to 2009. Companies that are newly listed after 31st December, 2007 or delisted from the Main Market are excluded from the sample. However, the study includes firms, which changed their companies' names during the study period. In addition, the firm must have completed a full accounting period or 12 months business operations for each year and should be consistent with the same year-end throughout the 3-year period. Additionally, the study excludes financial related firms in the stock exchange (48 of them are family firms) since the accounting standards for income and profits for these firms are very different from other industries (Campbell and Keys, 2002; Claessens et.al., 1999a,b; Lemmons and Lins, 2003).

Table 5.1 shows how the final sample of family firms and non-family firms from 2007 to 2009 are derived. The non-family firms comprise of state-owned firms, foreign firms, corporate-owned firms and mixed ultimate ownership firms. State-owned firms are firms are firms where the largest shareholder is the government or a government-owned corporation (USGA, 2011). Foreign-owned firms are firms where the largest shareholder is a foreign individual or a corporation incorporated overseas (Davies and Lyons, 1991). Corporate-owned firms are firms where the largest shareholder is a local private corporation or a local institutional investor. Firms with mixed ultimate ownership are firms with different type of ultimate owners for different years.

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[21] ACE market mainly comprise of technology firms similar to the NASDAQ in the United States (Bursa Malaysia, 2012a).

Table 5.1: Family Firms and Non-Family Firms Sample

Data Description	Number of Companies				
	Family	**Non-Family Firms**			
		State-Owned Firms	**Foreign**	**Corporate -Owned**	**Mixed Ultimate Ownership**
Total Main Market firms listed on Bursa Malaysia and could be utilised in the research, as at 31st December, 2007	498	66	75	44	29
Minus : Financial related firms	48	9	2	13	0
Minus : Firms with missing data	3	1	3	1	1
Minus : Firms with less than 20% ownership	38	9	11	11	11
Minus : Family firms with at least 20% family ownership but no family members involved in management	30	-	-	-	-
Number of Firms available for observation	**379**	**56**	**59**	**19**	**17**

The full list of family firms and non-family firms used in this study are listed in Appendix A of this research.

5.4   DATA ANALYSIS METHODS

This research provides univariate statistics (descriptive statistics) and utilises panel data pooled in ordinary least square (OLS) regression model for data analysis. In addition to that, the research uses the panel data from the Fixed Effect Least Square Dummy Variable (LSDV) Model for the purposes of robustness testing[22]. The panel data also use control methods for heteroscedasticity problems in the data. The control function is the Period SUR function in the E-Views Version 6 software which is used in the data analysis. Data examination will also be conducted upon the raw data for the purposes of producing descriptive statistics.

5.5   ASSUMPTIONS OF STATISTICAL ANALYSIS

This study examines the relationship between RPTs which are likely to result in expropriation, independent directors' tenure and the number of domestic banks that the firm engages with, and firm value. It also examines the moderating effects of controlling shareholders' ownership on these relationships. In order to visualise this scenario, data was collected from 530 firms comprising 379 family firms and 151 non-family firms for the period 2007 to 2009 (a three year period). According to Diggle et.al. (1994), there are important components in analysis, which are exploratory and confirmatory or empirical analysis. The exploratory analysis involves the techniques used to explore and see patterns in the data. On the other hand, the confirmatory or empirical analysis relates to obtaining the evidence to be tested against the hypotheses.

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[22]   Justification based upon the statistical results of the Hausman Test (Gujarati and Porter, 2009; Hausman, 1978).

After cleaning and screening the data, the study calculated the data based on panel data averages for each firm and then averaging across all firms. The univariate analysis and panel regression analysis are utilised to analyse the data and obtain the results. Prior to statistical testing, it is important to assess the underlying assumptions of the univariate analysis and select the model for panel regression analysis. The following sections explain the major assumptions which have to be met before performing the regression analysis.

5.5.1 Independence of Observations and Variables

It is important to ensure that the data is independent of one another, which means that observations or independent variables must not be influenced by other independent variables (Pallant, 2005). Stevens (1996) argues that it is very serious if this assumption is violated. He further argues that each study must ensure that all observations are independent i.e. free from severe correlation and multicollinearity problems. In this study, correlation analyses and Variance Inflation Factor (VIF) values are used to gauge the independence of variables analysed. These issues are further discussed in Sections 5.7.2 and 5.7.3.

5.5.2 Normal Distribution, Homoscedasticity and No Serial Correlation

In regression analysis, normality of the distribution of the variables analysed is important (Gujarati and Porter, 2009). Skewness and kurtosis are two components in determining normality (Pallant, 2005). The issue of normality is further discussed in Section 5.7.4.

The heteroscedasticity problem refers to the situation where the conditional variance is not constant between variable x and y. Indeed, the classical linear regression model assumes that the variance of each disturbance is constant or has the same variance (i.e. homoscedastic). In the analysis, the study uses the pooled Ordinary Least Square (OLS) and fixed effect regression model with cross section and time series weighting for individual and period effect in order to correct the problem of cross-section and time series heteroscedasticity. The E-Views panel data analysis tool includes this heteroscedasticity solution which is the Period SUR function in the E-Views Version 6 software that is used in the data analysis. The problem of serial correlation refers to the possible time series interdependencies in the error terms of the dependent and independent variables respectively. The classical linear regression model assumes that there is no serial correlation or auto-correlation between the error terms. The E-Views panel data analysis tool includes solutions to resolve this serial correlation problem. The Durbin-Watson (DW) statistic is used to analyse the problem of serial correlation. If the E-Views panel data regression results produces a DW statistic value of two, this means that there is perfectly no serial correlation problems in the data (Gujarati and Porter, 2009). However, if the DW statistic value is not far from two, this indicates that there are no significant serial correlation problems. Basically, the E-Views panel data analysis tool used in this study include functions which significantly resolve the heteroscedasticity and serial correlation problems. The problem of heteroscedasticity and serial correlation is already controlled by the Period SUR function in E-Views Version 6 software which is used in the data analysis.

5.6   SELECTIONS IN THE POOLED DATA ANALYSIS

The aim of this study is to observe the pattern of outcomes across the study period by using the pooled data set. The next section explains the selections which are needed in this pooled data analysis.

5.6.1   Model Selection Criteria

The researcher has to choose which regression model is the best without violating the assumptions of model selection criteria. This selection applies to the choice between the Fixed Effects Model and the Random Effects Model as an alternative test to the Ordinary Least Square (OLS) model. A Fixed Effects Model assumes differences in intercepts across groups or time periods, whereas a Random Effects Model explores differences in error variances. A Fixed Effects Model is appropriate if it strongly believes that the individual or cross-sectional units in the sample are not random drawing from a larger sample. However, the Random Effects Model is appropriate if the cross-sectional units in the sample are regarded as random drawing (Gujarati and Porter, 2009). The Hausman Test in the E-Views software helps in this process of model selection. The Hausman Test results imply 2 choices. Either only the Fixed Effects Model is only suitable to be used or it doesn't matter whether to use the Fixed Effects Model or the Random Effects Model. The following hypotheses illustrate this test (Gujarati and Porter, 2009) :

H_0 : The Fixed Effects Model or the Random Effects Model do not differ substantially and either can be used.

H_1 : The Random Effects Model is not suitable to be used and is rejected.

The results of the Hausman Test are as following :

Table 5.2: Family Firms Regression Model (Tobin's Q as dependent variable)

Test Summary	Chi-Square Statistic	Chi-Square Degrees of Freedom	Probability
Cross-Section Random	63.508563	18	0.0000

Table 5.3: Non-Family Firms Regression Model (Tobin's Q as dependent variable)

Test Summary	Chi-Square Statistic	Chi-Square Degrees of Freedom	Probability
Cross-Section Random	28.103939	17	0.0437

Table 5.4: Pooled (Family and Non-family Firms) Regression Model (Tobin's Q as dependent variable).

Test Summary	Chi-Square Statistic	Chi-Square Degrees of Freedom	Probability
Cross-Section Random	71.422737	18	0.0000

Based upon the Hausman Test results, H_0 is rejected for both family firms regression model, non-family firms regression model and the pooled regression model at 1% and 5% significance level. Hence, the Random Effects Model is not suitable to be used and the Fixed Effects Model is utilised for both models. Since, the model with Tobin's Q as dependent variable uses the Fixed Effects Model, other models with MBV, ROE and ROA as dependent variables also use the Fixed Effects Model for consistency purposes.

5.7   STATISTICAL ISSUES

5.7.1   Endogeneity Issues

Empirical studies relating firm value to ownership concentration potentially suffer from the problem of endogeneity (Andres, 2008). The observed relation between ownership and firm value possibly involve reverse causality. High firm value could prompt controlling shareholders to keep their shares whereas low firm value might be an incentive to give up control. Moreover, controlling shareholders usually come from part of the firm's board of directors and the rest of the board is usually hired by shareholders as well. This enables the controlling shareholder to gain insights into the firm and hence, possess information advantage as compared to other shareholders in predicting future firm performance. Therefore, there could be a possibility that ownership concentration by the controlling shareholder could be determined by firm value (Andres, 2008). However, the argument that firm value determines ownership concentration is questionable for several reasons. Although controlling shareholders possess advantageous information about the firms' future prospects, it seems unreasonable to assume that they are able to predict the performance over the decades (Andres, 2008). Thus, the endogeneity test is performed to test whether this reverse causality exists or not.

The possibility of reverse causality between ownership concentration with firm value creates the following possible simultaneous equations:

1) $Q_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_t(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

2) $OC_{it} = \alpha_0 + \alpha_1 Q_{it} + \alpha_2 Q_{i(t+1)} + \ldots\ldots + \alpha_3 Q_{i(t+n)} + \nu_{it}$

3) $MBV_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_t(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

4) $OC_{it} = \alpha_0 + \alpha_1 MBV_{it} + \alpha_2 MBV_{i(t+1)} + \ldots\ldots + \alpha_3 MBV_{i(t+n)} + \nu_{it}$

5) $ROE_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_t(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

6) $OC_{it} = \alpha_0 + \alpha_1 ROE_{it} + \alpha_2 ROE_{i(t+1)} + \ldots\ldots + \alpha_3 ROE_{i(t+n)} + \nu_{it}$

7) $ROA_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_t(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

8) $OC_{it} = \alpha_0 + \alpha_1 ROA_{it} + \alpha_2 ROA_{i(t+1)} + \ldots\ldots + \alpha_3 ROA_{i(t+n)} + \nu_{it}$

Q_{it}, OC_{it} : Endogenous Variables

The rest of variables: Exogenous Variables

Q_{it}: Performance measured by Tobin's Q at year t.

MBV_{it}: Performance measured by Market-to-Book Value at year t.

ROE_{it} : Performance measured by Return On Equity at year t.

ROA_{it} : Performance measured by Return On Asset at year t.

RPT_{it}: Amount of RPTs Which Are Likely to Result in Expropriation at year t divided by Total Related Party Transactions Value at year t.

$Tenure_{it}$: Average tenure of independent directors in the firm at year t

$Banks_{it}$: Quantity of domestic banks that the firm engages with at year t

OC_{it}: Controlling shareholders' ownership concentration in the firm at year t (%)

$(OC)_{it}(RPT)_{it}$: Controlling shareholders' ownership concentration in the firm at year t multiplied by the amount of RPTs Which Are Likely To Result in Expropriation ratio at year t.

$(OC)_{it}(Tenure)_{it}$: Controlling shareholders' ownership concentration in the firm at year t multiplied by average tenure of independent directors in the firm at year t.

$(OC)_{it}(Banks)_{it}$: Controlling shareholders' ownership concentration in the firm at year t multiplied by the quantity of domestic banks that the firm engages with at year t.

$SIZE_{it}$: Firm Size (Ln(Total Assets)) at year t

$RISK_{it}$: ln(Firm Risk (Standard Deviation of monthly stock returns between 2007-2009)) at year t

LEV_{it}: ln(Leverage (Long-term Debt/Total Assets)) at year t

IDR_{it}: Independent Directors Ratio (No. of independent directors/Board Size) at year t

NAB_{it}: Non-affiliated Blockholder Shareholding at year t

AGE_{it}: ln(Age) at year t

SG_{it}: Sales Growth at year t

RDS_{it}: Research and Development Expenditure-to-Sales at year t

CS_{it}: Capital Expenditure-to-Sales at year t

MS_{it}: Marketing and Advertising Expenditure-to-Sales at year t

GDP_{it}: Gross Domestic Product at year t

μ_{it}: Stochastic error term at year t

ν_{it}: Stochastic error term at time t

n: No. of years

The Hausman Specification Test is performed to test for these endogeneity issues (Hausman, 1978) for family firms and the pooled model (family firms and non-family firms). To run the Hausman Test, first, the following simultaneous equations which exist in this research are identified :

Family Firm Model

1. $Q_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

2. $MBVR_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

3. $ROE_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

4. $ROA_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

Non-Family Firm Model

5. $Q_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

6. $MBVR_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

7. $ROE_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

8. $ROA_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

Pooled (Family and Non-Family Firms) Model

9. $Q_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \beta_{19}FT_{it} + \mu_{it}$

10. $MBVR_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \beta_{19}FT_{it} + \mu_{it}$

11. $ROE_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \beta_{19}FT_{it} + \mu_{it}$

12. $ROA_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(OC)_{it} + \beta_5(SIZE)_{it} + \beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} + \beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} + \beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \beta_{19}FT_{it} + \mu_{it}$

Ownership Concentration Model (Anderson and Reeb, 2003; Himmelberg, Hubbard and Pahlia, 1999)

13. $OC_{it} = \beta_0 + \beta_1(SIZE)_{it} + \beta_2(SIZE)^2_{it} + \beta_3(RISK)_{it} + \mu_{it}$

Q_{it}: Performance measured by Tobin's Q at time t.

$MBVR_{it}$: Performance measured by Market-to-Book Value Ratio at time t.

ROE_{it} : Performance measured by Return On Equity at time t.

ROA_{it} : Performance measured by Return On Asset at time t.

RPT_{it}: Amount of Related Party Transactions That Are Likely to Result in Expropriation at year t divided by Total Related Party Transactions Value at year t.

$Tenure_{it}$: Average tenure of independent directors in the firm at year t

$Banks_{it}$: Quantity of domestic banks engaged by the firm at year t

OC_{it}: Controlling shareholders' ownership concentration in the firm at year t (%)

$(OC)_{it}(RPT)_{it}$: Controlling shareholders' ownership concentration in the firm at year t multiplied by the amount of related party transactions that are likely to result in expropriation ratio at year t.

$(OC)_{it}(Tenure)_{it}$: Controlling shareholders' ownership concentration in the firm at year t multiplied by average tenure of independent directors in the firm at year t.

$(OC)_{it}(Banks)_{it}$: Controlling shareholders' ownership concentration in the firm at year t multiplied by quantity of domestic banks engaged by the firm at year t

Control Variables

$SIZE_{it}$: Firm Size (Ln(Total Assets)) at year t

$(SIZE)^2_{it}$: Square of Firm Size (Ln(Total Assets)) at year t

$RISK_{it}$: ln(Firm Risk (Standard Deviation of monthly stock returns between 2007-2009)) at year t

LEV_{it}: ln(Leverage (Long-term Debt/Total Assets)) at year t

IDR_{it}: Independent Directors Ratio (No. of independent directors/Board Size) at year t

NAB_{it}: Non-affiliated Blockholder Shareholding at year t

AGE_{it}: ln(Age) at year t

SG_{it}: Sales Growth at year t

RDS_{it} : Research and Development Expenditure-to-Sales at year t

CS_{it}: Capital Expenditure-to-Sales at year t

MS_{it}: Marketing and Advertising Expenditure-to-Sales at year t

GDP_{it} : Gross Domestic Product at year t

FT_{it} : Firm type dummy variable at year t, 1 for family firms, 0 for non-family firms.

μ_{it}: Stochastic error term at year t

Subsequently, ownership concentration is regressed against all the exogenous variables in the system as shown in the following equations :

Family Firm Model

1. $OC_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(SIZE)_{it} + \beta_5(SIZE)^2_{it}$

   $\beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} +$

   $\beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} +$

   $\beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

Non-Family Firm Model

2. $OC_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(SIZE)_{it} + \beta_5(SIZE)^2_{it}$

   $\beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} +$

   $\beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} +$

   $\beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \mu_{it}$

Pooled (Family And Non-Family Firms) Model

3. $OC_{it} = \beta_0 + \beta_1(RPT)_{it} + \beta_2(Tenure)_{it} + \beta_3(Banks)_{it} + \beta_4(SIZE)_{it} + \beta_5(SIZE)^2_{it}$

   $\beta_6(RISK)_{it} + \beta_7(LEV)_{it} + \beta_8(IDR)_{it} + \beta_9(NAB)_{it} + \beta_{10}(AGE)_{it} + \beta_{11}(SG)_{it} +$

   $\beta_{12}(RDS)_{it} + \beta_{13}(CS)_{it} + \beta_{14}(MS)_{it} + \beta_{15}(GDP)_{it} + \beta_{16}(OC)_{it}(RPT)_{it} +$

   $\beta_{17}(OC)_{it}(Tenure)_{it} + \beta_{18}(OC)_{it}(Banks)_{it} + \beta_{19}FT_{it} + \mu_{it}$

From these 3 regression models, the residual error terms are obtained from the research results and this residual error terms will be an additional independent variable to be inserted into the original family firm model, non-family firm model and pooled (family firms and non-family firms) model as shown in the research results below. If the coefficient of the residual error term is significant at 1%, 5% or 10% significance level, then, endogeneity between ownership concentration and firm value exist within the model. The following are the Hausman Test results:

Table 5.5: Hausman Test Results To Test For Endogeneity (Family Firms)

Expected Signs	Independent Variables And Intercept	Dependent Variable				Expected Signs	Independent Variables And Intercept	Dependent Variable			
		Tobin's Q		MBV				ROE		ROA	
		Coeff.	t-stats	Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	0.361772	0.266652	2.267641	0.878473	+/-	Intercept	-2.088197***	-3.017289	-0.829943***	-3.814889
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.348876	0.927835	-0.510859	-0.723507	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.450544**	2.287656	0.188338***	3.060041
+	Ownership Concentration (OC)	0.062693	1.523812	-0.015920	-0.205166	+	Ownership Concentration (OC)	0.050199**	2.347683	0.021062***	3.161753
-	Average Independent Directors Tenure (Tenure)	0.164605	1.536513	-0.074135	-0.366995	-	Average Independent Directors Tenure (Tenure)	0.160297***	2.873749	0.058634***	3.377870
-	No. of Local Banks Engaged by the Firm (Banks)	0.392699	1.583034	-0.052880	-0.112935	-	No. of Local Banks Engaged by the Firm (Banks)	0.252603**	1.965891	0.115216***	2.873980
+	Ln (Firm Risk)	0.145023***	9.010783	0.155707***	5.507733	+	Ln (Firm Risk)	0.033421***	3.206322	0.010100***	3.227492
+/-	Leverage (LEV)	0.889480***	13.53967	0.048349	0.407888	+/-	Leverage (LEV)	-0.046442	-1.129489	-0.047242***	-3.659139
+/-	Firm Size (SIZE)	-0.092799***	-3.608554	-0.011377	-0.238828	+/-	Firm Size (SIZE)	0.009529	0.668077	0.002910	0.672716
+/-	Independent Directors Ratio (IDR)	-0.254094*	-1.854782	-0.454091**	-1.820631	+/-	Independent Directors Ratio (IDR)	-0.110150	-1.396618	-0.056312**	-2.316877
+	Non-Affiliated Blockholders (NAB)	-0.000276	-0.463470	-0.003065***	-2.701755	+	Non-Affiliated Blockholders (NAB)	0.000472	1.538525	0.000263***	2.740953
+	Ln (Age)	-0.029304	-0.700505	-0.004256	-0.049870	+	Ln (Age)	-0.055773***	-2.810852	-0.022855***	-3.545273
+	Sales Growth (SG)	0.0000405	0.379890	0.000289	1.468652	+	Sales Growth (SG)	0.0000729	0.932113	0.0000221	1.190736
+	R&D Expenditure-to-Sales (RDS)	0.005181	0.549416	-0.005366	-0.289083	+	R&D Expenditure-to-Sales (RDS)	-0.000094	-0.019702	0.000681	0.453935
+	Capital Expenditure-to-Sales (CS)	0.000348	0.929199	0.000625	0.987198	+	Capital Expenditure-to-Sales (CS)	-0.0000946	-0.283383	-0.0000903	-1.107108
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.002378	0.792681	0.007112	1.419872	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.000366	0.172214	-0.000526	-0.841882
+/-	Gross Domestic Product (GDP)	-0.002755	-1.336969	-0.004996	-1.349592	+/-	Gross Domestic Product (GDP)	0.006327***	3.168061	0.001352**	2.306059
-	OC x RPT	-0.007978	-0.858075	0.012984	0.742794	-	OC x RPT	-0.011502**	-2.368434	-0.004854***	-3.190333
-	OC x Tenure	-0.003638	-1.564768	0.001574	0.358890	-	OC x Tenure	-0.003292***	-2.725062	-0.001214***	-3.225712
-	OC x Banks	-0.009301	-1.567213	0.001065	0.095051	-	OC x Banks	-0.006230**	-2.026434	-0.002820***	-2.939852
	Residual Error Term (μ)	-0.063568	-1.539828	0.010301	0.132358		Residual Error Term	-0.044375**	-2.065447	-0.019214***	-2.870671
	N	379		379			N	379		379	
	Adjusted R-Squared (%)	19.6937		4.485			Adjusted R-Squared (%)	7.3558		8.654	
	F-Statistic	15.66228***		3.807476***			F-Statistic	5.747159***		6.664348***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

Table 5.6: Hausman Test Results To Test For Endogeneity (Non-Family Firms)

Expected Signs	Independent Variables And Intercept	Tobin's Q Coeff.	Tobin's Q t-stats	MBV Coeff.	MBV t-stats	Expected Signs	Independent Variables And Intercept	ROE Coeff.	ROE t-stats	ROA Coeff.	ROA t-stats
+/-	Intercept	14.18125**	2.372054	-10.88282	-0.797932	+/-	Intercept	-3.128019	-1.554398	0.020049	0.020889
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-1.368459	-1.578253	1.808529	0.920927	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.274104	0.794234	-0.063291	-0.399767
+	Ownership Concentration (OC)	-0.213454*	-1.773176	0.237244	0.843629	+	Ownership Concentration (OC)	0.065004	1.618830	0.001219	0.063570
-	Average Independent Directors Tenure (Tenure)	-0.541457*	-1.851542	0.614591	0.896213	-	Average Independent Directors Tenure (Tenure)	0.160035*	1.659227	0.022546	0.490341
-	No. of Local Banks Engaged by the Firm (Banks)	-2.071665*	-1.767417	2.036337	0.749028	-	No. of Local Banks Engaged by the Firm (Banks)	0.607619	1.533693	-0.039176	-0.207772
+	Ln (Firm Risk)	0.307616***	4.146559	0.117055	0.749104	+	Ln (Firm Risk)	0.003640	0.106609	0.024120	1.623427
+/-	Leverage (LEV)	1.601398**	2.057950	0.376291	0.220763	+/-	Leverage (LEV)	-0.181632	-0.666721	-0.012783	-0.100894
+/-	Firm Size (SIZE)	-0.112925**	-2.076239	0.066490	0.510270	+/-	Firm Size (SIZE)	0.015510	0.799241	0.002320	0.264880
+/-	Independent Directors Ratio (IDR)	-1.172505***	-2.770615	0.056230	0.071020	+/-	Independent Directors Ratio (IDR)	-0.068429	-0.316712	-0.045076	-0.490415
+	Non-Affiliated Blockholders (NAB)	-0.001719**	-2.571455	-0.000710	-0.513585	+	Non-Affiliated Blockholders (NAB)	-0.0000465	-0.158763	-0.00000678	-0.050301
+	Ln (Age)	0.042536	0.448760	0.189936	0.673388	+	Ln (Age)	0.000279	0.008030	-0.010039	-0.660516
+	Sales Growth (SG)	0.000847	0.874225	-0.002490	-1.334121	+	Sales Growth (SG)	-0.0000247	-0.041717	0.000522**	2.526868
+	R&D Expenditure-to-Sales (RDS)	-0.097910	-1.291904	-0.003910	-0.037182	+	R&D Expenditure-to-Sales (RDS)	-0.016695	-0.359077	0.024969	1.586697
+	Capital Expenditure-to-Sales (CS)	-0.004801	-1.422059	0.002988	0.521492	+	Capital Expenditure-to-Sales (CS)	-0.000992	-0.590119	-0.000418	-0.591475
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.013801	1.471536	-0.016678	-0.795735	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.001341	0.386799	0.000562	0.359010
+/-	Gross Domestic Product (GDP)	-0.014555	-1.426563	0.011321	0.737398	+/-	Gross Domestic Product (GDP)	-0.014439*	-1.848635	0.000597	0.237762
-	OC x RPT	0.030295	1.428510	-0.051957	-1.072144	-	OC x RPT	-0.008025	-0.999250	0.001283	0.345902
-	OC x Tenure	0.011499*	1.872589	-0.012394	-0.860509	-	OC x Tenure	-0.003248	-1.599977	-0.000363	-0.374792
-	OC x Banks	0.045896*	1.724769	-0.051227	-0.830245	-	OC x Banks	-0.014121	-1.573267	0.000631	0.147513
	Residual Error Term (μ)	0.212463*	1.760999	-0.222494	-0.790025		Residual Error Term	-0.063017	-1.563690	0.000763	0.039446
	N	151		151			N	151		151	
	Adjusted R-Squared (%)	4.4262		4.5375			Adjusted R-Squared (%)	0.975		4.1094	
	F-Statistic	2.101738***		2.130765***			F-Statistic	1.234241		2.019509***	

Table 5.7: Hausman Test Results To Test For Endogeneity (Pooled Model Of Family Firms And Non-Family Firms)

Expected Signs	Independent Variables And Intercept	Dependent Variable				Expected Signs	Independent Variables And Intercept	Dependent Variable			
		Tobin's Q		MBV				ROE		ROA	
		Coeff.	t-stats	Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	3.704750**	2.264321	-1.318333	-0.399033	+/-	Intercept	-1.599306**	-2.149192	-0.958144***	-4.026350
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-0.341001	-0.993566	0.191601	0.281939	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.278347	1.632414	0.164443***	3.058607
+	Ownership Concentration (OC)	-0.012910	-0.297630	0.087863	0.998719	+	Ownership Concentration (OC)	0.041213**	2.110099	0.022858***	3.655618
-	Average Independent Directors Tenure (Tenure)	-0.051346	-0.464271	0.207390	0.922325	-	Average Independent Directors Tenure (Tenure)	0.137379***	2.758968	0.065230***	4.100468
-	No. of Local Banks Engaged by the Firm (Banks)	-0.057942	-0.181758	0.605483	0.938912	-	No. of Local Banks Engaged by the Firm (Banks)	0.237817*	1.650909	0.147809***	3.203740
+	Ln (Firm Risk)	0.146109***	8.371234	0.158613***	6.123022	+	Ln (Firm Risk)	0.048391***	3.764550	0.012285***	3.284655
+/-	Leverage (LEV)	0.843559***	9.737699	0.163451	1.188322	+/-	Leverage (LEV)	-0.089763	-1.307647	-0.079035***	-4.181862
+/-	Firm Size (SIZE)	-0.083941***	-2.991393	-0.038103	-0.662046	+/-	Firm Size (SIZE)	0.000738	0.054908	0.001960	0.464084
+/-	Independent Directors Ratio (IDR)	-0.407986***	-2.649327	-0.330784	-1.318799	+/-	Independent Directors Ratio (IDR)	-0.150465	-1.596708	-0.052667*	-1.831683
+	Non-Affiliated Blockholders (NAB)	-0.001047**	-2.431232	-0.001689**	-1.993916	+	Non-Affiliated Blockholders (NAB)	0.0000431	0.194051	0.000138**	1.998963
+	Ln (Age)	0.025552	0.660756	-0.011476	-0.113489	+	Ln (Age)	-0.025567	-1.450835	-0.016174**	-2.939374
+	Sales Growth (SG)	0.0000316	0.254192	0.0000544	0.265475	+	Sales Growth (SG)	0.0000871	0.708127	0.0000425	1.447240
+	R&D Expenditure-to-Sales (RDS)	-0.000817	-0.066706	-0.015452	-0.622222	+	R&D Expenditure-to-Sales (RDS)	0.000429	0.061846	0.002444	1.136826
+	Capital Expenditure-to-Sales (CS)	-0.000120	-0.222769	0.000259	0.357830	+	Capital Expenditure-to-Sales (CS)	-0.000341	-0.862055	0.00000553	0.045314
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.001738	0.472249	0.001205	0.214460	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.001320	0.633715	0.000253	0.385771
+/-	Gross Domestic Product (GDP)	-0.003279	-1.081368	-0.003082	-0.772158	+/-	Gross Domestic Product (GDP)	0.001160	0.389074	0.001658**	2.019108
-	OC x RPT	0.008580	1.019126	-0.004600	-0.275281	-	OC x RPT	-0.007910*	-1.927656	-0.004149***	-3.200916
-	OC x Tenure	0.001057	0.447160	-0.004438	-0.922585	-	OC x Tenure	-0.002717**	-2.552863	-0.001321***	-3.884033
-	OC x Banks	0.001318	0.175060	-0.015319	-1.006791	-	OC x Banks	-0.005959*	-1.751716	-0.003581***	-3.286005
	Firm Type (FT)	-0.275415***	-3.309776	-0.402419**	-2.177021		Firm Type (FT)	0.062722*	1.698954	0.039572***	3.361799
	Residual Error Term (μ)	0.011144	0.256057	-0.077022	-0.874524		Residual Error Term	-0.038130*	-1.938837	-0.020645***	-3.277398
	N	530		530			N	530		530	
	Adjusted R-Squared (%)	10.5606		4.2208			Adjusted R-Squared (%)	4.3274		7.242	
	F-Statistic	10.38108***		4.501197***			F-Statistic	4.593593***		7.202952***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

The Hausman Test results show that in the family firm and pooled (family firms and non-family firms) regression models, endogeneity exist between ownership concentration and ROE as well as between ownership concentration and ROA. This is because the residual error terms in these 2 accounting-based performance measures are significant at 1% and 10% significance level respectively.

Below are the summary of the results as shown in Table 5.8, 5.9 and 5.10:

Possible Endogeneity between Variables

Table 5.8: Possible Endogeneity in Family Firms Regression Model

Independent Variable	Dependent Variable
Ownership Concentration	ROE, ROA

Table 5.9: Possible Endogeneity in Non-Family Firms Regression Model

Independent Variable	Dependent Variable
Ownership Concentration	Tobin's Q

Table 5.10: Possible Endogeneity in

Pooled (Family Firms and Non-Family Firms) Regression Model

Independent Variable	Dependent Variable
Ownership Concentration	ROE, ROA

With endogeneity issues involved in this research, the instrumental variable (IV) is a suitable variable to be used to eliminate the endogeneity problem (Gujarati and Porter, 2009). This IV is used to substitute the original ownership concentration variable and it will not have any correlation with the variance of the endogenous variable (i.e. in this case, firm value), hence, resolving the endogeneity problem (Gujarati and Porter, 2009). Since, Demsetz and Lehn (1985) argue that ownership is a function of firm size and risk, the IV utilised in this research is the predicted value of ownership concentration. This value is obtained by regression of the original ownership concentration values

against firm size, the square of firm size and firm risk (Anderson and Reeb, 2003; Himmelberg et.al., 1999). The following is the IV model utilised:

1. $OCF_{it} = \beta_0 + \beta_1 SIZE_{it} + \beta_2 (SIZE)^2_{it} + RISK_{it} + \mu_{it}$

OCF_{it}: Predicted value of ownership concentration at year t.

$SIZE_{it}$: Firm Size at year t.

$(SIZE)^2_{it}$: Square of Firm Size at year t.

$RISK_{it}$: Natural logarithm of Firm Risk at year t.

μ_{it}: Stochastic error term at year t.

The IV (i.e. predicted value of ownership concentration) is subsequently substituted into the original research model, replacing the prior ownership concentration values and all the independent variables are regressed against the firm value again.

5.7.2   Correlation Issues

Hinkle, Wiersma and Jurs (2002) propose a rule of thumb for correlation between variables. Table 5.11 shows their rule of thumb:

Table 5.11: Rule Of Thumb for Interpreting The Size of a Correlation Coefficient

Size Of Correlation	Interpretation
0.90 to 1.00 (-0.90 to -1.00)	Very high positive (negative) correlation
0.70 to 0.90 (-0.70 to -0.90)	High positive (negative) correlation
0.50 to 0.70 (-0.50 to -0.70)	Moderate positive (negative) correlation
0.30 to 0.50 (-0.30 to -0.50)	Low positive (negative) correlation
0.00 to 0.30 (-0.00 to -0.30)	Little if any correlation

Source: Hinkle et.al. (2002)

Table 5.12 shows the correlation matrix for family firms and Table 5.13 shows the correlation matrix for non-family firms.

Table 5.12: Correlation Matrix (Family Firms)

	Q	MBV	ROE	ROA	RPT	OC	OCF	AIDT	BANKS	LNRISK	LEV	FSIZE	IDR	NAB	LNAGE	SG	RDS	CS	MS	GDP
Q	1.00																			
MBV	0.62	1.00																		
ROE	0.09	0.12	1.00																	
ROA	0.20	0.17	0.58	1.00																
RPT	0.09	0.09	0.01	0.00	1.00															
OC	0.01	0.06	0.05	0.10	0.14	1.00														
OCF	0.05	0.00	0.12	0.18	0.13	0.06	1.00													
AIDT	-0.02	0.02	0.17	0.18	0.02	0.09	0.08	1.00												
BANKS	0.01	-0.03	-0.06	-0.05	0.05	-0.12	0.12	0.01	1.00											
LNRISK	0.33	0.20	0.19	0.23	0.16	0.12	0.13	0.24	0.01	1.00										
LEV	0.30	0.04	-0.02	-0.06	0.10	0.02	0.09	-0.08	0.06	0.16	1.00									
FSIZE	0.19	0.08	0.15	0.19	0.19	0.16	0.49	0.29	0.11	0.53	0.32	1.00								
IDR	-0.08	-0.08	-0.07	-0.08	-0.03	0.03	-0.01	0.01	0.01	0.06	0.02	0.07	1.00							
NAB	-0.01	-0.02	0.02	0.05	-0.04	-0.09	-0.02	-0.05	-0.06	0.12	0.00	0.04	-0.08	1.00						
LNAGE	0.01	0.03	0.03	0.03	-0.03	0.17	0.07	0.39	0.00	0.14	-0.04	0.22	0.13	-0.04	1.00					
SG	0.04	0.06	0.07	0.10	0.04	0.06	0.06	-0.05	-0.03	0.10	0.01	0.07	-0.05	0.07	-0.05	1.00				
RDS	0.00	0.02	0.00	-0.01	-0.02	-0.03	-0.07	-0.02	0.00	-0.02	-0.02	-0.06	0.00	0.09	0.01	-0.02	1.00			
CS	0.03	0.01	-0.03	-0.04	0.02	0.01	0.04	-0.05	-0.06	0.08	0.11	0.13	0.07	0.05	-0.02	-0.04	-0.01	1.00		
MS	0.01	0.03	0.00	-0.02	-0.07	-0.04	-0.02	-0.03	-0.08	0.01	-0.05	-0.05	-0.01	0.01	-0.05	-0.02	-0.04	0.00	1.00	
GDP	0.05	0.05	0.08	0.06	0.04	0.00	-0.01	-0.09	-0.01	0.09	0.02	-0.03	-0.06	-0.01	-0.07	0.13	0.01	-0.03	-0.04	1.00

Q : Tobin's Q; **MBV** : Market-to-Book Value; **ROE** : Return On Equity; **ROA** : Return On Asset; **RPT** : Related Party Transactions Which Are Likely To Result In Expropriation; **OC** : Ownership Concentration; **OCF** :

Predicted Ownership Concentration; **AIDT** : Independent Directors' Tenure; **BANKS** : Number Of Domestic Banks That The Firm Engages With; **LNRISK** : Natural Logarithm Of Firm Risk; **LEV** : Leverage; **FSIZE** : Firm

Size; **IDR** : Independent Directors' Ratio; **NAB** : Non-Affiliated Blockholders; **LNAGE** : Natural Logarithm Of Firm Age; **SG** : Sales Growth; **RDS** : Research & Development Expenditure-To-Sales; **CS** : Capital Expenditure-

To-Sales; **MS** : Marketing & Advertising Expenditure-To-Sales; **GDP** : Gross Domestic Product

	Q	MBV	ROE	ROA	RPT	OC	OCF	AIDT	BANKS	LNRISK	LEV	FSIZE	IDR	NAB	LNAGE	SG	RDS	CS	MS	GDP
Q	1.00																			
MBV	0.79	1.00																		
ROE	0.08	0.22	1.00																	
ROA	0.16	0.05	-0.86	1.00																
RPT	-0.10	-0.08	0.00	-0.03	1.00															
OC	0.04	0.11	0.10	0.02	-0.14	1.00														
OCF	0.02	0.21	0.19	-0.07	-0.09	0.34	1.00													
AIDT	0.02	0.14	0.07	-0.02	0.20	0.11	0.16	1.00												
BANKS	-0.07	-0.10	0.00	-0.04	-0.12	-0.21	-0.01	-0.10	1.00											
LNRISK	0.35	0.36	0.10	0.06	-0.07	0.23	0.58	0.10	-0.01	1.00										
LEV	0.04	0.15	0.04	-0.03	0.00	0.00	0.22	-0.04	0.08	0.01	1.00									
FSIZE	0.00	0.13	0.13	-0.05	-0.08	0.28	0.89	0.11	0.03	0.43	0.34	1.00								
IDR	-0.01	-0.06	-0.01	-0.04	0.01	0.03	-0.07	-0.02	-0.12	-0.03	0.06	-0.04	1.00							
NAB	-0.10	-0.08	-0.02	0.00	0.15	-0.02	-0.13	0.05	-0.08	-0.06	-0.13	-0.15	-0.05	1.00						
LNAGE	0.06	0.11	0.05	-0.03	0.12	0.09	0.17	0.46	0.06	0.17	0.00	0.13	0.10	-0.10	1.00					
SG	0.00	0.02	0.10	-0.01	0.03	0.10	0.16	-0.02	-0.03	0.15	0.07	0.10	-0.05	0.04	-0.06	1.00				
RDS	0.06	0.01	-0.01	-0.01	-0.04	-0.04	-0.09	-0.05	-0.08	0.02	-0.10	-0.10	0.02	-0.07	-0.06	-0.07	1.00			
CS	-0.03	-0.01	0.00	-0.02	0.03	-0.03	0.08	-0.06	0.02	-0.03	0.41	0.12	-0.06	-0.07	-0.05	0.11	-0.01	1.00		
MS	0.06	0.08	0.04	-0.01	-0.11	0.06	0.01	-0.04	-0.05	-0.01	-0.04	-0.01	0.01	0.04	-0.02	0.10	0.04	-0.05	1.00	
GDP	-0.01	0.02	-0.05	0.07	0.00	-0.01	0.02	-0.03	-0.01	0.11	-0.02	-0.01	-0.02	-0.01	-0.07	0.16	0.01	-0.05	0.01	1.00

Q : Tobin's Q; **MBV** : Market-to-Book Value; **ROE** : Return On Equity; **ROA** : Return On Asset; **RPT** : Related Party Transactions Which Are Likely To Result In Expropriation; **OC** : Ownership Concentration; **OCF** :

Predicted Ownership Concentration; **AIDT** : Independent Directors' Tenure; **BANKS** : Number Of Domestic Banks That The Firm Engages With; **LNRISK** : Natural Logarithm Of Firm Risk; **LEV** : Leverage; **FSIZE** : Firm

Size; **IDR** : Independent Directors' Ratio; **NAB** : Non-Affiliated Blockholders; **LNAGE** : Natural Logarithm Of Firm Age; **SG** : Sales Growth; **RDS** : Research & Development Expenditure-To-Sales; **CS** : Capital Expenditure-

To-Sales; **MS** : Marketing & Advertising Expenditure-To-Sales; **GDP** : Gross Domestic Product

Except for the correlation between predicted ownership concentration and firm size in non-family firms with a correlation coefficient of 0.89 (high positive correlation), there is no high correlation between the dependent variables and the independent variables as well as between the independent variables in the sample for family firms and non-family firms.

Due to the high correlation between predicted ownership concentration and firm size in the sample for non-family firms, the variable firm size is taken out from the regression of Tobin's Q against the independent variables for this sample. The conclusions made as a result of these correlation analyses are further supported by the Variance Inflation Factor (VIF) values in the analysis of multicollinearity.

5.7.3   Multicollinearity Issues

Except for predicted ownership concentration in non-family firms, there are no significant multicollinearity problems between the independent variables in the proposed research model as all the Variance Inflation Factor (VIF) values are less than five. VIF values less than five means there are no multicollinearity problems (Gujarati and Porter, 2009). For the predicted ownership concentration in non-family firms, the VIF value is 7.053 which is higher than 5. This means that there are significant multicollinearity problems between predicted ownership concentration and the other independent variables. Therefore, in order to reduce the multicollinearity problems, the independent variable firm size is taken out of the model for the regression of Tobin's Q against the independent variables for non-family firms. When firm size is taken out, the VIF value for predicted ownership concentration is reduced to 1.595; hence, multicollinearity problems are significantly reduced.

Table 5.14 and 5.15 show the VIF values for family firms and non-family firms for each of the independent variables analysed in this research:

Table 5.14: VIF Values for Family Firms and Non-Family Firms

Independent Variables	Family	Non-Family
	Variance Inflation Factor (VIF)	
RPT	1.038	1.063
Ownership Concentration	1.055	1.098
Independent Directors' Tenure	1.228	1.155
Quantity Of Domestic Banks Engaged By The Firm	1.016	1.030
Firm Risk	1.235	1.216
Leverage	1.08	1.193
Firm Size	1.226	1.164
Independent Directors Ratio	1.054	1.037
Non-affiliated Blockholders	1.047	1.026
Firm Age	1.375	1.175
Sales Growth	1.084	1.114
R&D Expenditure	1.055	1.017
Capital Expenditure	1.061	1.143
Marketing And Advertising Expenditure	1.014	1.018
Gross Domestic Product	1.002	1.002

Table 5.15: VIF Values for Family Firms and Non-Family Firms (With Predicted Ownership Concentration)

Independent Variables	Family	Non-Family
	Variance Inflation Factor (VIF)	
RPT	1.029	1.048
Predicted Ownership Concentration	1.518	7.053
Independent Directors' Tenure	1.229	1.155
Quantity Of Domestic Banks Engaged By The Firm	1.018	1.019
Firm Risk	1.280	1.752
Leverage	1.084	1.201
Firm Size	1.659	4.650
Independent Directors Ratio	1.056	1.039
Non-affiliated Blockholders	1.034	1.026
Firm Age	1.350	1.179
Sales Growth	1.085	1.140
R&D Expenditure	1.050	1.013
Capital Expenditure	1.061	1.144
Marketing And Advertising Expenditure	1.014	1.018
Gross Domestic Product	1.001	1.001

5.7.4 Normality Issues

Skewness and kurtosis are important issues for normality (Hair, Black, Babin, Anderson and Tatham, 2006). For a normal distribution, the skewness and kurtosis values should be zero (Hair et.al., 2006). Table 5.16 shows the skewness and kurtosis values of the dependent and independent variables in this study for family firms whereas Table 5.17 shows the skewness and kurtosis values for non-family firms.

Table 5.16: Skewness And Kurtosis Values For Family Firms

	Q	MBV	ROE	ROA	RPT	OC	OCF	AIDT	BANKS	LNRISK	LEV	FSIZE	IDR	NAB	LNAGE	SG	RDS	CS	MS	GDP
Skewness	5.5	8.5	-3.9	-1.4	0.7	0.5	-1.5	1.5	1.1	0.3	7.2	0.7	0.7	3.1	-0.6	16.9	16.9	12.0	4.7	5.5
Kurtosis	49.6	103.1	124.6	12.7	1.9	2.6	5.5	7.3	4.6	3.1	91.5	3.8	3.2	18.6	3.2	363.6	296.6	197.7	48.9	49.6

Table 5.17: Skewness And Kurtosis Values For Non-Family Firms

	Q	MBV	ROE	ROA	RPT	OC	OCF	AIDT	BANKS	LNRISK	LEV	FSIZE	IDR	NAB	LNAGE	SG	RDS	CS	MS	GDP
Skewness	5.1	8.7	-17.3	17.2	1.9	0.1	-1.1	0.9	1.4	0.1	1.6	0.6	0.9	2.9	-0.7	3.9	8.6	7.2	4.1	-0.6
Kurtosis	38.4	91.7	345.4	346.5	4.9	2.5	4.8	3.5	8.1	3.2	5.2	3.9	3.7	12.9	3.2	31.3	91.2	79.0	25.2	1.5

Q : Tobin's Q; **MBV** : Market-to-Book Value; **ROE** : Return On Equity; **ROA** : Return On Asset; **RPT** : Related Party Transactions Which Are Likely To Result In Expropriation; **OC** : Ownership Concentration; **OCF** : Predicted Ownership Concentration; **AIDT** : Independent Directors' Tenure; **BANKS** : Number Of Domestic Banks That The Firm Engages With; **LNRISK** : Natural Logarithm Of Firm Risk; **LEV** : Leverage; **FSIZE** : Firm Size; **IDR** : Independent Directors' Ratio; **NAB** : Non-Affiliated Blockholders; **LNAGE** : Natural Logarithm Of Firm Age; **SG** : Sales Growth; **RDS** : Research & Development Expenditure-To-Sales; **CS** : Capital Expenditure-To-Sales; **MS** : Marketing & Advertising Expenditure-To-Sales; **GDP** : Gross Domestic Product

In the regression analysis, normality of the distribution of the variables analysed is important (Gujarati and Porter, 2009). Skewness and kurtosis are two components in determining normality (Pallant, 2005). In this study, most of the variables' distribution is skewed to the left or the right of the curve, for example, sales growth and R&D expenditures are highly skewed to the right whereas ROE is skewed to the left. Similarly, some of these variables possess a high positive kurtosis (example, sales growth , R&D expenditure and capital expenditure) and some a low positive kurtosis (example, ownership concentration, firm risk and firm age). Both these descriptions indicate that there is a departure from normality. However, the issue which involves the variables of non-normal distribution is quite common in research which involves a large sized sample (Pallant, 2005). In fact, this argument is supported by Norusis (2000) and Kleinbaum, Kupper, Muller and Nizam (1998) who explain that variance analysis which is used in regression is not heavily dependent on the assumption of normality since the data set is large. Consequently, the assumption of normality is not seriously offended in this research since this study covers a large sample size.

5.8   ROBUSTNESS TEST

Since the 1970s, industrial organisation economics has provided the theoretical basis for the determinants of a firm's performance (Hawawini, Subramaniam and Verdin, 2003). Porter (1980) argues that the structural characteristics of industries are the primary determinants of a firm's performance. Various studies investigated factors explaining the consistent differences in performance between industries. The industrial organization economists' preferred framework is the structure-conduct-performance (SCP) model. This model proposes the existence of a deterministic relationship between market structure and profitability. Based upon this framework, Mason (1939) argues that the structural characteristics of an industry constrain the behaviour of its

component firms, which in turn led to differences in firm performance within different industries. Hence, industry effects in this research are controlled.

Hence, as a robustness test, potential industry effects by using the subset of industries that contain both family and non-family firms are controlled (i.e. industries with 100 percent family or non-family firms are excluded). If industry effects are not controlled, they can possibly cause bias to the regression results (Anderson and Reeb, 2003) because they may have an impact towards firm value (Mason, 1939; Porter, 1980).

In this research, industries that contain one hundred percent family firms and non-family firms respectively are excluded from the analysis. This is because industries, which are exclusively restricted to only one type of firm, are found in these types of firms. Hence, this robustness test is applicable to family firms and non-family firms.

Those industries, which are exclusively restricted to only one type of firm, are shown in Table 5.18:

Table 5.18: Exclusive Industries In Family Firms And Non-Family Firms

Exclusive Industries	
Family Firms	**Non-Family Firms**
Gambling, Jewellery, Gaming, Funeral, Publishing, Travel, Beauty, Military, Logistics Engineering	Postal Service, Tobacco

The actual robustness test results are shown in the robustness test results in Chapter 6 of this research.

5.9   CONCLUSION

This chapter discussed the various issues related to research methodology such as research models, variables measurements, sampling design, data analysis methods used, relevant statistical issues and assumptions, endogeneity issues, model selection criteria and robustness testing. The next chapter will discuss the research results, descriptive statistics, hypotheses testing as well as robustness research results.

CHAPTER SIX

RESEARCH RESULTS

6.1   INTRODUCTION

This chapter mainly discusses the research results, the hypotheses tested, the descriptive statistics and endogeneity issues that surfaced in this research. The remainder of this chapter discusses the assumptions of statistical analysis. The rest of the chapter is organised as follows. Section 6.2 discusses the R-Squared values and Adjusted R-Squared values. Section 6.3 discusses the descriptive statistics. Section 6.4 discusses the research findings. Section 6.5 discusses the robustness test results. Section 6.6 discusses the hypotheses tested. Section 6.7 summarise the hypotheses. Section 6.8 concludes.

6.2   THE R-SQUARED (R^2) AND THE ADJUSTED R-SQUARED (R^2) VALUES

The R-Squared (R^2) statistic measures the success of the regression in predicting the values of the dependent variable within the sample or can be interpreted as how much of the variance in the dependent variable is explained by the independent variables. While the adjusted R^2 implies that as the number of independent variables is added to the model and increases less than R^2. Both are goodness of fit measures and as the value of R^2 and the adjusted R^2 are closer to 1, the better is the fit. According to Theil (1978), it is good to use adjusted R^2 rather than R^2 when the numbers of explanatory variables used in the model are high, as the R^2 tends to provide too optimistic a value of the fit of the regression.   Besides, R^2 and adjusted R^2 are both reported in most statistical packages and are used to measure the strength of association between dependent and independent variables (Malhotra, 2004; Gujarati and Porter, 2009).

6.3   DESCRIPTIVE STATISTICS

Table 6.1 and Table 6.2 present the descriptive statistics for the samples used in this research

Table 6.1 : Descriptive Statistics For Family Firms

Descriptive Statistics For Full Sample					
Family Firms					
	Mean	**Median**	**Standard Deviation**	**Maximum**	**Minimum**
Tobin's Q	0.8780	0.7801	0.5226	7.0322	0.0631
ROE	0.0396	0.0688	0.3043	3.0037	-5.3488
ROA	0.0323	0.0386	0.0810	0.4117	-0.6432
Market-to-Book Value (MBV)	0.8027	0.5849	1.0694	16.2962	-0.3955
Related Party Transactions Which Are Likely To Result In Expropriation Ratio (RPT)	0.3285	0.1843	0.3528	0.9997	0.0000
Ownership Concentration	42.1420	41.1800	13.3102	99.1600	20.1800
Predicted Ownership Concentration	42.0626	42.5332	1.5741	44.0562	34.4134
Average Independent Directors' Tenure	6.0354	5.3330	3.8628	31.0000	0.0000
Banks	2.8179	2.0000	1.7385	10.0000	0.0000
Ln(Firm Risk)	-2.2835	-2.3327	0.9758	1.2590	-5.3454
Leverage	0.1323	0.0885	0.1831	2.7988	0.0000
Firm Size	19.6350	19.4900	1.2024	24.4960	16.9470
Independent Directors Ratio	0.4240	0.4000	0.1135	0.8330	0.1820
Non-affiliated Blockholders	27.2503	14.7600	38.9662	339.2600	0.0000
Ln(Age)	2.9626	3.0910	0.7287	4.6347	0.0000
Sales Growth	14.4226	6.4538	93.2761	2254.7070	-96.8719
R&D Expenditure-to-Sales	0.1445	0.0000	1.8187	35.6826	0.0000
Capital Expenditure-to-Sales	9.2843	3.6383	27.2080	561.4003	-37.0511
Marketing and Advertising Expenditure-to-Sales	2.3014	0.4010	4.0991	62.0660	0.0000
Gross Domestic Product	3.2172	4.8075	3.5006	6.4802	1.6360

Table 6.2 : Descriptive Statistics For Non-Family Firms

Descriptive Statistics For Full Sample Non-Family Firms					
	Mean	**Median**	**Standard Deviation**	**Maximum**	**Minimum**
Tobin's Q	1.0936	0.8798	0.8292	6.3110	0.2731
ROE	0.0493	0.0780	0.6527	1.7116	-5.9661
ROA	0.0520	0.0452	0.3644	3.2424	-1.0180
Market-to-Book Value (MBV)	1.2166	0.7362	1.7598	12.1718	-0.6780
Related Party Transactions Which Are Likely To Result In Expropriation Ratio (RPT)	0.1645	0.0025	0.2997	0.9809	0.0000
Ownership Concentration	42.2277	42.4463	0.0000	81.2725	16.3125
Predicted Ownership Concentration	43.3272	43.9792	16.5626	49.5352	26.4726
Average Independent Directors' Tenure	5.5280	4.7918	4.4702	17.2500	0.1250
Banks	2.4346	2.2500	3.6974	7.2500	0.2500
Ln(Firm Risk)	-1.8357	-1.8219	1.4465	0.8043	-4.0945
Leverage	0.1234	0.0848	1.0434	0.5345	0.0000
Firm Size	20.0469	19.9523	0.1277	22.7610	17.0480
Independent Directors Ratio	0.4381	0.4155	1.2325	0.7708	0.1955
Non-affiliated Blockholders	53.8517	28.4050	0.1202	338.8500	0.0000
Ln(Age)	2.8587	2.9673	71.7713	4.1134	0.7945
Sales Growth	6.5578	2.6558	0.7562	223.2143	-73.7574
R&D Expenditure-to-Sales	0.0523	0.0000	39.7378	2.0030	0.0000
Capital Expenditure-to-Sales	6.5516	3.2377	0.2321	115.9097	0.0000
Marketing and Advertising Expenditure-to-Sales	2.9750	0.4210	17.0700	28.9407	0.0000
Gross Domestic Product	3.2172	4.8075	3.5006	6.4802	1.6360

Table 6.3 presents the T-Test results for the test of differences between the variable values in family firms and non-family firms.

Table 6.3: T-Test Results (2-Tail) To Compare The Variable Values Of Family Firms And Non-Family Firms

Variable	Probability Of T-Test
Tobin's Q	2.01068×10^{-7}***
ROE	0.718450152
ROA	0.154667
Market-to-Book Value (MBV)	0.000111***
Related Party Transactions Which Are Likely To Result In Expropriation Ratio (RPT)	1.86×10^{-24}***
Ownership Concentration	4.12×10^{-6}***
Predicted Ownership Concentration	4.22×10^{-43}***
Average Independent Directors' Tenure	0.986281
Banks	1.19×10^{-6}***
Ln(Firm Risk)	6.31×10^{-21}***
Leverage	0.439746
Firm Size	1.7×10^{-11}***
Independent Directors Ratio	0.499935
Non-affiliated Blockholders	1.54×10^{-11}***
Ln(Age)	0.797917
Sales Growth	0.033909**
R&D Expenditure-to-Sales	0.268763
Capital Expenditure-to-Sales	0.158244
Marketing and Advertising Expenditure-to-Sales	0.002594***

*10% significance level ** 5% significance level ***1% significance level

From the descriptive statistics and the t-test results as shown, it can be concluded that there is no significant difference in terms of leverage for family firms compared to non-family firms as the probability of the t-test results (0.439746) is insignificant at 1%, 5% and 10% level respectively. The result shows that family firms do not appear to have different level of leverage compared to non-family firms. This is consistent with the findings by Sraer and Thesmar (2007), Barontini and Caprio (2006), Anderson and Reeb (2003), Mishra et.al. (2001), Mishra and McConaughy (1999) and Gorriz and Fumas (1996) but inconsistent with the findings by Croci et.al. (2011) who found that family-controlled firms raise more debt capital compared to non-family firms. One of the reasons for this insignificance is possibly due to the effect of the credit crunch during the global financial crisis which affect both family and non-family firms in emerging markets such as Malaysia (Tong and Wei, 2011). This credit crunch reduce the number of loans that firms can take from banks and as a result, both family and non-family firms have limited debts (leverage). Hence, there is no significant difference in terms of the level of leverage between family firms and non-family firms.

In addition to that, it can also be concluded that there is no significant difference between the age of family firms compared to non-family firms because the probability of the t-test results (0.797917) is insignificant at 1%, 5% and 10% level respectively. This is consistent with the findings by Ibrahim (2009) who found no significant difference in age between family and non-family firms in Malaysia. This result also suggests that Malaysian firms are well established since the Kuala Lumpur Stock Exchange (KLSE) operated on its own after separating from the Stock Exchange of Malaysia and Singapore (SEMS) in 1973 (Ibrahim, 2009).

Likewise, in terms of firm size, family firms are smaller than non-family firms (average natural logarithm of total asset value of 19.635 compared to 20.0469). This is significant at 1% significance level (probability of 1.7×10^{-11} in the t-test results). These statistics are consistent with the findings of Sraer and Thesmar (2007), Favero, Giglio, Honorati and Panunzi (2006), Villalonga and Amit (2006), Barontini and Caprio (2006), Mishra et.al. (2001) and Anderson and Reeb (2003). This result also possibly suggests that family firms have a lower cost of financing compared to non-family firms, as firm size has a significant positive relationship with the cost of debt (Reeb, Mansi and Allee, 2001).

For Tobin's Q and MBV, family firms possess lower valuation than non-family firms. This is significant at 1% significance level (probability of 2.01068×10^{-7} and 0.000111 in the t-test results respectively). This is consistent with the findings of Favero et.al. (2006), Barontini and Caprio (2006) and Yeh et.al. (2001) but inconsistent with those of Mishra et.al. (2001) and Anderson and Reeb (2003). The significantly lower Tobin's Q and MBV of family firms compared to non-family firms suggest that minority shareholder expropriation may exists within family firms and consequently, investors discount the market valuation (market-based performance measures) of these firms as a result of their loss aversion (Tversky and Kahneman, 1986). In terms of Return On Assets (ROA), there is no significant difference between family firms and non-family firms because the t-test result probability is 0.154667 which is insignificant at 1%, 5% and 10% significance level respectively. This is inconsistent with the findings of Mishra et.al. (2001) who find that family firms have a lower ROA than non-family firms. It is also inconsistent with the findings of Sraer and Thesmar (2007), Barontini and Caprio (2006), Lee (2004) and Anderson and Reeb (2003) who find that family firms have a higher ROA than non-family firms . As for Return On Equity (ROE), there is also no significant difference between family firms and non-family firms

because the probability of t-test results is 0.718450152 which is insignificant at 1%, 5% and 10% significance level respectively. This is inconsistent with the findings of Sraer and Thesmar (2007), Anderson and Reeb (2003) and Gorriz and Fumas (1996) who find that family firms have a higher ROE than non-family firms. The insignificant difference for ROE and ROA between family and non-family firms suggest that accounting-based performance measures may be subject to manipulation by family firms (Prencipe and Bar-Yosef, 2011) rendering them to be insignificantly different from non-family firms.

In terms of the proportion of independent directors in the firm, there is no significant difference between family firms and non-family firms because the probability of the t-test result is 0.499935 which is insignificant at 1%, 5% and 10% significance level respectively. This result possibly suggests a high interlocking directorship (cross-directorship) between independent directors in family firms and non-family firms which reduces the independent director's commitment towards a particular firm, hence, providing an opportunity for controlling shareholders to exert more influence on these directors in order to expropriate minority shareholders. This result also is inconsistent with the findings by Ibrahim (2009), Villalonga and Amit (2006), Anderson and Reeb (2003) and Mishra et.al. (2001) who find that family firms have lower proportion of independent directors in their firms compared to non-family firms. Furthermore, on average, the percentage of independent directors in all samples is 43.1%, which means at least one third (1/3) of directors are non-executive (independent directors). This is in compliance with the Listing Requirements of Bursa Malaysia (Ibrahim, 2009).

In terms of the average tenure of independent directors, there is no significant difference between family firms and non-family firms because the t-test result probability is 0.986281 which is insignificant at 1%, 5% and 10% significance level respectively. This is inconsistent with the findings of Dieleman (2012) and Schulze et.al. (2003) who find that family firms have longer tenure of independent directors compared to non-

family firms. This result also possibly suggests a high interlocking directorship (cross-directorship) between independent directors in family firms and non-family firms as explained previously, which result in the insignificant difference.

In terms of RPTs which are likely to result in expropriation, family firms possess higher amount than non-family firms. The result is also significant at 1% significance level because the probability of t-test result is 1.86×10^{-24}. This is consistent with the finding of Munir and Gul (2011) which possibly suggests that minority shareholder expropriation through RPTs may be more prevalent in family firms compared to non-family firms. Lastly, in terms of the number of domestic banks that the firm engages, family firms engage with higher number of domestic banks than non-family firms. This is significant at 1% significance level because the probability of t-test result is 1.19×10^{-6} which also possibly suggests that that minority shareholder expropriation through the domestic banking channel may be more prevalent in family firms compared to non-family firms.

6.4   RESEARCH FINDINGS

The following are the actual research results:

Table 6.4: Actual Regression Results (Main Results) : Normal OLS Regression Pooled Model (Family Firms)

Expected Signs	Independent Variables And Intercept	Dependent Variable				Expected Signs	Independent Variables And Intercept	Dependent Variable			
		Tobin's Q		MBV				ROE		ROA	
		Coeff.	t-stats	Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	2.369519***	6.420699	1.939126***	2.807097	+/-	Intercept	-0.354824	-0.534456	-0.440873**	-2.134911
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-0.198689*	-1.652542	-0.422146**	-1.974463	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.516853	0.812091	0.118215	0.610946
+	Ownership Concentration (OC)	-0.000453	-0.140789	-0.005677	-0.926907	+	Predicted Ownership Concentration (OCF)	0.002286	0.137010	0.009287*	1.791445
-	Average Independent Directors Tenure (Tenure)	0.001169	0.080772	-0.047610*	-1.757832	-	Average Independent Directors Tenure (Tenure)	-0.032256	-0.444672	0.016488	0.753992
-	No. of Local Banks Engaged by the Firm (Banks)	0.014093	0.445018	0.008565	0.142616	-	No. of Local Banks Engaged by the Firm (Banks)	-0.224939	-1.286172	-0.013591	-0.259033
+	Ln (Firm Risk)	0.134404***	9.254627	0.157321***	6.236005	+	Ln (Firm Risk)	0.026814***	2.680369	0.008637***	2.929133
+/-	Leverage (LEV)	0.894811***	13.62808	0.046825	0.397282	+/-	Leverage (LEV)	-0.051418	-1.235410	-0.049596***	-3.805393
+/-	Firm Size (SIZE)	-0.064134***	-3.603028	-0.015904	-0.473369	+/-	Firm Size (SIZE)	0.020996***	1.781532	0.006961**	1.995164
+/-	Independent Directors Ratio (IDR)	-0.207928	-1.556100	-0.461441*	-1.897754	+/-	Independent Directors Ratio (IDR)	-0.086217	-1.102435	-0.040820*	-1.712406
+	Non-Affiliated Blockholders (NAB)	-0.000891**	-2.028292	-0.002965***	-3.540177	+	Non-Affiliated Blockholders (NAB)	0.0000317	0.134420	0.0000649	0.913116
+	Ln (Age)	0.013963	0.450606	-0.011212	-0.166711	+	Ln (Age)	-0.016441	-1.218349	-0.006800	-1.504764
+	Sales Growth (SG)	0.000065	0.614829	0.000285	1.462980	+	Sales Growth (SG)	0.0000841	1.069717	0.0000312*	1.687339
+	R&D Expenditure-to-Sales (RDS)	0.004754	0.504556	-0.005314	-0.286459	+	R&D Expenditure-to-Sales (RDS)	0.000404	0.083260	0.000720	0.479215
+	Capital Expenditure-to-Sales (CS)	0.000250	0.677411	0.000639	1.026481	+	Capital Expenditure-to-Sales (CS)	-0.000181	-0.538448	-0.000127	-1.570428
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.001992	0.666611	0.007173	1.438412	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.0000629	0.029205	-0.000718	-1.149163
+/-	Gross Domestic Product (GDP)	-0.002867	-1.390598	-0.004971	-1.344521	+/-	Gross Domestic Product (GDP)	0.006022***	2.973868	0.001254**	2.116662
-	OC x RPT	0.005713**	2.131741	0.010767**	2.256633	-	OCF x RPT	-0.012669	-0.838188	-0.002955	-0.644278
-	OC x Tenure	-0.000089	-0.295703	0.000998*	1.773421	-	OCF x Tenure	0.000972	0.566151	-0.000322	-0.622006
-	OC x Banks	-0.000238	-0.326688	-0.000406	-0.293887	-	OCF x Banks	0.005096	1.236446	0.000242	0.195529
	N	379		379			N	379		379	
	Adjusted R-Squared (%)	19.5837		4.5649			Adjusted R-Squared (%)	5.1093		7.4912	
	F-Statistic	16.36934***		4.018787***			F-Statistic	4.398147***		6.110641***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

Table 6.5: Actual Regression Results (Main Results) : Normal OLS Regression Fixed Effects Model (Family Firms)

Expected Signs	Independent Variables And Intercept	Dependent Variable				Expected Signs	Independent Variables And Intercept	Dependent Variable			
		Tobin's Q		MBV				ROE		ROA	
		Coeff.	t-stats	Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	2.363890***	6.452472	1.825755***	2.662796	+/-	Intercept	-0.339265	-0.511053	-0.435943**	-2.110675
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-0.202508*	-1.706911	-0.469336**	-2.233266	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.517745	0.813304	0.118155	0.610435
+	Ownership Concentration (OC)	0.0000467	0.014630	-0.004747	-0.782595	+	Predicted Ownership Concentration (OCF)	0.002450	0.146814	0.009256*	1.784819
-	Average Independent Directors Tenure (Tenure)	0.003535	0.245440	-0.042014	-1.561480	-	Average Independent Directors Tenure (Tenure)	-0.031439	-0.433256	0.016344	0.747055
-	No. of Local Banks Engaged by the Firm (Banks)	0.015970	0.507405	0.010079	0.169449	-	No. of Local Banks Engaged by the Firm (Banks)	-0.224343	-1.282432	-0.013738	-0.261720
+	Ln (Firm Risk)	0.132238***	9.220905	0.155072***	6.245850	+	Ln (Firm Risk)	0.026645***	2.662668	0.008664***	2.936636
+/-	Leverage (LEV)	0.893023***	13.80540	0.026543	0.229637	+/-	Leverage (LEV)	-0.050822	-1.220747	-0.049744***	-3.814554
+/-	Firm Size (SIZE)	-0.066326***	-3.739557	-0.013646	-0.407697	+/-	Firm Size (SIZE)	0.020984*	1.779914	0.006967**	1.996397
+/-	Independent Directors Ratio (IDR)	-0.162274	-1.223142	-0.363763	-1.510678	+/-	Independent Directors Ratio (IDR)	-0.088793	-1.134489	-0.040227*	-1.684573
+	Non-Affiliated Blockholders (NAB)	-0.000815*	-1.870934	-0.002815***	-3.401178	+	Non-Affiliated Blockholders (NAB)	0.0000266	0.112971	0.0000659	0.926996
+	Ln (Age)	0.020166	0.650679	0.009941	0.147741	+	Ln (Age)	-0.016714	-1.237921	-0.006724	-1.486372
+	Sales Growth (SG)	0.0000713	0.695329	0.000267	1.423681	+	Sales Growth (SG)	0.0000825	1.049515	0.0000314*	1.694844
+	R&D Expenditure-to-Sales (RDS)	0.003967	0.425690	-0.007444	-0.407159	+	R&D Expenditure-to-Sales (RDS)	0.000454	0.093600	0.000712	0.473521
+	Capital Expenditure-to-Sales (CS)	0.000254	0.695779	0.000570	0.929265	+	Capital Expenditure-to-Sales (CS)	-0.000183	-0.543920	-0.000127	-1.565549
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.001910	0.643804	0.007172	1.450970	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.0000695	0.032241	-0.000720	-1.150586
-	OC x RPT	0.005776**	2.182495	0.011632**	2.477556	-	OCF x RPT	-0.012689	-0.839287	-0.002954	-0.643758
-	OC x Tenure	-0.000110	-0.367365	0.000929*	1.662464	-	OCF x Tenure	0.000952	0.554020	-0.000318	-0.614641
-	OC x Banks	-0.000291	-0.402107	-0.000493	-0.360764	-	OCF x Banks	0.005083	1.232901	0.000245	0.198074
	N	379		379			N	379		379	
	Adjusted R-Squared (%)	22.0588		8.8653			Adjusted R-Squared (%)	5.1188		7.4272	
	F-Statistic	17.92157***		6.816098***			F-Statistic	4.225585***		5.796987***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

Table 6.6: Actual Regression Results (Main Results) : Normal OLS Regression Pooled Model (Non-Family Firms)

Expected Signs	Independent Variables And Intercept	Dependent Variable Tobin's Q		Expected Signs	Independent Variables And Intercept	Dependent Variable MBV		ROE		ROA	
		Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	3.100880**	2.384321	+/-	Intercept	-0.201739	-0.074113	0.144871	0.323179	-0.104591	-0.548989
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	2.231071	1.640629	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.354976	0.547638	-0.162824	-0.768752	-0.057495	-0.612679
+	Predicted Ownership Concentration (OCF)	-0.028700	-1.026797	+	Ownership Concentration (OC)	0.015463	1.584547	0.001665	0.490670	0.002345	1.611708
-	Average Independent Directors Tenure (Tenure)	-0.349182***	-2.771052	-	Average Independent Directors Tenure (Tenure)	0.079759	1.163419	0.011197	0.598668	0.025091***	3.132329
-	No. of Local Banks Engaged by the Firm (Banks)	0.555555	1.502203	-	No. of Local Banks Engaged by the Firm (Banks)	-0.112630	-0.712071	-0.014214	-0.307514	-0.026752	-1.377378
+	Ln (Firm Risk)	0.218367***	4.703061	+	Ln (Firm Risk)	0.228468***	3.735366	0.046824*	1.807577	0.021009**	2.015505
+/-	Leverage (LEV)	0.298807	0.835810	+/-	Leverage (LEV)	1.609717***	3.140328	0.118710	0.680196	-0.019688	-0.274449
+/-	Independent Directors Ratio (IDR)	-0.724917**	-2.274113	+/-	Firm Size (SIZE)	0.056663	0.435070	0.002390	0.130928	0.005760	0.719887
+	Non-Affiliated Blockholders (NAB)	-0.000834	-1.497465	+/-	Independent Directors Ratio (IDR)	-0.426762	-0.853299	-0.142149	-0.772503	-0.073997	-0.997818
+	Ln (Age)	0.053165	0.581570	+	Non-Affiliated Blockholders (NAB)	-0.001367	-1.261277	-0.000273	-1.104287	-0.0000114	-0.103425
+	Sales Growth (SG)	-0.000560	-0.985805	+	Ln (Age)	0.200528	0.711398	-0.000346	-0.010505	-0.008092	-0.577816
+	R&D Expenditure-to-Sales (RDS)	-0.048826	-0.657835	+	Sales Growth (SG)	-0.001083	-1.564894	0.000390	0.770269	0.000540***	3.417532
+	Capital Expenditure-to-Sales (CS)	-0.000207	-0.081608	+	R&D Expenditure-to-Sales (RDS)	-0.019730	-0.190083	-0.017320	-0.396816	0.016034	1.089810
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.006046	0.743380	+	Capital Expenditure-to-Sales (CS)	-0.001028	-0.411025	-0.001966	-1.323947	-0.000390	-0.649562
+/-	Gross Domestic Product (GDP)	-0.005029	-0.569562	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	-0.010273	-0.540498	0.003275	1.078946	0.000761	0.591598
-	OCF x RPT	-0.052470*	-1.695910	+/-	Gross Domestic Product (GDP)	0.002017	0.207367	-0.017593**	-2.314069	0.000744	0.312012
-	OCF x Tenure	0.007589***	2.859474	-	OC x RPT	-0.016655	-0.916391	0.002272	0.481165	0.001186	0.573095
-	OCF x Banks	-0.013014	-1.637064	-	OC x Tenure	-0.001139	-0.868013	-0.000106	-0.292708	-0.000413***	-2.762952
	N	151		-	OC x Banks	-0.002408	-0.775637	-0.000032	-0.031493	0.000355	0.828131
	Adjusted R-Squared (%)	7.999			N	151		151		151	
	F-Statistic	3.311714***			Adjusted R-Squared (%)	4.4544		0.8235		5.8652	
					F-Statistic	2.170701***		1.208500		2.564587***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

Table 6.7: Actual Regression Results (Main Results) : Normal OLS Regression Fixed Effects Model (Non-Family Firms)

Expected Signs	Independent Variables And Intercept	Dependent Variable		Expected Signs	Independent Variables And Intercept	Dependent Variable					
		Tobin's Q				MBV		ROE		ROA	
		Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	2.558357**	2.011223	+/-	Intercept	-0.817141	-0.302043	0.089645	0.200751	-0.082442	-0.442867
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	1.804638	1.365384	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.154293	0.244269	-0.163082	-0.769007	-0.062057	-0.671888
+	Predicted Ownership Concentration (OCF)	-0.018641	-0.679537	+	Ownership Concentration (OC)	0.018167*	1.912439	0.001670	0.491496	0.002320	1.621396
-	Average Independent Directors Tenure (Tenure)	-0.311805**	-2.542704	-	Average Independent Directors Tenure (Tenure)	0.078337	1.173956	0.011225	0.599458	0.025464***	3.232908
-	No. of Local Banks Engaged by the Firm (Banks)	0.650393*	1.785028	-	No. of Local Banks Engaged by the Firm (Banks)	-0.054152	-0.346681	-0.014175	-0.306276	-0.026903	-1.409616
+	Ln (Firm Risk)	0.215914***	4.875897	+	Ln (Firm Risk)	0.230107***	3.900836	0.046839*	1.805948	0.020440**	1.996914
+/-	Leverage (LEV)	0.303445	0.874229	+/-	Leverage (LEV)	1.583190***	3.168225	0.118519	0.678284	-0.027891	-0.395502
+/-	Independent Directors Ratio (IDR)	-0.736087**	-2.432912	+/-	Firm Size (SIZE)	0.064804	0.500500	0.002401	0.131348	0.006413	0.815086
+	Non-Affiliated Blockholders (NAB)	-0.000746	-1.402200	+/-	Independent Directors Ratio (IDR)	-0.413631	-0.859522	-0.142124	-0.771451	-0.069525	-0.954197
+	Ln (Age)	0.078256	0.854881	+	Non-Affiliated Blockholders (NAB)	-0.001182	-1.128797	-0.000273	-1.102325	-0.0000122	-0.113004
+	Sales Growth (SG)	-0.000573	-1.080574	+	Ln (Age)	0.300760	1.054437	-0.000329	-0.009974	-0.008749	-0.636227
+	R&D Expenditure-to-Sales (RDS)	-0.029484	-0.426048	+	Sales Growth (SG)	-0.001060	-1.594937	0.000391	0.770615	0.000546***	3.511185
+	Capital Expenditure-to-Sales (CS)	-0.000712	-0.287661	+	R&D Expenditure-to-Sales (RDS)	0.011535	0.117226	-0.017277	-0.395335	0.017929	1.239416
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.004933	0.613759	+	Capital Expenditure-to-Sales (CS)	-0.001441	-0.586739	-0.001966	-1.322263	-0.000390	-0.660245
-	OCF x RPT	-0.043654	-1.451417	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	-0.013037	-0.696634	0.003274	1.077304	0.000844	0.667756
-	OCF x Tenure	0.006758***	2.618717	-	OC x RPT	-0.012488	-0.706335	0.002277	0.481597	0.001323	0.649960
-	OCF x Banks	-0.014855*	-1.895960	-	OC x Tenure	-0.001152	-0.900616	-0.000106	-0.293815	-0.000417***	-2.839332
	N	151		-	OC x Banks	-0.003148	-1.032677	-0.0000328	-0.032216	0.000351	0.835323
	Adjusted R-Squared (%)	11.6274			N	151		151		151	
	F-Statistic	4.303926***			Adjusted R-Squared (%)	7.3821		0.5962		6.8764	
					F-Statistic	2.896144***		1.142681		2.756661***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

Table 6.8: Actual Regression Results (Main Results) : Normal OLS Regression Pooled Model (Family Firms And Non-Family Firms)

Expected Signs	Independent Variables And Intercept	Dependent Variable				Expected Signs	Independent Variables And Intercept	Dependent Variable			
		Tobin's Q		MBV				ROE		ROA	
		Coeff.	t-stats	Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	3.295714***	7.213038	1.461046	1.607214	+/-	Intercept	-0.482789	-0.890130	0.005854	0.034798
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-0.261851*	-1.855436	-0.367914*	-1.684581	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.604999	1.017361	0.169494	0.949196
+	Ownership Concentration (OC)	-0.001794	-0.545947	0.011140**	2.064864	+	Predicted Ownership Concentration (OCF)	0.022776*	1.670966	0.004387	1.023092
-	Average Independent Directors Tenure (Tenure)	-0.023131	-1.360553	0.012795	0.434102	-	Average Independent Directors Tenure (Tenure)	0.068063	1.243006	-0.008904	-0.513908
-	No. of Local Banks Engaged by the Firm (Banks)	0.023375	0.617698	0.044614	0.692366	-	No. of Local Banks Engaged by the Firm (Banks)	-0.184690	-1.323012	-0.106861**	-2.440500
+	Ln (Firm Risk)	0.145049***	8.356504	0.162015***	6.325004	+	Ln (Firm Risk)	0.043691***	3.307818	0.010996***	2.839276
+/-	Leverage (LEV)	0.839324***	9.934288	0.203629	1.583910	+/-	Leverage (LEV)	-0.073548	-1.055979	-0.075601***	-3.924135
+/-	Firm Size (SIZE)	-0.088450***	-4.150570	-0.005301	-0.122298	+/-	Firm Size (SIZE)	-0.012875	-0.731565	-0.004763	-0.852987
+/-	Independent Directors Ratio (IDR)	-0.404434***	-2.663490	-0.371000	-1.506337	+/-	Independent Directors Ratio (IDR)	-0.190531**	-2.006651	-0.060297**	-2.074642
+	Non-Affiliated Blockholders (NAB)	-0.000983***	-2.805956	-0.002143***	-3.225725	+	Non-Affiliated Blockholders (NAB)	-0.000195	-1.001494	0.00000325	0.053782
+	Ln (Age)	0.022056	0.605873	0.010650	0.108787	+	Ln (Age)	-0.008842	-0.521779	-0.007372	-1.399589
+	Sales Growth (SG)	0.000025	0.205325	0.0000952	0.476462	+	Sales Growth (SG)	0.000124	1.001892	0.0000616**	2.078346
+	R&D Expenditure-to-Sales (RDS)	-0.001003	-0.082079	-0.013630	-0.551515	+	R&D Expenditure-to-Sales (RDS)	0.001304	0.185055	0.002894	1.324262
+	Capital Expenditure-to-Sales (CS)	-0.000096	-0.181017	0.0000983	0.140562	+	Capital Expenditure-to-Sales (CS)	-0.000420	-1.063279	-0.0000445	-0.360930
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.001733	0.471200	0.001309	0.233062	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.001412	0.669260	0.000198	0.296649
+/-	Gross Domestic Product (GDP)	-0.003091	-1.045226	-0.004272	-1.139570	+/-	Gross Domestic Product (GDP)	0.000432	0.145700	0.001231	1.482685
-	OC x RPT	0.006608**	2.082602	0.009279*	1.856278	-	OCF x RPT	-0.015027	-1.096085	-0.004012	-0.974906
-	OC x Tenure	0.000455	1.334643	-0.000270	-0.463133	-	OCF x Tenure	-0.001312	-1.051498	0.000283	0.718649
-	OC x Banks	-0.000601	-0.704877	-0.002076	-1.450143	-	OCF x Banks	0.003874	1.213513	0.002334**	2.332857
	Firm Type	-0.260253***	-4.310242	-0.501872***	-3.441964		Firm Type	0.012786	0.475872	0.006682	0.784250
	N	530		530			N	530		530	
	Adjusted R-Squared (%)	10.6119		4.2385			Adjusted R-Squared (%)	3.6629		5.546	
	F-Statistic	10.92846***		4.701634***			F-Statistic	4.179829***		5.910572***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

Table 6.9: Actual Regression Results (Main Results) : Normal OLS Regression Fixed Effects Model (Family Firms And Non-Family Firms)

Expected Signs	Independent Variables And Intercept	Dependent Variable				Expected Signs	Independent Variables And Intercept	Dependent Variable			
		Tobin's Q		MBV				ROE		ROA	
		Coeff.	t-stats	Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	3.174151***	7.048353	1.069257	1.188690	+/-	Intercept	-0.483561	-0.892161	0.010605	0.063234
-	Related Party Transactions That Are Likely to result in Exrpropriation Ratio (RPT)	-0.278596**	-2.026126	-0.441037**	-2.072551	-	Related Party Transactions That Are Likely to result in Exrpropriation Ratio (RPT)	0.605793	1.018370	0.168905	0.947398
+	Ownership Concentration (OC)	-0.000493	-0.152875	0.012718**	2.407940	+	Predicted Ownership Concentration (OCF)	0.022757*	1.669044	0.004553	1.063683
-	Average Independent Directors Tenure (Tenure)	-0.019223	-1.148165	0.018644	0.644037	-	Average Independent Directors Tenure (Tenure)	0.067876	1.239168	-0.008353	-0.482999
-	No. of Local Banks Engaged by the Firm (Banks)	0.032371	0.868057	0.055311	0.874687	-	No. of Local Banks Engaged by the Firm (Banks)	-0.184726	-1.322852	-0.106268	-2.431422
+	Ln (Firm Risk)	0.142268***	8.418025	0.161657***	6.485205	+	Ln (Firm Risk)	0.043621***	3.301168	0.010891	2.816400
+/-	Leverage (LEV)	0.829360***	10.08514	0.175334	1.402214	+/-	Leverage (LEV)	-0.073392	-1.053379	-0.076633	-3.984099
+/-	Firm Size (SIZE)	-0.088060***	-4.173744	0.000988	0.022996	+/-	Firm Size (SIZE)	-0.012876	-0.731402	-0.004736	-0.849781
+/-	Independent Directors Ratio (IDR)	-0.359560**	-2.421700	-0.274727	-1.142689	+/-	Independent Directors Ratio (IDR)	-0.191057**	-2.011330	-0.059054	-2.035246
+	Non-Affiliated Blockholders (NAB)	-0.000890***	-2.601723	-0.001945***	-3.005134	+	Non-Affiliated Blockholders (NAB)	-0.000195	-1.003751	0.00000342	0.056680
+	Ln (Age)	0.038367	1.054850	0.087447	0.889467	+	Ln (Age)	-0.008918	-0.526066	-0.007433	-1.413891
+	Sales Growth (SG)	0.0000313	0.268315	0.0000954	0.497634	+	Sales Growth (SG)	0.000124	0.997682	0.0000616	2.080169
+	R&D Expenditure-to-Sales (RDS)	-0.00183	-0.153172	-0.015428	-0.642644	+	R&D Expenditure-to-Sales (RDS)	0.001310	0.185825	0.002932	1.344516
+	Capital Expenditure-to-Sales (CS)	-0.0000867	-0.167655	0.0000288	0.042256	+	Capital Expenditure-to-Sales (CS)	-0.000420	-1.063282	-0.0000428	-0.347458
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.001194	0.329456	0.000851	0.154206	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.001415	0.670529	0.000207	0.310870
-	OC x RPT	0.006824**	2.203240	0.010718**	2.198332	-	OCF x RPT	-0.015044	-1.096964	-0.003990	-0.971104
-	OC x Tenure	0.000392	1.166304	-0.000348	-0.607104	-	OCF x Tenure	-0.001308	-1.047769	0.000271	0.689248
-	OC x Banks	-0.000787	-0.938313	-0.002332*	-1.662405	-	OCF x Banks	0.003875	1.213373	0.002319	2.322876
	Firm Type	-0.254476***	-4.230453	-0.492465***	-3.379930		Firm Type	0.012745	0.474181	0.006716	0.789746
	N	530		530			N	530		530	
	Adjusted R-Squared (%)	13.9344		8.6674			Adjusted R-Squared (%)	3.6086		5.6987	
	F-Statistic	13.86331***		8.539710***			F-Statistic	3.974338***		5.801235***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

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The following are the summary of the research results for key variables analysed in this research:

Table 6.10: Summary of Research Results (Key Variables)(Coefficients)(Family Firms)

Main Variables Tested	Firm Value			
	Tobin's Q	Market-to-Book Value (MBV)	Return On Equity (ROE)	Return On Asset (ROA)
Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-0.198689* *-0.202508*	-0.422146** *-0.469336**	0.516853 *0.517745*	0.118215 *0.118155*
Average Independent directors' tenure (Tenure)	0.001169 *0.003535*	-0.04761* *-0.042014*	-0.032256 *-0.031439*	0.016488 *0.016344*
No. of Domestic banks Engaged by the Firm (Banks)	0.014093 *0.01597*	0.008565 *0.010079*	-0.224939 *-0.224343*	-0.013591 *-0.013738*
Interaction Between Ownership Concentration And RPT	0.005713** *0.005776**	0.010767** *0.011632**	-0.012669 *-0.012689*	-0.002955 *-0.002954*
Interaction Between Ownership Concentration And Tenure	-0.000089 *-0.00011*	0.000998* *0.000929*	0.000972 *0.000952*	-0.000322 *-0.000318*
Interaction Between Ownership Concentration And Banks	-0.000238 *-0.000291*	-0.000406 *-0.000493*	0.005096 *0.005083*	0.000242 *0.000245*

*10% significance level   **5% significance level   ***1% significance level
Italic figures represent coefficients of Fixed Effects Model.

Table 6.11: Summary of Research Results (Key Variables)(Non-Family Firms)

Main Variables Tested	Firm Value			
	Tobin's Q	Market-to-Book Value (MBV)	Return On Equity (ROE)	Return On Asset (ROA)
Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	2.231071 *1.804638*	0.354976 *0.154293*	-0.162824 *-0.163082*	-0.057495 *-0.062057*
Average Independent directors' tenure (Tenure)	-0.349182*** *-0.311805****	0.079759 *0.078337*	0.011197 *0.011225*	0.025091*** *0.025464****
No. of Domestic banks Engaged by the Firm (Banks)	0.555555 0.650393*	-0.11263 *-0.054152*	-0.014214 *-0.014175*	-0.026752 *-0.026903*
Interaction Between Ownership Concentration And RPT	-0.05247* *-0.043654*	-0.016655 *-0.012488*	0.002272 *0.002277*	0.001186 *0.001323*
Interaction Between Ownership Concentration And Tenure	0.007589*** *0.006758****	-0.001139 *-0.001152*	-0.000106 *-0.000106*	-0.000413*** *-0.000417****
Interaction Between Ownership Concentration And Banks	-0.013014 *-0.014855**	-0.002408 *-0.003148*	-0.000032 *0.0000328*	0.000355 *0.000351*

*10% significance level   **5% significance level   ***1% significance level
Italic figures represent coefficients of Fixed Effects Model.

Table 6.12: Summary of Research Results (Key Variables)(Family Firms And Non-Family Firms)

Main Variables Tested	Firm Value			
	Tobin's Q	Market-to-Book Value (MBV)	Return On Equity (ROE)	Return On Asset (ROA)
Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-0.261851* *-0.278596***	-0.367914* *-0.441037***	0.604999 *0.605793*	0.169494 *0.168905*
Average Independent directors' tenure (Tenure)	-0.023131 *-0.019223*	0.012795 *0.018644*	0.068063 *0.067876*	-0.008904 *-0.008353*
No. of Domestic banks Engaged by the Firm (Banks)	0.23375 *0.032371*	0.044614 *0.055311*	-0.18469 *-0.184726*	-0.106861** *-0.106268*
Interaction Between Ownership Concentration And RPT	0.006608** *0.006824***	0.009279* *0.010718***	-0.015027 *-0.015044*	-0.004012 *-0.00399*
Interaction Between Ownership Concentration And Tenure	0.000455 *0.000392*	-0.00027 *-0.000348*	-0.001312 *-0.001308*	0.000283 *0.000271*
Interaction Between Ownership Concentration And Banks	-0.000601 *-0.000787*	-0.002076 *-0.002332**	0.003874 *0.003875*	0.002334** *0.002319*
Firm Type	-0.260253*** *-0.254476****	-0.501872*** *-0.492465****	0.012786 *0.012745*	0.006682 *0.006716*

*10% significance level   **5% significance level   ***1% significance level
Italic figures represent coefficients of Fixed Effects Model.

For family firms analysed in this research, RPTs which are likely to results in expropriation reduce firm value and it is statistically significant at 5% and 10% significance level. However, this reduction only affect market-based measures of firm value only i.e. Tobin's Q and MBV. In addition, controlling shareholders' ownership has a statistically significant positive moderating effect on this negative relationship at 5% significance level. However, this significant positive moderating effect also only affect market-based measures of firm value only i.e. Tobin's Q and MBV. For non-family firms, RPTs which are likely to results in expropriation does not have a significant relationship with firm value for both market-based and accounting-based performance measures. However, controlling shareholders' ownership have a significant negative moderating effect on the relationship between RPTs which are likely to results in expropriation and firm value at 10% significance level. However, this significant negative moderating effect is also restricted to market-based measures of firm value only i.e. Tobin's Q. For the pooled model (family and non-family firms) analysed in this research, RPTs which are likely to results in expropriation reduce firm value and it is statistically significant at 1% and 5% significance level. However, this reduction only affect market-based measures of firm value only i.e. Tobin's Q and MBV. In addition, controlling shareholders' ownership has a statistically significant positive moderating effect on this negative relationship at 1% and 5% significance level respectively. However, this significant positive moderating effect also only affect market-based measures of firm value only i.e. Tobin's Q and MBV.

In the family firm model, ownership concentration has a positive relationship with firm value but it is restricted to accounting-based performance measures only (ROA). However, in non-family firms, ownership concentration has a positive relationship with firm value but it is restricted to market-based performance measures only (MBV). Likewise, in the pooled model (family and non-family firms), ownership concentration

has a positive relationship with firm value for both market-based and accounting-based performance measures (i.e. MBV and ROE).

For family firms analysed in this research, average independent directors' tenure reduces firm value and it is statistically significant at 10% significance level. However, this reduction only affect market-based measures of firm value only i.e MBV. Controlling shareholders' ownership also has a statistically significant positive moderating effect on this negative relationship at 10% significance level. However, this significant positive moderating effect only affect market-based measures of firm value only i.e. MBV. For non-family firms, there is inconclusive evidence on the relationship between average independent directors' tenure and firm value as there is a significant negative relationship for market-based performance measures (Tobin's Q) at a significance level of 1% and a significant positive relationship for accounting-based performance measures (ROA) also at a significance level of 1%. There is also inconclusive evidence on the moderating effect of controlling shareholders' ownership on this relationship. For market-based performance measures (Tobin's Q), there is a significant positive moderating effect which is significant at 5% significance level whereas for accounting-based performance measures (ROA), there is a significant negative moderating effect which is significant at 5% significance level. For the pooled (family and non-family firms) model, there is no statistical significant relationship between average independent directors' tenure and firm value as well as no significant moderating effect of controlling shareholders' ownership on this relationship.

For family firms analysed in this research, the number of domestic banks that the firm engages with do not have any statistical significant relationship with firm value. Controlling shareholders' ownership also do not have any statistical significant moderating effect on this relationship. For non-family firms, there is a significant positive relationship between the number of domestic banks that the firm engages with

and firm value at 10% significance level. In addition, controlling shareholders' ownership have a significant negative moderating effect on this relationship at 10% significance level. However, both this significant positive relationship and significant negative moderating effect are restricted to market-based performance measures only (i.e. Tobin's Q). For the pooled model (family and non-family firms) results, there is a statistical significant negative relationship between the number of domestic banks that the firm engages with and firm value and this is statistically significant at 5% significance level. However, this reduction only affect accounting-based performance measures of firm value i.e ROA. For the pooled model (family and non-family firms), there is also inconclusive evidence on the moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value as there is a statistically significant positive moderating effect on accounting-based performance measures (i.e. ROA and significant at 5% significance level) and a statistically significant negative moderating effect on market-based performance measures (i.e. MBV and significant at 10% significance level).

In the pooled model (family and non-family firms) results, family firms has a lower firm value as compared with non-family firms and this is statistically significant at 1% significance level. In addition, in the pooled model (family and non-family firms), the joint hypotheses of $H_0 : \beta_{\text{RPTs of family firms}}$ and $\beta_{\text{RPTs of non- family firms}} = 0$ is rejected and has a significant negative relationship as derived from the regression results. Both these results prove that the negative relationship between RPT and firm value is stronger in family firms compared to non-family firms. However, this only affect market-based measures i.e. Tobin's Q and MBV. Likewise, in the pooled model (family and non-family firms), the joint hypotheses of $H_0 : \beta_{\text{OC x RPTs of family firms}}$ and $\beta_{\text{OC x RPTs of non- family firms}} = 0$ is rejected and has a significant positive moderating effect as derived from the regression results. Both these results prove that the significant positive moderating

effect of controlling shareholders' ownership on this relationship is stronger in family firms compared to non-family firms due to the overall lower firm value of family firms (i.e. market-based measures of Tobin's Q and MBV) which renders a stronger corporate reputational effects in family firms. On the other hand, the rejection of the joint hypotheses of H_0 : $\beta_{OC \times RPTs \text{ of family firms}}$ and $\beta_{OC \times RPTs \text{ of non-family firms}} = 0$ also shows that it cannot be proven whether the significant negative moderating effect of non-family firms' controlling shareholders' ownership on the relationship between RPT which are likely to result in expropriation and firm value is stronger in non-family compared to family firms because the sign of the β is positive, not negative.

Although there is a statistical significant negative relationship between average independent directors' tenure and firm value (i.e. MBV) in family firms and overall, family firms has a lower firm value (i.e. Tobin's Q and MBV) as compared with non-family firms and this is statistically significant at 1% significance level; these results cannot prove that the negative relationship between average independent directors' tenure and firm value is stronger in family firms compared to non-family firms because the joint hypotheses in the pooled model (family and non-family firms) i.e. H_0 : $\beta_{\text{tenure of family firms}}$ and $\beta_{\text{tenure of non-family firms}} = 0$ is not rejected as derived from the regression results. Although, controlling shareholders' ownership also has a statistically significant positive moderating effect on the negative relationship between average independent directors' tenure and firm value (i.e. MBV) in family firms and overall family firms has a lower firm value (i.e. Tobin's Q and MBV) as compared with non-family firms and this is statistically significant at 1% significance level; these results cannot prove that the positive moderating effect of controlling shareholders' ownership on the relationship between average independent directors' tenure and firm value is stronger in family firms compared to non-family firms because the joint hypotheses in the pooled

model (family and non-family firms) i.e. $H_0 : \beta_{oc \ x \ tenure \ of \ family \ firms}$ and $\beta_{oc \ x \ tenure \ of \ non-family \ firms} = 0$ is not rejected as derived from the regression results.

Even though there is a statistically significant positive relationship between the number of domestic banks that the firm engages with and firm value (i.e. market-based performance measure Tobin's Q) in non-family firms; this result cannot prove that this positive relationship is stronger in non-family firms compared to family firms because overall family firms family has a lower firm value as compared with non-family firms for market-based performance measures and this is statistically significant at 1% significance level.

Despite the fact that non-family firms' controlling shareholders' ownership has a statistically significant negative moderating effect on the relationship between the number of domestic banks that the firm engages with and firm value (i.e. market-based measure Tobin's Q), this result cannot prove that the significant negative moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value (i.e. Tobin's Q) is stronger in non-family firms compared to family firms because because the joint hypotheses in the pooled model (family and non-family firms) i.e. $H_0 : \beta_{oc \ x \ banks \ of \ family \ firms}$ and $\beta_{oc \ x \ banks \ of \ non-family \ firms} = 0$ is not rejected as derived from the regression results for market-based performance measures (Tobin's Q).

For family firms, non-family firms and the pooled model (family and non-family firms), firm risk is significantly positively related to firm value for both market-based performance measures and accounting-based performance measures at 1%, 5% and 10% significance level respectively. For family firms and the pooled model (family and non-family firms), leverage has a significant positive relationship with market-based performance measures (Tobin's Q) at 1% significance level but a significant negative

relationship with accounting-based performance measures (ROE and ROA) at 1% significance level. However, for non-family firms, leverage has a significant positive relationship with market-based performance measures (MBV) at 1% significance level.

In addition, for family firms, firm size has a significant negative relationship with market-based performance measures (Tobin's Q) at 1% significance level but a significant positive relationship with accounting-based performance measures (ROE and ROA) at 1% and 10% significance level respectively. For non-family firms, there is no significant relationship between firm size and firm value for both market-based and accounting-based performance measures. In the pooled model (family and non-family firms), firm size has a significant negative relationship with firm value for market-based performance measures only (Tobin's Q) at 1% significance level.

Furthermore, for family firms and the pooled model (family and non-family firms), independent directors' ratio has a significant negative relationship with market-based performance measures (Tobin's Q and MBV) at 1%, 5% and 10% significance level respectively and accounting-based performance measures (ROE and ROA) at 5% and 10% significance level respectively. However, for non-family firms, independent directors' ratio has a significant negative relationship with market-based performance measures (Tobin's Q) at 5% significance level.

On the other hand, for family firms and the pooled model (family and non-family firms), non-affiliated blockholders have a siginificant negative relationship with firm value but only on market-based performance measures only (Tobin's Q and MBV) at 1%, 5% and 10% significance level respectively. However, for non-family firms, there is no significant relationship between non-affiliated blockholders and firm value for both market-based and accounting-based performance measures.

In family firms firms, non-family firms and the pooled model (family and non-family firms), firm age has no significant relationship with firm value for both market-based performance measures and accounting-based performance measures.

Likewise, for family firms, non-family firms and the pooled model (family and non-family firms), sales growth has a significant positive relationship with accounting-based performance measures (ROA) (significant at 1%, 5% and 10% significance level respectively) but not market-based performance measures.

Moreover, for both family firms, non-family firms and the pooled model (family and non-family firms), R&D expenditures, capital expenditures and marketing & advertising expenditures have no significant relationship with firm value for both market-based performance measures and accounting-based performance measures.

For family firms, GDP has a significant positive relationship with only accounting-based performance measures (i.e. ROE and ROA) at 1% and 5% significance level respectively. For non-family firms, GDP has a significant negative relationship with only accounting-based performance measures (i.e. ROE) at 5% significance level. For the pooled model (family and non-family firms), GDP has no significant relationship with firm value for both market-based and accounting-based performance measures.

6.5   ROBUSTNESS   TEST RESULTS

The following are the robustness test results :

Table 6.13: Actual Regression Results (Main Results) : Normal OLS Regression Pooled Model (Family Firms)(Without Biased Industries)

Expected Signs	Independent Variables And Intercept	Dependent Variable				Expected Signs	Independent Variables And Intercept	Dependent Variable			
		Tobin's Q		MBV				ROE		ROA	
		Coeff.	t-stats	Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	2.157508***	7.131756	1.945428***	4.044555	+/-	Intercept	-0.692059	-1.123637	-0.389896*	-1.842765
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-0.193345*	-1.770699	-0.669589***	-3.925931	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.534871	0.887381	0.132284	0.651368
+	Ownership Concentration (OC)	0.0000844	0.031628	0.000524	0.123300	+	Predicted Ownership Concentration (OCF)	0.012947	0.834122	0.008429	1.584654
-	Average Independent Directors Tenure (Tenure)	0.003896	0.332643	0.008252	0.440201	-	Average Independent Directors Tenure (Tenure)	0.052924	0.771464	0.009961	0.434426
-	No. of Local Banks Engaged by the Firm (Banks)	0.027722	1.077686	0.012700	0.307384	-	No. of Local Banks Engaged by the Firm (Banks)	-0.189101	-1.163092	-0.004254	-0.080106
+	Ln (Firm Risk)	0.138962***	10.43838	0.232661***	11.56912	+	Ln (Firm Risk)	0.035845***	3.988312	0.010483***	3.531986
+/-	Leverage (LEV)	0.842825***	13.84242	-0.073565	-0.804679	+/-	Leverage (LEV)	-0.088834**	-2.442564	-0.053129***	-4.164259
+/-	Firm Size (SIZE)	-0.054980***	-3.855169	-0.024306	-1.070528	+/-	Firm Size (SIZE)	0.016391	1.516394	0.006132*	1.755679
+/-	Independent Directors Ratio (IDR)	-0.064726	-0.566519	-0.186983	-1.036772	+/-	Independent Directors Ratio (IDR)	-0.041207	-0.581747	-0.024683	-1.042252
+	Non-Affiliated Blockholders (NAB)	-0.000639*	-1.818537	-0.001226**	-2.197124	+	Non-Affiliated Blockholders (NAB)	-0.00000301	-0.014428	0.0000744	1.074276
+	Ln (Age)	-0.002944	-0.125444	-0.042680	-1.123877	+	Ln (Age)	-0.012594	-1.060119	-0.007221*	-1.649897
+	Sales Growth (SG)	0.000059	0.624358	0.000153	1.121389	+	Sales Growth (SG)	0.0000622	0.940144	0.0000338*	1.854752
+	R&D Expenditure-to-Sales (RDS)	0.003570	0.484472	0.003279	0.274986	+	R&D Expenditure-to-Sales (RDS)	0.000161	0.037631	0.000572	0.395150
+	Capital Expenditure-to-Sales (CS)	0.000159	0.477877	0.000358	0.703165	+	Capital Expenditure-to-Sales (CS)	-0.0000983	-0.324519	-0.0000962	-1.197563
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.000974	0.344478	0.006011	1.370002	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	-0.001032	-0.488564	-0.001119*	-1.698710
+/-	Gross Domestic Product (GDP)	-0.003074	-1.483666	-0.008593***	-2.819077	+/-	Gross Domestic Product (GDP)	0.005440***	2.689366	0.001318**	2.224062
-	OC x RPT	0.005240**	2.149765	0.015583***	4.093351	-	OCF x RPT	-0.012728	-0.886908	-0.003288	-0.681081
-	OC x Tenure	-0.000168	-0.686995	-0.000287	-0.729551	-	OCF x Tenure	-0.001187	-0.728024	-0.000169	-0.309872
-	OC x Banks	-0.000574	-0.967062	-0.000666	-0.698301	-	OCF x Banks	0.004306	1.120558	0.0000281	0.022375
	N	366		366			N	366		366	
	Adjusted R-Squared (%)	22.1874		11.7085			Adjusted R-Squared (%)	4.9594		7.9436	
	F-Statistic	18.37767***		9.081955***			F-Statistic	4.180174***		6.258943***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

Table 6.14: Actual Regression Results (Main Results) : Normal OLS Regression Fixed Effects Model (Family Firms)(Without Biased Industries)

Expected Signs	Independent Variables And Intercept	Dependent Variable				Expected Signs	Independent Variables And Intercept	Dependent Variable			
		Tobin's Q		MBV				ROE		ROA	
		Coeff.	t-stats	Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	2.146964***	7.169529	1.904325***	4.070099	+/-	Intercept	-0.675941	-1.097481	-0.385437*	-1.821258
-	Related Party Transactions That Are Likely to result in Exrpropriation Ratio (RPT)	-0.192718*	-1.786637	-0.658401***	-3.991607	-	Related Party Transactions That Are Likely to result in Exrpropriation Ratio (RPT)	0.534608	0.886637	0.132378	0.651565
+	Ownership Concentration (OC)	0.000555	0.209588	0.001575	0.381595	+	Predicted Ownership Concentration (OCF)	0.013016	0.838208	0.008415	1.581393
-	Average Independent Directors Tenure (Tenure)	0.006089	0.522608	0.013275	0.724894	-	Average Independent Directors Tenure (Tenure)	0.053097	0.773676	0.009928	0.432799
-	No. of Local Banks Engaged by the Firm (Banks)	0.029613	1.158643	0.015354	0.381174	-	No. of Local Banks Engaged by the Firm (Banks)	-0.188701	-1.160223	-0.004347	-0.081817
+	Ln (Firm Risk)	0.135068***	10.27088	0.215362***	11.08971	+	Ln (Firm Risk)	0.035784***	3.980020	0.010494***	3.533842
+/-	Leverage (LEV)	0.842490***	14.04888	-0.084899	-0.967997	+/-	Leverage (LEV)	-0.088358**	-2.428384	-0.053248***	-4.170576
+/-	Firm Size (SIZE)	-0.055784***	-3.934443	-0.025171	-1.134479	+/-	Firm Size (SIZE)	0.016345	1.511567	0.006144*	1.758284
+/-	Independent Directors Ratio (IDR)	-0.031515	-0.277998	-0.094390	-0.537869	+/-	Independent Directors Ratio (IDR)	-0.042900	-0.605154	-0.024314	-1.025153
+	Non-Affiliated Blockholders (NAB)	-0.000596*	-1.709918	-0.001089**	-2.013119	+	Non-Affiliated Blockholders (NAB)	-0.00000637	-0.030562	0.0000751	1.082985
+	Ln (Age)	-0.000577	-0.024681	-0.038393	-1.037009	+	Ln (Age)	-0.012767	-1.074039	-0.007176	-1.637946
+	Sales Growth (SG)	0.000064	0.698103	0.000144	1.122938	+	Sales Growth (SG)	0.0000614	0.927394	0.0000339*	1.859281
+	R&D Expenditure-to-Sales (RDS)	0.003116	0.427399	0.002383	0.206725	+	R&D Expenditure-to-Sales (RDS)	0.000196	0.045873	0.000566	0.390934
+	Capital Expenditure-to-Sales (CS)	0.000168	0.510746	0.000370	0.747914	+	Capital Expenditure-to-Sales (CS)	-0.000101	-0.331855	-0.0000958	-1.192996
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.000782	0.278638	0.005440	1.262256	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	-0.001018	-0.481845	-0.001121*	-1.701932
-	OC x RPT	0.005227**	2.170032	0.015312***	4.156382	-	OCF x RPT	-0.012723	-0.886249	-0.003290	-0.681192
-	OC x Tenure	-0.000194	-0.795902	-0.000340	-0.884398	-	OCF x Tenure	-0.001192	-0.730663	-0.000168	-0.307998
-	OC x Banks	-0.000621	-1.053431	-0.000763	-0.820816	-	OCF x Banks	0.004297	1.117870	0.0000301	0.023975
	N	366		366			N	366		366	
	Adjusted R-Squared (%)	24.4952		14.9475			Adjusted R-Squared (%)	4.9238		7.8684	
	F-Statistic	19.73090***		11.14690***			F-Statistic	3.990046***		5.930921***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

Table 6.15: Actual Regression Results (Main Results) : Normal OLS Regression Pooled Model (Non-Family Firms)(Without Biased Industries)

Expected Signs	Independent Variables And Intercept	Dependent Variable		Expected Signs	Independent Variables And Intercept	Dependent Variable					
		Tobin's Q				MBV		ROE		ROA	
		Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	3.404858***	3.415677	+/-	Intercept	1.572024	1.026971	-0.331505	-0.863109	-0.165750	-0.914228
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	1.819565	1.601227	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.366883	0.727820	-0.126330	-0.699294	-0.058315	-0.651407
+	Predicted Ownership Concentration (OCF)	-0.038300*	-1.811696	+	Ownership Concentration (OC)	0.014329*	1.792493	0.002560	0.880112	0.002214	1.584924
-	Average Independent Directors Tenure (Tenure)	-0.355047***	-3.536711	-	Average Independent Directors Tenure (Tenure)	0.003459	0.066995	0.014211	0.892849	0.024756***	3.240032
-	No. of Local Banks Engaged by the Firm (Banks)	0.378809	1.396708	-	No. of Local Banks Engaged by the Firm (Banks)	0.080438	0.703963	0.001979	0.050213	-0.025887	-1.396599
+	Ln (Firm Risk)	0.195907***	4.722977	+	Ln (Firm Risk)	0.208071***	4.069872	0.011104	0.486716	0.013283	1.314976
+/-	Leverage (LEV)	-0.131805	-0.448695	+/-	Leverage (LEV)	0.473489	1.169708	-0.180469	-1.152598	-0.069769	-1.001199
+/-	Independent Directors Ratio (IDR)	-0.455181*	-1.715354	+/-	Firm Size (SIZE)	-0.016964	-0.236118	0.019136	1.225000	0.008146	1.067148
+	Non-Affiliated Blockholders (NAB)	-0.000676	-1.555673	+/-	Independent Directors Ratio (IDR)	-0.656019	-1.611210	-0.036213	-0.229683	-0.047802	-0.674830
+	Ln (Age)	-0.009343	-0.140205	+	Non-Affiliated Blockholders (NAB)	-0.000688	-0.835949	-0.000187	-0.903338	0.00000568	0.054603
+	Sales Growth (SG)	-0.000495	-0.980081	+	Ln (Age)	-0.041653	-0.326434	-0.016200	-0.585244	-0.013406	-1.010916
+	R&D Expenditure-to-Sales (RDS)	-0.030942	-0.530877	+	Sales Growth (SG)	-0.000299	-0.486960	0.000607	1.306143	0.000540***	3.517986
+	Capital Expenditure-to-Sales (CS)	0.000597	0.258292	+	R&D Expenditure-to-Sales (RDS)	0.023663	0.280236	0.015209	0.407170	0.014482	1.035297
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.002044	0.339511	+	Capital Expenditure-to-Sales (CS)	-0.000467	-0.214622	-0.000466	-0.343032	-0.000173	-0.292129
+/-	Gross Domestic Product (GDP)	-0.000258	-0.029936	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	-0.001274	-0.115286	0.001735	0.676172	0.000417	0.342487
-	OCF x RPT	-0.041438	-1.629255	+/-	Gross Domestic Product (GDP)	-0.006585	-0.903042	-0.017056**	-2.192225	0.001218	0.499393
-	OCF x Tenure	0.007638***	3.586542	-	OC x RPT	-0.010321	-0.800357	0.002042	0.510267	0.001421	0.721976
-	OCF x Banks	-0.008232	-1.419086	-	OC x Tenure	0.000366	0.384122	-0.000165	-0.535662	-0.000411***	-2.894032
	N	148		-	OC x Banks	-0.002976	-1.248500	-0.0000328	-0.037667	0.000428	1.044239
	Adjusted R-Squared (%)	8.6206			N	148		148		148	
	F-Statistic	3.458360***			Adjusted R-Squared (%)	3.5082		0.3979		5.3562	
					F-Statistic	1.894793**		1.098317		2.392816***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

Table 6.16: Actual Regression Results (Main Results) : Normal OLS Regression Fixed Effects Model (Non-Family Firms)(Without Biased Industries)

Expected Signs	Independent Variables And Intercept	Dependent Variable		Expected Signs	Independent Variables And Intercept	Dependent Variable					
		Tobin's Q				MBV		ROE		ROA	
		Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	3.041131***	3.144794	+/-	Intercept	1.289281	0.850751	-0.385030	-1.006543	-0.138163	-0.782475
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	1.436663	1.310637	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.209144	0.424107	-0.126500	-0.699362	-0.063254	-0.720085
+	Predicted Ownership Concentration (OCF)	-0.030209	-1.464234	+	Ownership Concentration (OC)	0.016268**	2.087667	0.002563	0.880064	0.002172	1.585771
-	Average Independent Directors Tenure (Tenure)	-0.328330***	-3.366779	-	Average Independent Directors Tenure (Tenure)	0.005357	0.106327	0.014229	0.892877	0.025077***	3.347849
-	No. of Local Banks Engaged by the Firm (Banks)	0.461942*	1.739589	-	No. of Local Banks Engaged by the Firm (Banks)	0.114866	1.018858	0.002005	0.050789	-0.026168	-1.440812
+	Ln (Firm Risk)	0.192157***	4.882229	+	Ln (Firm Risk)	0.206136***	4.156592	0.011116	0.486637	0.012839	1.297978
+/-	Leverage (LEV)	-0.074113	-0.261438	+/-	Leverage (LEV)	0.516675	1.306165	-0.180578	-1.151889	-0.076339	-1.117460
+/-	Independent Directors Ratio (IDR)	-0.461556*	-1.843803	+/-	Firm Size (SIZE)	-0.014219	-0.199063	0.019140	1.223785	0.008709	1.164035
+	Non-Affiliated Blockholders (NAB)	-0.000596	-1.442026	+/-	Independent Directors Ratio (IDR)	-0.645712	-1.640273	-0.036193	-0.229276	-0.043560	-0.627539
+	Ln (Age)	0.004204	0.063491	+	Non-Affiliated Blockholders (NAB)	-0.000558	-0.697886	-0.000187	-0.901780	0.0000044	0.043112
+	Sales Growth (SG)	-0.000538	-1.155918	+	Ln (Age)	-0.008322	-0.065109	-0.016190	-0.584191	-0.014158	-1.090782
+	R&D Expenditure-to-Sales (RDS)	-0.020060	-0.370897	+	Sales Growth (SG)	-0.000325	-0.548401	0.000608	1.305567	0.000546***	3.615392
+	Capital Expenditure-to-Sales (CS)	-0.0000312	-0.013966	+	R&D Expenditure-to-Sales (RDS)	0.041939	0.519647	0.015233	0.407294	0.016327	1.189217
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.000948	0.159902	+	Capital Expenditure-to-Sales (CS)	-0.001000	-0.469065	-0.000466	-0.342457	-0.000180	-0.310500
-	OCF x RPT	-0.033614	-1.369579	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	-0.002930	-0.268042	0.001734	0.675041	0.000495	0.414391
-	OCF x Tenure	0.007072***	3.420104	-	OC x RPT	-0.007102	-0.562889	0.002045	0.510436	0.001566	0.811570
-	OCF x Banks	-0.009887*	-1.739857	-	OC x Tenure	0.000327	0.350499	-0.000165	-0.536068	-0.000414***	-2.972885
	N	148		-	OC x Banks	-0.003494	-1.492955	-0.0000333	-0.038198	0.000425	1.059257
	Adjusted R-Squared (%)	13.3251			N	148		148		148	
	F-Statistic	4.783628***			Adjusted R-Squared (%)	7.2298		0.165		6.4873	
					F-Statistic	2.817067***		1.038525		2.617487***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

Table 6.17: Actual Regression Results (Main Results) : Normal OLS Regression Pooled Model (Family Firms And Non-Family Firms)(Without Biased Industries)

Expected Signs	Independent Variables And Intercept	Dependent Variable				Expected Signs	Independent Variables And Intercept	Dependent Variable			
		Tobin's Q		MBV				ROE		ROA	
		Coeff.	t-stats	Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	2.981192***	8.224688	2.039946***	3.401048	+/-	Intercept	-0.560941	-1.115752	0.051390	0.311744
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-0.272620**	-2.169029	-0.438100**	-2.398006	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.260757	0.469002	0.119303	0.675470
+	Ownership Concentration (OC)	-0.002287	-0.835027	0.008403**	2.011801	+	Predicted Ownership Concentration (OCF)	0.020130	1.527616	0.002988	0.682216
-	Average Independent Directors Tenure (Tenure)	-0.026071*	-1.897441	0.005135	0.234904	-	Average Independent Directors Tenure (Tenure)	0.114812**	2.253356	-0.007298	-0.430248
-	No. of Local Banks Engaged by the Firm (Banks)	0.038542	1.244933	0.057301	1.190798	-	No. of Local Banks Engaged by the Firm (Banks)	-0.208927	-1.630701	-0.116432***	-2.740045
+	Ln (Firm Risk)	0.146020***	9.392773	0.223555***	10.45269	+	Ln (Firm Risk)	0.041524***	3.423485	0.010813***	2.868543
+/-	Leverage (LEV)	0.739587***	9.861672	0.018166	0.174745	+/-	Leverage (LEV)	-0.143832**	-2.285031	-0.086759***	-4.661365
+/-	Firm Size (SIZE)	-0.075301***	-4.541860	-0.027932	-0.997832	+/-	Firm Size (SIZE)	-0.003268	-0.183316	-0.004344	-0.730666
+/-	Independent Directors Ratio (IDR)	-0.231213*	-1.785873	-0.379817*	-1.925146	+/-	Independent Directors Ratio (IDR)	-0.151644*	-1.732223	-0.039212	-1.382118
+	Non-Affiliated Blockholders (NAB)	-0.000734***	-2.617118	-0.001125**	-2.335617	+	Non-Affiliated Blockholders (NAB)	-0.000119	-0.675960	0.0000227	0.392042
+	Ln (Age)	-0.010600	-0.388934	-0.058710	-1.188929	+	Ln (Age)	-0.009360	-0.610388	-0.009284*	-1.838205
+	Sales Growth (SG)	0.0000486	0.456640	0.000177	1.101361	+	Sales Growth (SG)	0.000134	1.248368	0.0000667**	2.344730
+	R&D Expenditure-to-Sales (RDS)	0.001158	0.118630	0.006676	0.383762	+	R&D Expenditure-to-Sales (RDS)	0.000857	0.135961	0.002493	1.203185
+	Capital Expenditure-to-Sales (CS)	-0.0000638	-0.131500	0.000501	0.818736	+	Capital Expenditure-to-Sales (CS)	-0.000407	-1.093010	-0.000015	-0.124658
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.000142	0.044802	0.001956	0.429312	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.000267	0.133022	-0.000131	-0.196236
+/-	Gross Domestic Product (GDP)	-0.002724	-0.918713	-0.008542***	-2.840079	+/-	Gross Domestic Product (GDP)	-0.000464	-0.162026	0.001398*	1.649392
-	OC x RPT	0.006514**	2.329149	0.010316**	2.510404	-	OCF x RPT	-0.006655	-0.518572	-0.002826	-0.693086
-	OC x Tenure	0.000509*	1.840547	0.00000374	0.008652	-	OCF x Tenure	-0.002508**	-2.157480	0.000242	0.625878
-	OC x Banks	-0.000733	-1.042630	-0.001788	-1.645324	-	OCF x Banks	0.004489	1.530468	0.002573***	2.646703
	Firm Type	-0.198277***	-4.437326	-0.279587***	-3.468047		Firm Type	0.022994	0.939048	0.008744	1.066745
	N	514		514			N	514		514	
	Adjusted R-Squared (%)	11.9446		9.0853			Adjusted R-Squared (%)	3.0058		5.5321	
	F-Statistic	12.00181***		9.104979***			F-Statistic	3.513374***		5.749614***	

* 10% sig.level   ** 5% sig.level   *** 1% sig.level

Table 6.18: Actual Regression Results (Main Results) : Normal OLS Regression Fixed Effects Model (Family Firms And Non-Family Firms)(Without Biased Industries)

Expected Signs	Independent Variables And Intercept	Dependent Variable				Expected Signs	Independent Variables And Intercept	Dependent Variable			
		Tobin's Q		MBV				ROE		ROA	
		Coeff.	t-stats	Coeff.	t-stats			Coeff.	t-stats	Coeff.	t-stats
+/-	Intercept	2.903995***	8.164830	1.949360***	3.302149	+/-	Intercept	-0.563796	-1.122211	0.057485	0.349842
-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-0.281612**	-2.297469	-0.466114***	-2.622057	-	Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	0.260813	0.468949	0.118957	0.674740
+	Ownership Concentration (OC)	-0.001207	-0.448913	0.009321**	2.281885	+	Predicted Ownership Concentration (OCF)	0.020122	1.526513	0.003141	0.718719
-	Average Independent Directors Tenure (Tenure)	-0.022390*	-1.654990	0.009568	0.445645	-	Average Independent Directors Tenure (Tenure)	0.114732**	2.251013	-0.006782	-0.400691
-	No. of Local Banks Engaged by the Firm (Banks)	0.046470	1.523250	0.063803	1.350747	-	No. of Local Banks Engaged by the Firm (Banks)	-0.208946	-1.630316	-0.115868***	-2.732503
+	Ln (Firm Risk)	0.141202***	9.324425	0.212159***	10.22668	+	Ln (Firm Risk)	0.041494***	3.419657	0.010726***	2.850451
+/-	Leverage (LEV)	0.737013***	10.10117	0.003144	0.031232	+/-	Leverage (LEV)	-0.143746**	-2.282858	-0.087755***	-4.723160
+/-	Firm Size (SIZE)	-0.074521***	-4.554833	-0.027986	-1.011227	+/-	Firm Size (SIZE)	-0.003273	-0.183584	-0.004317	-0.727633
+/-	Independent Directors Ratio (IDR)	-0.197358	-1.559233	-0.306801	-1.595780	+/-	Independent Directors Ratio (IDR)	-0.151872*	-1.734117	-0.037856	-1.336869
+	Non-Affiliated Blockholders (NAB)	-0.000680**	-2.478526	-0.001015**	-2.159969	+	Non-Affiliated Blockholders (NAB)	-0.000119	-0.677024	0.0000227	0.393026
+	Ln (Age)	-0.002739	-0.101072	-0.044178	-0.901963	+	Ln (Age)	-0.009392	-0.612245	-0.009363*	-1.858028
+	Sales Growth (SG)	0.0000511	0.501694	0.000164	1.071766	+	Sales Growth (SG)	0.000134	1.246344	0.0000666**	2.344668
+	R&D Expenditure-to-Sales (RDS)	0.000485	0.050826	0.005380	0.317721	+	R&D Expenditure-to-Sales (RDS)	0.000860	0.136384	0.002528	1.222799
+	Capital Expenditure-to-Sales (CS)	-0.0000537	-0.113596	0.000442	0.741115	+	Capital Expenditure-to-Sales (CS)	-0.000407	-1.093033	-0.0000135	-0.112186
+/-	Marketing & Advertising Expenditure-to-Sales (MS)	-0.000437	-0.140583	0.001290	0.288647	+/-	Marketing & Advertising Expenditure-to-Sales (MS)	0.000270	0.134018	-0.000123	-0.183790
-	OC x RPT	0.006601**	2.416893	0.010844***	2.709921	-	OCF x RPT	-0.006656	-0.518466	-0.002808	-0.690059
-	OC x Tenure	0.000456*	1.673050	-0.0000295	-0.069607	-	OCF x Tenure	-0.002506**	-2.155206	0.000231	0.597919
-	OC x Banks	-0.000898	-1.297621	-0.001942*	-1.822713	-	OCF x Banks	0.004490	1.530115	0.002559***	2.638153
	Firm Type	-0.194178***	-4.381075	-0.280973***	-3.510659		Firm Type	0.022975	0.937952	0.008770	1.072319
	N	514		514			N	514		514	
	Adjusted R-Squared (%)	15.3558		12.7604			Adjusted R-Squared (%)	2.9442		5.7039	
	F-Statistic	14.97810***		12.26994***			F-Statistic	3.337329***		5.660675***	

* 10% sig.level ** 5% sig.level *** 1% sig.level

The following are the summary of the research results of the robustness test for the key variables analysed in this research:

Table 6.19: Summary of Research Results (Key Variables)(Coefficients)

(Family Firms)(Without Biased Industries)

Main Variables Tested	Firm Value			
	Tobin's Q	Market-to-Book Value (MBV)	Return On Equity (ROE)	Return On Asset (ROA)
Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-0.193345* *-0.192718**	-0.669589*** *-0.658401****	0.534871 *0.534608*	0.132284 *0.132378*
Average Independent directors' tenure (Tenure)	0.003896 *0.006089*	0.008252 *0.013275*	0.052924 *0.053097*	0.009961 *0.009928*
No. of Domestic banks Engaged by the Firm (Banks)	0.027722 *0.029613*	0.0127 *0.015354*	-0.189101 *-0.188701*	-0.004254 *-0.004347*
Interaction Between Ownership Concentration And RPT	0.00524** *0.005227***	0.015583*** *0.015312****	-0.012728 *-0.012723*	-0.003288 *-0.00329*
Interaction Between Ownership Concentration And Tenure	-0.000168 *-0.000194*	-0.000287 *-0.00034*	-0.001187 *-0.001192*	-0.000169 *-0.000168*
Interaction Between Ownership Concentration And Banks	-0.000574 *-0.000621*	-0.000666 *-0.000763*	0.004306 *0.004297*	0.0000281 *0.0000301*

*10% significance level   **5% significance level   ***1% significance level
Italic figures represent coefficients of Fixed Effects Model.

Table 6.20: Summary of Research Results (Key Variables)(Coefficients)

(Non-Family Firms) (Without Biased Industries)

Main Variables Tested	Firm Value			
	Tobin's Q	Market-to-Book Value (MBV)	Return On Equity (ROE)	Return On Asset (ROA)
Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	1.819565 *1.436663*	0.366883 *0.209144*	-0.12633 *-0.1265*	-0.058315 *-0.063254*
Average Independent directors' tenure (Tenure)	-0.355047*** *-0.32833****	0.003459 *0.005357*	0.014211 *0.014229*	0.024756*** *0.025077****
No. of Domestic banks Engaged by the Firm (Banks)	0.378809 *0.461942**	0.080438 *0.114866*	0.001979 *0.002005*	-0.025887 *-0.026168*
Interaction Between Ownership Concentration And RPT	-0.041438 *-0.033614*	-0.010321 *-0.007102*	0.002042 *0.002045*	0.001421 *0.001566*
Interaction Between Ownership Concentration And Tenure	0.007638*** *0.007072****	0.000366 *0.000327*	-0.000165 *-0.000165*	-0.000411*** *-0.000414****
Interaction Between Ownership Concentration And Banks	-0.008232 *-0.009887**	-0.002976 *-0.003494*	-0.0000328 *-0.0000333*	0.000428 *0.000425*

*10% significance level   **5% significance level   ***1% significance level

Italic figures represent coefficients of Fixed Effects Model.

Table 6.21: Summary of Research Results (Key Variables)

(Family Firms And Non-Family Firms)(Without Biased Industries)

Main Variables Tested	Firm Value			
	Tobin's Q	Market-to-Book Value (MBV)	Return On Equity (ROE)	Return On Asset (ROA)
Related Party Transactions That Are Likely to result in Expropriation Ratio (RPT)	-0.27262** *-0.281612**	-0.4381** *-0.466114***	0.260757 *0.260813*	0.119303 *0.118957*
Average Independent directors' tenure (Tenure)	-0.026071* *-0.02239*	0.005135 *0.009568*	0.114812** *0.114732**	-0.007298 *-0.006782*
No. of Domestic banks Engaged by the Firm (Banks)	0.038542 *0.04647*	0.057301 *0.063803*	-0.208927 *-0.208946*	-0.116432*** *-0.115868***
Interaction Between Ownership Concentration And RPT	0.006514** *0.006601**	0.010316** *0.010844***	-0.006655 *-0.006656*	-0.002826 *-0.002808*
Interaction Between Ownership Concentration And Tenure	0.000509* *0.000456*	0.00000374 *-0.0000295*	-0.002508** *-0.002506**	0.000242 *0.000231*
Interaction Between Ownership Concentration And Banks	-0.000733 *-0.000898*	-0.001788 *-0.001942*	0.004489 *0.00449*	0.002573*** *0.002559***
Firm Type	-0.198277*** *-0.194178***	-0.279587*** *-0.280973***	0.022994 *0.022975*	0.008744 *0.00877*

*10% significance level   **5% significance level   ***1% significance level
Italic figures represent coefficients of Fixed Effects Model.

For family firms analysed in this research, RPTs which are likely to result in expropriation reduce firm value and it is statistically significant at 1% and 10% significance level. However, this reduction only affect market-based measures of firm value only i.e. Tobin's Q and MBV. In addition, controlling shareholders' ownership has a statistically significant positive moderating effect on this negative relationship at 1% and 5% significance level respectively. However, this significant positive moderating effect also only affect market-based measures of firm value only i.e. Tobin's Q and MBV. For non-family firms, there is no significant relationship between RPTs which are likely to result in expropriation and firm value for both accounting-based and market-based performance measures. However, in non-family firms in exclusive industries or biased industries, there is a significant negative moderating effect of controlling shareholders' ownership on this relationship for market-based performance measures (Tobin's Q). This conclusion is derived by comparing the pre-robustness and robustness test results for non-family firms. For the pooled model (family and non-family firms), RPTs which are likely to result in expropriation reduce firm value and it is statistically significant at 1% and 5% significance level. However, this reduction only affect market-based measures of firm value only i.e. Tobin's Q and MBV. In addition, controlling shareholders' ownership has a statistically significant positive moderating effect on this negative relationship at 1% and 5% significance level. However, this significant positive moderating effect also only affect market-based measures of firm value only i.e. Tobin's Q and MBV.

In the family firm model, ownership concentration does not have significant relationship with firm value for both accounting-based and market-based performance measures. However, in non-family firms, there are contradictory results on the relationship between ownership concentration and market-based performance measures. Ownership concentration has a significant negative relationship with firm value for

Tobin's Q where as ownership concentration has a significant positive relationship with MBV. Likewise, in the pooled model (family and non-family firms), ownership concentration has a positive relationship with firm value for market-based performance measures only (i.e. MBV).

For family firms analysed in this research, average independent directors' tenure has no significant relationship with firm value. Controlling shareholders' ownership also has no siginificant moderating effect on this relationship. For non-family firms, there is inconclusive evidence on the relationship between average independent directors' tenure and firm value as there is a significant negative relationship for market-based performance measures (Tobin's Q) at a significance level of 1% and a significant positive relationship for accounting-based performance measures (ROA) also at a significance level of 1%. There is also inconclusive evidence on the moderating effect of controlling shareholders' ownership on this relationship. For market-based performance measures (Tobin's Q), there is a significant positive moderating effect which is significant at 5% significance level whereas for accounting-based performance measures (ROA), there is a significant negative moderating effect which is significant at 5% significance level. For the pooled (family and non-family firms) model, there is inconclusive evidence with regards to the relationship between average independent directors' tenure and firm value. Average independent directors' tenure reduces firm value for market-based performance measures (i.e. Tobin's Q) and this is statistically significant at 10% significance level whereas it increases firm value for accounting-based performance measures (i.e. ROE) and this is statistically significant at 5% significance level. Similarly, for the pooled (family and non-family firms) model, there is inconclusive evidence with regards to the moderating effect of controlling shareholders' ownership on the relationship between average independent directors' tenure and firm value. Controlling shareholders' ownership have a significant positive

moderating effect on this relationship for market-based performance measures (i.e. Tobin's Q) and this is statistically significant at 10% significance level whereas controlling shareholders' ownership have a significant negative moderating effect on this relationship for accounting-based performance measures (i.e. ROE) and this is statistically significant at 5% significance level.

For family firms analysed in this research, the number of domestic banks that the firm engaged with do not have any statistical significant relationship with firm value. Controlling shareholders' ownership also do not have any statistical significant moderating effect on this relationship. For non-family firms, there is a significant positive relationship between the number of domestic banks that the firm engages with and firm value at 10% significance level. In addition, controlling shareholders' ownership have a significant negative moderating effect on this relationship at 10% significance level. However, both this significant positive relationship and significant positive negative effect is restricted to market-based performance measures only (i.e. Tobin's Q). For the pooled model (family and non-family firms), there is a statistical significant negative relationship between the number of domestic banks that the firm engages with and firm value and this is statistically significant at 1% significance level. However, this reduction only affect accounting-based performance measures of firm value i.e ROA. For the pooled model (family and non-family firms), there is also inconclusive evidence on the moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value as there is a statistically significant positive moderating effect on accounting-based performance measures (i.e. ROA and significant at 1% significance level) and a statistically significant negative moderating effect on market-based performance measures (i.e. MBV and significant at 10% significance level).

In the pooled model (family and non-family firms), family firms has a lower firm value as compared with non-family firms and this is statistically significant at 1% significance level. In addition, in the pooled model (family and non-family firms), the joint hypotheses of $H_0 : \beta_{\text{RPTs of family firms}}$ and $\beta_{\text{RPTs of non- family firms}} = 0$ is rejected and has a significant negative relationship as derived from the regression results. Both these results prove that the negative relationship between RPT and firm value is stronger in family firms compared to non-family firms. However, this only affect market-based measures i.e. Tobin's Q and MBV. Likewise, in the pooled model (family and non-family firms), the joint hypotheses of $H_0 : \beta_{\text{OC X RPTs of family firms}}$ and $\beta_{\text{OC X RPTs of non- family firms}} = 0$ is rejected and has a significant positive moderating effect as derived from the regression results. Both these results prove that the positive moderating effect of controlling shareholders' ownership on this relationship is stronger in family firms compared to non-family firms due to the overall lower firm value of family firms (i.e. market-based measures of Tobin's Q and MBV) which renders a stronger corporate reputational effects in family firms.

Even though in non-family firms, average independent directors' tenure reduces firm value for market-based performance measures (i.e. Tobin's Q) and this is statistically significant at 1% significance level; it cannot be proven that this negative relationship is stronger in non-family firms compared to family firms because overall, in the pooled model (family and non-family firms), family firms has a lower firm value than non-family firms and this is statistically significant at 1% significance level. Similarly, although in non-family firms, average independent directors' tenure increases firm value for accounting-based performance measures (i.e. ROE) and this is statistically significant at 1% significance level; it cannot be proven that this positive relationship is stronger in non-family firms compared to family firms because overall, in the pooled model (family and non-family firms), there is no significant difference between the firm

value of family firms and non-family firms. Likewise, although in non-family firms, controlling shareholders' ownership have a significant positive moderating effect on the relationship between average independent directors' tenure and firm value for market-based performance measures (i.e. Tobin's Q) and this is statistically significant at 1% significance level; it cannot be proven that this moderating effect is stronger in non-family firms compared to family firms because overall, in the pooled model (family and non-family firms), family firms has a lower firm value than non-family firms and this is statistically significant at 1% significance level. A higher firm value for non-family firms renders a weaker positive moderating effect. Similarly, although in non-family firms, controlling shareholders' ownership have a significant negative moderating effect on the relationship between average independent directors' tenure and firm value for accounting-based performance measures (i.e. ROA) and this is statistically significant at 1% significance level, it cannot be proven that this negative moderating effect is stronger in non-family firms compared to family firms because the joint hypotheses in the pooled model (family and non-family firms) i.e. $H_0 : \beta_{\text{ocf x tenure of family firms}}$ and $\beta_{\text{ocf x tenure of non-family firms}} = 0$ is not rejected as derived from the regression results for market-based performance measures (ROA).

Even though there is a statistically significant positive relationship between the number of domestic banks that the firm engages with and firm value (i.e. market-based performance measure Tobin's Q) in non-family firms; this result cannot prove that this positive relationship is stronger in non-family firms compared to family firms because the joint hypotheses in the pooled model (family and non-family firms) i.e. $H_0 : \beta_{\text{banks of family firms}}$ and $\beta_{\text{banks of non-family firms}} = 0$ is not rejected as derived from the regression results for market-based performance measures (Tobin's Q).

Despite the fact that non-family firms' controlling shareholders' ownership has a statistically significant negative moderating effect on the relationship between the number of domestic banks that the firm engages with and firm value (i.e. market-based measure Tobin's Q), this result cannot prove that the negative moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value (Tobin's Q) is stronger in non-family firms compared to family firms because the joint hypotheses in the pooled model (family and non-family firms) i.e. H_0 : $\beta_{oc\ x\ banks\ of\ family\ firms}$ and $\beta_{oc\ x\ banks\ of\ non-family\ firms} = 0$ is not rejected as derived from the regression results for market-based performance measures (Tobin's Q).

For family firms, non-family firms and the pooled model (family and non-family firms), firm risk is significantly positively related to firm value for both market-based performance measures and accounting-based performance measures at 1%, 5% and 10% significance level respectively. For both family firms and the pooled model (family and non-family firms), leverage has a significant positive relationship with market-based performance measures (Tobin's Q) at 1% significance level but a significant negative relationship with accounting-based performance measures (ROE and ROA) at 1% and 5% significance level. However, for non-family firms, leverage does not have a significant relationship with both market-based and accounting-based performance measures.

In addition, for family firms, firm size has a significant negative relationship with market-based performance measures (Tobin's Q) at 1% significance level but a significant positive relationship with accounting-based performance measures (ROA) at 10% significance level. In non-family firms, there is no significant relationship between firm size and firm value for both market-based and accounting-based performance measures. For the pooled model (family and non-family firms), firm size has a

significant negative relationship with market-based performance measure only (Tobin's Q) at 1% significance level. Furthermore, in family firms, independent directors' ratio has no significant relationship with firm value for both market-based and accounting-based performance measures. However, for non-family firms, independent directors' ratio has a significant negative relationship with market-based performance measures (Tobin's Q) at 10% significance level. In the pooled model (family and non-family firms), independent directors' ratio has a significant negative relationship with market-based performance measures (Tobin's Q and MBV) and accounting-based performance measures (ROE) both at 10% significance level respectively.

On the other hand, for both family firms and the pooled model (family and non-family firms), non-affiliated blockholders have a siginificant negative relationship with firm value but only on market-based performance measures only (Tobin's Q and MBV) at 1%, 5% and 10% significance level respectively. However, for non-family firms, there is no significant relationship between non-affiliated blockholders and firm value for both market-based and accounting-based performance measures.

In family firms and the pooled model (family and non-family firms), firm age has a significant negative relationship with firm value for accounting-based performance measures (i.e. ROA) only at 10% significance level but not market-based performance measures. However, in non-family firms, firm age has no significant relationship with firm value for both market-based performance measures and accounting-based performance measures. Likewise, for family firms, non-family firms and the pooled model (family and non-family firms), sales growth has a significant positive relationship with accounting-based performance measures (ROA) (significant at 1%, 5% and 10% significance level respectively) but not market-based performance measures.

Moreover, in family firms, marketing & advertising expenditures have a significant negative relationship with accounting-based performance measures (i.e. ROA) at 10% significance level but not market-based performance measures. However, for non-family firms and the pooled model (family and non-family firms); marketing & advertising expenditures have no significant relationship with firm value for both market-based performance measures and accounting-based performance measures. In family firms, non-family firms and the pooled model (family and non-family firms); R&D expenditures and capital expenditures and have no significant relationship with firm value for both market-based performance measures and accounting-based performance measures.

For family firms, GDP has a significant negative relationship with market-based performance measures (i.e. MBV) at 1% significance level but a significant positive relationship with accounting-based performance measures (i.e. ROE and ROA) at 1% and 5% significance level respectively. For non-family firms, GDP has a significant negative relationship with accounting-based performance measures (i.e. ROE) at 5% significance level. In the pooled model (family and non-family firms), GDP has a significant negative relationship with market-based performance measures (i.e. MBV) at 1% significance level but a significant positive relationship with accounting-based performance measures (i.e. ROA) at 10% significance level.

6.6   HYPOTHESES TESTED

The following is a description of the hypotheses being tested as well as the conclusions that are made:

H₁ₐ: *There is a negative relationship between related party transactions (RPTs) which are likely to result in expropriation and a firm value in Malaysian firms.*

The research results show that there is a statistically significant negative relationship between RPTs which are likely to result in expropriation and firm value (market-based measures i.e. Tobin's Q and MBV) for family firms only. It is significant at 1%, 5% and 10% significance level respectively and this result is robust against firms in non-exclusive industries (without biased industries). Therefore, H₁ₐ is supported.

H₁ᵦ: *If there is a negative relationship between related party transactions (RPTs) which are likely to result in expropriation and firm value in Malaysian firms, this negative relationship is likely to be stronger in family firms compared to non-family firms.*

The research results shows that in family firms, there is a significant negative relationship between RPTs which are likely to result in expropriation and firm value only in market-based performance measures i.e. Tobin's Q and MBV. Likewise, in the pooled model (family and non-family firms) results, the joint hypotheses of $H_0 : \beta_{rpt \text{ for family firms}}$ and $H_0 : \beta_{rpt \text{ for non-family firms}} = 0$ is rejected (for market-based measures i.e. Tobin's Q and MBV) and there is a significant negative relationship. Furthermore, the pooled model (family and non-family firms) results shows that family firms has a lower firm value (market-based measures i.e. Tobin's Q and MBV) compared to non-family firms and this is statistically significant at 1% significance level. These results are robust against

firms in non-exclusive industries (without biased industries). All these prove that the negative relationship between RPT and firm value is stronger in family firms compared to non-family firms. Hence, H_{1b} is supported.

H$_{2a}$: *There is a negative relationship between independent directors' tenure and firm value in Malaysian firms.*

The research results show that in family firms within exclusive (biased) industries, there is a statistically significant negative relationship between average independent directors' tenure and firm value in market-based performance measures i.e. MBV. This is significant at 10% significance level. This conclusion is made by comparing the pre-robustness test results of family firms and the robustness test results of family firms. Therefore, H_{2a} is supported.

H$_{2b}$: *If there is a negative relationship between independent directors' tenure and firm value in Malaysian firms, this negative relationship is likely to be stronger in family firms compared to non-family firms.*

It cannot be proven whether the significant negative relationship between average independent directors' tenure and firm value in family firms within exclusive (biased) industries is stronger in family firms compared to non-family firms for market-based performance measure i.e. MBV. The reason is that in the pooled model (family and non-family firms) results (with biased industries), the joint hypotheses of $H_0 : \beta_{\text{tenure for family firms}}$ and $H_0 : \beta_{\text{tenure for non-family firms}} = 0$ is not rejected for market-based performance measures (i.e. MBV). Therefore, no conclusion can be made as to whether the negative relationship between average independent directors' tenure and firm value is stronger in family firms or non-family firms. Hence, H_{2b} is not supported.

H3a: *There is a negative relationship between the quantity of domestic banks that the firm engages with and firm value in Malaysian firms.*

The research results shows that in non-family firms, there is a statistically significant positive relationship between the quantity of domestic banks that the firm engages with and firm value for market-based performance measures (Tobin's Q). This is robust against non-family firms without exclusive or biased industries. This is significant at 10% significance level. Therefore, H3a is not supported.

H3b: *If there is a negative relationship between the quantity of domestic banks that the firm engages with and firm value in Malaysian firms, this negative relationship is likely to be stronger in family firms compared to non-family firms.*

Since H3a is not supported, thus, H3b is not supported.

H4a: *There is a positive moderating effect of controlling shareholders' ownership on the relationship between related party transactions (RPTs) which are likely to result in expropriation and firm value in Malaysian firms.*

The research results show that for family firms, there is a statistically significant positive moderating effect of controlling shareholders' ownership concentration on the relationship between RPTs which are likely to result in expropriation and firm value for market based performance measures i.e. Tobin's Q and MBV. The results are also robust against family firms without exclusive or biased industries. These results are significant at 1%, 5% and 10% significance level respectively. Therefore, H4a is supported.

H$_{4b}$: *If there is a positive moderating effect of controlling shareholders' ownership on the relationship between related party transactions (RPTs) which are likely to result in expropriation and firm value in Malaysian firms, this positive moderating effect is likely to be stronger in family firms compared to non-family firms.*

The research results show that there is a statistically significant positive moderating effect of controlling shareholders' ownership concentration on the relationship between RPTs which are likely to result in expropriation and firm value for market based performance measures i.e. Tobin's Q and MBV in family firms. In addition, in the pooled model (family and non-family firms), the joint hypotheses of H_0 : $\beta_{oc \text{ x RPTs for family firms}}$ and H_0 : $\beta_{oc \text{ x RPTs for non-family firms}}$ = 0 is rejected for market-based performance measures (i.e. Tobin's Q and MBV). Likewise, in the pooled model (family and non-family firms), overall, the firm value (i.e. market based measures of Tobin's Q and MBV) is lower in family firms compared to non-family firms and this is statistically significant at 1% significance level. Both these results are robust against family firms without biased or exclusive industries. Basically, these results show that the significant positive moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value is stronger in family firms compared to non-family firms. Lower overall firm value (market-based performance measures i.e. Tobin's Q and MBV) in family firms renders a stronger corporate reputational effects in these firms. Therefore, H$_{4b}$ is supported.

H$_{5a}$:   *There is a positive moderating effect of controlling shareholders' ownership on the relationship between independent directors' tenure and firm value in Malaysian firms.*

The research results shows that there is a statistically significant positive moderating effect of controlling shareholders' ownership on the relationship between average independent directors' tenure and firm value for market-based performance measures (i.e. MBV) within family firms in exclusive or biased industries. This is statistically significant at 10% significance level. This conclusion is made after comparing the pre-robustness and robustness test results for family firms. Therefore, H$_{5a}$ is supported.

H$_{5b}$:   *If there is a positive moderating effect of controlling shareholders' ownership on the relationship between independent directors' tenure and firm value in Malaysian firms, this positive moderating effect is likely to be stronger in family firms compared to non-family firms.*

Even though the research results shows that there is a statistically significant positive moderating effect of controlling shareholders' ownership on the relationship between average independent directors' tenure and firm value for market-based performance measures (i.e. MBV) within family firms in exclusive or biased industries; it cannot be proven that this significant positive moderating effect is stronger in family firms compared to non-family firms because in the pooled model (family and non-family firms)(with biased industries), the joint hypotheses of $H_0 : \beta_{oc \text{ x tenure for family firms}}$ and $H_0 : \beta_{oc \text{ x tenure for non-family firms}} = 0$ is not rejected for market-based performance measures (i.e. MBV). Therefore, no conclusion can be made as to whether the significant positive moderating effect of controlling shareholders' ownership on the relationship between average

independent directors' tenure and firm value is stronger in family firms or non-family firms. Hence, H$_{5b}$ is not supported.

H$_{6a}$: *There is a positive moderating effect of controlling shareholders' ownership on the relationship between the quantity of domestic banks that the firm engages with and firm value in Malaysian firms.*

The research results shows that in non-family firms, controlling shareholders' ownership has a negative moderating effect on the relationship between the number of domestic banks that the firm engages with and firm value for market-based performance measures (Tobin's Q). This result is robust against non-family firms without exclusive or biased industries and is significant at 10% significance level respectively. Therefore, H$_{6a}$ is not supported.

H$_{6b}$: *If there is a positive moderating effect of controlling shareholders' ownership on the relationship between the quantity of domestic banks that the firm engages with and firm value in Malaysian firms, this positive moderating effect is likely to be stronger in family firms compared to non-family firms.*

Since H$_{6a}$ is not supported, H$_{6b}$ is also not supported.

6.7   SUMMARY OF HYPOTHESES

Table 6.22 summarise the hypotheses being tested in this research as discussed in the previous section. The summary discuss whether the hypothesis is supported or not; after controlling for industry effects in the robustness tests:

Table 6.22: Summary Of Hypotheses Tested

Hypothesis	Description	Is Hypothesis Supported?
H_{1a}	There is a negative relationship between related party transactions (RPTs) which are likely to result in expropriation and firm value in Malaysian firms.	Yes
H_{1b}	If there is a negative relationship between related party transactions (RPTs) which are likely to result in expropriation and firm value in Malaysian firms, this negative relationship is likely to be stronger in family firms compared to non-family firms.	Yes
H_{2a}	There is a negative relationship between independent directors' tenure and firm value in Malaysian firms.	Yes
H_{2b}	If there is a negative relationship between independent directors' tenure and firm value in Malaysian firms, this negative relationship is likely to be stronger in family firms compared to non-family firms.	No
H_{3a}	There is a negative relationship between the number of domestic banks that the firm engages with and firm value in Malaysian firms.	No
H_{3b}	If there is a negative relationship between the number of domestic banks that the firm engages with and firm value in Malaysian firms, this negative relationship is likely to be stronger in family firms compared to non-family firms.	No
H_{4a}	There is a positive moderating effect of controlling shareholders' ownership on the relationship between related party transactions (RPTs) which are likely to result in expropriation and firm value in Malaysian firms.	Yes
H_{4b}	If there is a positive moderating effect of controlling shareholders' ownership on the relationship between related party transactions (RPTs) which are likely to result in expropriation and firm value in Malaysian firms, this positive moderating effect is likely to be stronger in family firms compared to non-family firms.	Yes
H_{5a}	There is a positive moderating effect of controlling shareholders' ownership on the relationship between independent directors' tenure and firm value in Malaysian firms.	Yes
H_{5b}	If there is a positive moderating effect of controlling shareholders' ownership on the relationship between independent directors' tenure and firm value in Malaysian firms, this positive moderating effect is likely to be stronger in family firms compared to non-family firms.	No
H_{6a}	There is a positive moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value in Malaysian firms.	No
H_{6b}	If there is a positive moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value in Malaysian firms, this positive moderating effect is likely to be stronger in family firms compared to non-family firms.	No

6.8 CONCLUSION

This chapter discuss the overall research results including the robustness tests results and how they are related to the hypotheses being tested. The descriptive statistics are also discussed. The next chapter will discuss the overview of the findings, implications of these findings, research significance and limitations in this research as well as suggestions for future research.

CHAPTER SEVEN

DISCUSSION AND CONCLUSION

7.1   INTRODUCTION

This chapter provides conclusions drawn from the research findings and discussions presented in the previous chapter. This rest of the chapter is organised as follows. Section 5.2 discusses the overview of the findings based upon the research objectives. Section 5.3 discusses the implications of findings. Section 5.4 discusses the theoretical contributions and policy implications. Section 5.5 discusses the research limitations. Section 5.6 discusses the suggestions for future research and Section 5.7 concludes.

7.2   DISCUSSION: OVERVIEW OF THE FINDINGS

The following are explanations of the findings based on the research objectives of this study.

7.2.1   Research Objective 1: To Examine Whether There Is A Negative Relationship Between Related Party Transactions (RPTs) Which Are Likely To Result In Expropriation, Independent Directors' Tenure And The Number Of Domestic Banks That The Firm Engages With, And firm value In Malaysian Firms.

This study focused on minority shareholder expropriation in Malaysian public-listed firms. The first research objective is to examine whether there is a significant negative relationship between RPTs which are likely to result in expropriation, independent directors' tenure and the number of domestic banks that the firm engages with, and firm value in Malaysian firms.

Based on the regression results, it is found that RPTs which are likely to result in expropriation significantly reduces firm value (market-based measures i.e. Tobin's Q and MBV) in Malaysian family firms only. In non-family firms, there is no significant relationship between RPTs which are likely to result in expropriation and firm value for both market-based and accounting-based performance measures. This result is consistent with the study by Munir and Gul (2011) whereby they found that related party transactions reduce firm value (i.e. market-based measures) in Malaysian family firms but not in non-family firms.

For Malaysian family firms in exclusive industries, there is a statistically significant negative relationship between average independent directors' tenure and firm value in market-based performance measures (i.e. MBV). However, in family firms in non-exclusive industries or without biased industries, it is found that average independent directors' tenure does not have any statistical significant relationship with firm value for both market-based performance and accounting-based performance measures. In non-family firms, there is inconclusive evidence on the relationship between average independent directors' tenure and firm value as there is a significant negative relationship for market-based performance measures (i.e. Tobin's Q) but a significant positive relationship for accounting-based performance measures (i.e. ROA). All these results are inconsistent with the findings by Abdelsalam and El-Masry (2008) and Liu and Sun (2010) who found that longer tenure of independent directors is beneficial to the interests of minority shareholders.

The research results also shows that there is no significant relationship between the number of domestic banks that the firm engages with and firm value for both market-based and accounting-based performance measures in Malaysian family firms. However, there is a significant positive relationship between the number of domestic banks that the firm engages with and firm value for market-based performance measures

(Tobin's Q) in Malaysian non-family firms. These results are inconsistent with the findings by Fok et.al. (2004) who found that there is a significant negative relationship between the number of domestic banks that the firm engages with and firm value among public-listed firms in Taiwan.

7.2.2 Research Objective 2: To Examine Whether, If There Is A Negative Relationship Between Related Party Transactions (RPTs) Which Are Likely To Result In Expropriation, Independent Directors' Tenure And The Number Of Domestic Banks That The Firm Engages With, And firm value In Malaysian Firms; This Negative Relationship Is Stronger In Family Firms Compared To Non-Family Firms.

The second research objective is to examine whether, if there is a significant negative relationship between RPTs which are likely to result in expropriation, independent directors' tenure and the number of domestic banks that the firm engages with, and firm value in Malaysian firms; this negative relationship is stronger in family firms compared to non-family firms.

The regression results show that the significant negative relationship between RPTs which are likely to result in expropriation against firm value (market-based measures i.e. Tobin's Q and MBV) is more prominent in Malaysian family firms compared to non-family firms. This finding is similar to the findings by Munir and Gul (2011) who found that the significant negative relationship between total RPTs and firm value (market-based measures) is stronger in Malaysian family firms compared to non-family firms.

On the other hand, based upon the research results, it cannot be proven that the significant negative relationship between average independent directors' tenure and firm value (i.e. market-based performance measures of Tobin's Q and MBV and accounting –based performance measure of ROE) is stronger in family firms or non-family firms.

7.2.3 Research Objective 3: To Examine Whether There Is A Positive Moderating Effect Of Controlling Shareholders' Ownership On The Relationship Between Related Party Transactions (RPTs) Which Are Likely To Result In Expropriation, Independent Directors' Tenure And The Number Of Domestic Banks That The Firm Engages With, And firm value In Malaysian Firms.

The third research objective is to examine whether there is a significant positive moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation, independent directors' tenure and the number of domestic banks that the firm engages with, and firm value in Malaysian firms.

The regression results show that there is a significant positive moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value (market-based measures i.e. Tobin's Q and MBV) in Malaysian family firms only. In Malaysian non-family firms, there is a significant negative moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value for market-based performance measure only (Tobin's Q). In addition, there is also a significant positive moderating effect of controlling shareholders' ownership on the relationship between independent directors' tenure and firm value (on market-based performance measures i.e. MBV) in Malaysian family firms within exclusive industries or biased industries only. In Malaysian family firms within non-exclusive industries or

without biased industries, there is no significant moderating effect of controlling shareholders' ownership on the relationship between average independent directors' tenure and firm value for both market-based and accounting-based performance measures. On the other hand, in Malaysian non-family firms, there is inconclusive evidence on the moderating effect of controlling shareholders' ownership on the relationship between average independent directors' tenure and firm value. For market-based performance measures (Tobin's Q), there is a significant positive moderating effect whereas for accounting-based performance measures (ROA), there is a significant negative moderating effect.

Furthermore, there is no significant moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value for both market-based performance and accounting-based performance measures in Malaysian family firms. However, for Malaysian non-family firms, there is a significant negative moderating effect of controlling shareholders' ownership on this relationship on market-based performance measure (Tobin's Q).

7.2.4   Research Objective 4: To Examine Whether, If There Is A Positive Moderating Effect Of Controlling Shareholders' Ownership On The Relationship Between Related Party Transactions (RPTs) Which Are Likely To Result In Expropriation, Independent Directors' Tenure And The Number Of Domestic Banks That The Firm Engages With, And firm value In Malaysian Firms; This Positive Moderating Effect Is Stronger In Family Firms Compared To Non-Family Firms.

The fourth research objective is to examine whether, if there is a significant positive moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation, independent directors' tenure and the number of domestic banks that the firm engages with, and firm value in Malaysian firms; this positive moderating effect is stronger in family firms compared to non-family firms.

The research results shows that the significant positive moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value (market-based measures i.e. Tobin's Q and MBV) is stronger in Malaysian family firms compared to non-family firms. However, it cannot be proven whether the positive moderating effect of controlling shareholders' ownership on the relationship between average independent directors' tenure and firm value (market-based measure i.e. Tobin's Q and MBV) is stronger in family firms compared to non-family firms.

7.3 IMPLICATIONS OF FINDINGS

This study examines the effects of RPTs which are likely to result in expropriation, independent directors' tenure and the quantity of domestic banks that the firm engages with in Malaysian firms and their impact upon firm value and whether these firm value effects are moderated by the controlling shareholder's ownership concentration. A comparison is also made on whether the resulting negative relationship (if any) and the resulting positive moderating effect (if any) is stronger in family firms compared to non-family firms. This comparison is made as the extant literature only provides limited empirical evidence as to whether expropriation is more prevalent in family firms or non-family firms in the context of the Malaysian institutional setting.

Basically, the findings in this research expand the findings by Chrisman, Chua, Chang and Kellermanns (2007) and Schulze et.al. (2001) that agency problems, specifically, Agency Problem Type II (Principal-principal conflict) is present not only within family firms but also in non-family firms. For family firms, this is evidenced by the significant negative relationship between RPTs which are likely to result in expropriation and firm value as well between average independent directors' tenure and firm value in family firms. For non-family firms, this is evidenced by the significant negative moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value as well as the significant negative moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value in non-family firms.

However, the findings also reveal that minority shareholder expropriation through RPTs is more prominent in Malaysian family firms compared to non-family firms. This possibly indirectly suggests that Agency Problem Type II (Principal-principal conflict) is more severe in family firms compared to non-family firms within the Malaysian context. Hence, attention on minority shareholder expropriation problems particularly via RPTs in Malaysia ought to focus more on family firms rather than non-family firms.

Additionally, the positive relationship between ownership concentration and firm value in Malaysian family firms as well as in the pooled model (family and non-family firms) supports the argument by Heugens et.al. (2009) that increased controlling shareholders' ownership increases firm value within Asian emerging markets.

Likewise, there is a significant negative relationship between independent directors' tenure and firm value within Malaysian family firms in exclusive industries only. This significant negative relationship possibly indirectly suggests that Malaysian family firms in exclusive industries may encounter less market competition and as a result, their independent directors are less concerned in evaluating the performance of their CEOs (Young, Stedham and Beekun, 2000). This provide opportunities for family controlling shareholders to increase their influences on the independent directors as they serve longer on the board, through their CEOs who are basically hired by them; and ultimately increase their level of expropriation. This reduces firm value. However, from the research results, it cannot be proven whether expropriation due to the long tenure of independent directors is stronger in family firms compared to non-family firms within the context of the Malaysian institutional setting. Hence, attention on minority shareholder expropriation problems particularly due to long tenure of independent directors in Malaysia should focus on family firms as well as non-family firms.

Furthermore, the number of domestic banks that the firm engages with increases firm value in Malaysian non-family firms. On the other hand, there is no significant minority shareholder expropriation through the domestic banking channel in family firms. The reason for the result differences could possibly be due to the credit crunch experienced by emerging markets such as Malaysia during the global financial crisis which reduced the level of domestic bank lending (Cetorelli and Golberg, 2010; Claessens et.al., 2010; Tong and Wei, 2011). The findings in this study further suggests that this reduction of domestic bank lending could possibly be targeted more at family firms compared to non-family firms. This could occur as family firms may possibly be perceived by domestic banks as possessing higher credit risks compared to non-family firms for loan transactions. Non-family firms are perceived to have lower credit risks compared to family firms possibly because non-family firms such as state-owned firms are very likely to be bailed out by the government in the event of financial distress (Dewenter and Malatesta, 2001).

In addition, non-family firms such as foreign-owned firms in Malaysia are mostly multinationals which possess larger assets in their balance sheets (Grauwe and Camerman, 2002) to serve as loan collaterals compared to local family firms and thus, they are perceived to have lower credit risks (Ma, Ma and Tian, 2012) compared to family firms. As a result of the different credit risk perception on Malaysian family and non-family firms, domestic bank lending is severely reduced during the credit crunch towards family firms. Consequently, family controlling shareholders have less opportunities to expropriate the domestic bank loans that their firms undertake which result in the insignificant minority shareholder expropriation through the domestic banking channel in family firms.

On the other hand, with little reduction of domestic bank loans to Malaysian non-family firms, these firms are able to use these loans productively to add value to the firm as what the results suggested. This shows that generally, controlling shareholders in non-family firms do not expropriate the domestic loans that their firms undertake but instead, use it productively to add value to the firm. However, large controlling shareholders in non-family firms such as state-owned firms or government-linked companies (GLCs), expropriate the loans that their firms obtained from domestic banks as the results show that in non-family firms, there is a significant negative moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value.

Likewise, the results also show that in non-family firms in exclusive industries or biased industries, there is a significant negative moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value which possibly suggests that in large non-family firms such as state-owned firms or government-linked companies (GLCs), controlling shareholders expropriate minority shareholders through the usage of RPTs. It also suggests that in these large non-family firms; similar to the explanation earlier, due to lower market competition, independent directors in these firms may be less commited to evaluate the performance of their CEOs, hence, providing opportunities for controlling shareholders to expropriate minority shareholders through RPTs. All these findings are consistent with the findings of Bushman, Piotroski and Smith (2004) and Bushman and Piotroski (2006) who found that firms with higher state ownership have lower financial reporting practices which imply that they are likely to be involved in minority shareholder expropriation.

In addition, the significant positive moderating effects of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value in family firms as well as the significant positive moderating effects of controlling shareholders' ownership on the relationship between average independent directors' tenure and firm value in family firms in exclusive industries only; suggests the influence of family firm reputational effects in the post-Transmile period in encouraging large family controlling shareholders to reduce their expropriation of minority shareholders through RPTs and as well as to reduce their expropriation due to long tenure of independent directors (for family firms in exclusive industries only).

Furthermore, the significant positive moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value is stronger in family firms compared to non-family firms. This suggests that the corporate reputational effects due to the Transmile fiasco is stronger in family firms compared to non-family firms. Since corporate reputational effects is stronger in family firms compared to non-family firms, it also follows that indirectly, Agency Problem Type II (Principal-principal conflict) can be considered to be more severe in family firms compared to non-family firms.

In addition, there are numerous anomalies in the research findings which constitute part of the limitations of this study. First, in Malaysian family firms, the statistically significant negative relationship between RPTs which are likely to result in expropriation and firm value as well as the significant positive moderating effect of controlling shareholders' ownership on this relationship are restricted to market-based performance measures i.e. Tobin's Q and MBV and not accounting-based performance measures. However, the negative significant moderating effect of controlling shareholders' ownership on this relationship in non-family firms is also only restricted to market-based performance measure (i.e. Tobin's Q).

Second, in the family firm in exclusive industries or in biased industries, ownership concentration has a positive relationship with firm value but it is restricted to accounting-based performance measures only (ROA). However, in non-family firms in exclusive industries or in biased industries, ownership concentration has a positive relationship with firm value but it is restricted to market-based performance measures only (MBV). On the other hand, in non-family firms in non-exlusive industries or without biased industries, there are contradictory results on the relationship between ownership concentration and market-based performance measures. Ownership concentration has a significant negative relationship with firm value for Tobin's Q where as ownership concentration has a significant positive relationship with MBV. Likewise, in the pooled model (family and non-family firms) in non-exclusive industries or without biased industries, ownership concentration has a positive relationship with firm value for market-based performance measures only (i.e. MBV).

Third, in Malaysian family firms within exclusive or biased industries, the significant negative relationship between average independent directors' tenure and firm value as well as the positive moderating effect of controlling shareholders' ownership on this relationship are also restricted to market-based performance measures i.e. MBV.

Fourth, in Malaysian non-family firms and in the pooled model (family and non-family firms), there is inconclusive evidence i.e. contradictory results whereby there is a significant negative relationship between average independent directors' tenure and firm value for market-based performance measures (i.e. Tobin's Q) but a significant positive relationship between average independent directors' tenure and firm value for accounting-based performance measures (i.e. ROA and ROE).

Fifth, in Malaysian non-family firms, the significant positive relationship between the number of domestic banks that the firm engages with and firm value is restricted for market-based performance measures (i.e. Tobin's Q) whereas in the pooled model (family and non-family firms), the significant negative relationship between the number of domestic banks that the firm engages with and firm value is restricted for accounting-based performance measures (i.e. ROA).

Sixth, in Malaysian non-family firms, the moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value is restricted to market-based performance measures only (Tobin's Q).

Seventh, in the pooled model (family and non-family firms), there are contradictory results for the moderating effects of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value. For the negative moderating effect is on market-based performance measure (MBV) whereas the positive moderating effect is on accounting-based performance measure (ROA).

Eigth, in Malaysian family firms and the pooled model (family and non-family firms) there are contradictory results in the relationship between leverage and firm value whereby leverage has a significant positive relationship with market-based performance measures (Tobin's Q) but a significant negative relationship with accounting-based performance measures (ROE and ROA). However, for non-family firms, leverage increases firm value and this is restricted to market-based performance measures only (MBV).

Nineth, in Malaysian family firms and in the pooled model (family and non-family firms), there are contradictory results in the relationship between firm size and firm value whereby there is a significant negative relationship with market-based performance measures (Tobin's Q) but a significant positive relationship with accounting-based performance measures (ROA).

Tenth, in Malaysian family firms and in the pooled model (family and non-family firms), non-affiliated blockholders have a siginificant negative relationship with firm value but it is restricted to market-based performance measures only (Tobin's Q and MBV).

Eleventh, in Malaysian family firms and in the pooled model (family and non-family firms) in non-exclusive industries or without biased industries, firm age has a significant negative relationship with firm value but this is restricted to accounting-based performance measures (i.e. ROA) only.

Twelveth, in Malaysian family firms, non-family firms and in the pooled model (family and non-family firms), sales growth has a significant positive relationship with firm value but this is restricted to accounting-based performance measures (ROA) only.

Thirteenth, in Malaysian family firms in non-exclusive industries or without biased industries, marketing & advertising expenditures have a significant negative relationship with firm value but this is restricted to accounting-based performance measures (ROA) only.

Fourteenth, in Malaysian family firms in exclusive industries or with biased industries, GDP has a significant positive relationship with firm value but this is restricted to only accounting-based performance measures (i.e. ROE and ROA). However, in Malaysian family firms in non-exclusive industries or without biased industries; there are contradictory results in the relationship between GDP and firm value whereby there is a

significant negative relationship with market-based performance measures (MBV) but a significant positive relationship with accounting-based performance measures (ROE and ROA). Moreover, in non-family firms, the significant negative relationship between GDP and firm value is restricted to accounting-based performance measures only (ROE). Likewise, for the pooled model (family and non-family firms), there are contradictory results in the relationship between GDP and firm value whereby GDP has a significant negative relationship with market-based performance measures (MBV) but a significant positive relationship with accounting-based performance measures (ROA).

From the research findings' anomalies, the restrictions of the research results to certain type of performance measures i.e. market-based or accounting-based performance measures as well as the contradictory research results between accounting-based and market-based performance measures possibly suggests that the market-based and accounting-based performance measures have different susceptibility to management manipulation[23]. Generally, market-based performance measures are less susceptible to management manipulation compared to accounting-based performance measures (McGuire, Schneeweis and Branch, 1990) possibly because market-based performance measures reflect shareholder valuation of the firm as well as both current firm performance and future growth potential (Woo, Willard and Daellenbach, 1992).

In contrast, accounting-based performance measures are more susceptible to management manipulation (Chakravarthy, 1986; Lubatkin and Shrieves, 1986; Purkayastha, 2013) because these performance measures are more oriented towards historical information (Chakravarthy, 1986; Purkayastha, 2013). Generally, accounting-based performance measures encounter problems related to accounting manipulation,

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[23] Likewise, the contradictory research results in the market-based performance measures in non-family firms in non-exclusive or without biased industries on the relationship between ownership concentration and market-based performance measures suggests that the differences could be due to the specification of ownership concentration. This is because for Tobin's Q, predicted ownership concentration which is a function of firm risk and firm size is used whereas for MBV, ownership concentration is used.

asset undervaluation, distortion due to depreciation policies, inventory valuation and treatment of certain revenue and expenditure items, differences in methods of consolidating accounts and differences due to lack of standardisation in international accounting conventions (Chakravarthy, 1986).

As a consequence of these problems, it can be observed in this study that there is a higher sensitivity of market-based performance measures towards Agency Problem Type II (principal-principal conflict) as evidenced by the significant negative relationship between RPTs which are like to result in expropriation and market-based performance measure (Tobin's Q and MBV), the significant negative relationship between average independent directors' tenure and market-based performance measure (MBV), the significant negative moderating effect of controlling shareholders' ownership on the relationship between RPTs which are like to result in expropriation and market-based performance measure (Tobin's Q and MBV) and the significant negative moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and market-based performance measure (Tobin's Q). The higher sensitivity of market-based performance measures towards Agency Problem Type II (principal-principal conflict) is consistent with the finding by Mollah, Farooque and Karim (2012) who find that shareholders in emerging markets use their discretion where necessary to discount the market valuations of firms if they have a negative perception of firms' performances and they are less attracted to accounting-based performance measures which are prone to accounting manipulations.

Likewise, as a result of the problems in accounting-based performance measures, it can also be observed in this study that there are numerous contradictory significant results between accounting-based and market-based performance measures. The contradictory research results in this study will not be taken into consideration as part of the

significant findings in this research because the type of research that is conducted in this study is conclusive research. To confirm the hypotheses that are tested in this research requires either conclusive evidence in both accounting-based and market-based performance measures or conclusive evidence which is restricted to only market-based or accounting-based performance measure (Saunders, Lewis and Thornhill, 2009; Singh, 2007). Therefore, only conclusive evidences whether they are robust against all the performance measures utilised in this study or only restricted to one particular performance measure in this study are accepted as significant findings for this type of research.

Overall, after considering the limitations of this research; the basic implication of the findings of this study is that this research indicates that minority shareholder expropriation does exist within Malaysian family and non-family firms. On the other hand, reputational effects in the aftermath of the Transmile case help to reduce minority shareholder expropriation in family firms by encouraging family controlling shareholders to reduce their expropriation through RPTs and as well as encouraging them to exert less influence upon independent directors as the latter's tenure increases, thus, reducing their level of expropriation.

Lastly, the research results in this study can possibly dispute the argument by Peng and Jiang (2010) that reputational effects is a poor substitute for institutional deficiencies such as low minority shareholder rights protection particularly in emerging markets such as Malaysia because the research results show that these effects are able to reduce minority shareholder expropriation.

7.4   RESEARCH SIGNIFICANCE

7.4.1   Theoretical Contributions

There are several theoretical contributions of this research.

First, the comparisons conducted in this study with the objectives of assessing whether expropriation as well as the moderating effects of controlling shareholders' ownership on expropriation, are more prevalent in Malaysian family firms or non-family firms are necessary because according to agency theory, principal-principal conflict (i.e. minority shareholder expropriation) may be more prevalent in family firms compared to non-family firms (Fama and Jensen, 1983b; Shleifer and Vishny, 1997). Furthermore, the likelihood of this conflict occurring is highest during periods of financial crisis (Jiang and Peng, 2011; Johnson et.al., 2000a; Mitton, 2002; Young et.al., 2008). However, corporate reputational effects may also help mitigate this conflict (Gomes, 2000; Claessens and Fan, 2002; Khanna and Palepu, 2000; Khanna and Yafeh, 2007).

To conduct the comparisons in this research, the periods of analysis chosen is between 2007 and 2009. During this period, two major events affect Malaysia, namely, the Transmile fiasco in 2007 which induced corporate reputational effects particularly in family firms (Song, 2010), as well as the global financial crisis which started in 2008. The comparisons conducted in this study provide a new perspective to agency theory as the extant literature have not empirically examined the interplay between agency theory (with respect to principal-principal conflict), corporate reputational effects and financial crisis within a single analysis i.e. the effects of minority shareholder expropriation on firm value during a period where corporate reputational effects as well as financial crisis exist and they may influence this relationship.

Since periods of financial crisis aggravates minority shareholder expropriation whereas corporate reputational effects help mitigate this problem, the existence of these opposing forces simultaneously may generate a particular outcome on the relationship between minority shareholder expropriation and firm value. Hence, this provides a new perspective to agency theory (with respect to principal-principal conflict) as previous studies have only discussed or examined the interplay between agency theory (with respect to principal-principal conflict) and corporate reputational effects (i.e. the impact of corporate reputational effects on minority shareholder expropriation) (Gomes, 2000; Khanna and Palepu, 2000 and Khanna and Yafeh, 2007) as well as between agency theory (with respect to principal-principal conflict) and financial crisis (i.e. the extent of minority shareholder expropriation during periods of financial crisis) (Jiang and Peng, 2011; Johnson et.al., 2000a; Mitton, 2002; Young et.al., 2008). As such, this study provides a new perspective to agency theory (with respect to principal-principal conflict) by showing that corporate reputational effects help mitigate minority shareholder expropriation during periods of financial crisis through the positive moderating effects of controlling shareholders' ownership. In addition to that, the finding that expropriation through RPTs is more prevalent in emerging market firms such as Malaysian family firms also supports the contingency approach towards RPTs as proposed by Pizzo (2011) as discussed in Chapter 3. Consistent with this theory, expropriation through RPTs is more prevalent in firms located in emerging markets where the level of investor protection is lower as this encourages expropriation.

Secondly, by examining the relationship between independent directors' tenures and firm value; this research contributes to the corporate governance literature as it empirically examines certain assumptions of agency theory (with respect to principal-principal conflict). Based upon agency theory (with respect to principal-principal conflict), independent directors who are basically outside directors without family or

business ties to the firm are presumed to be able to impartially provide checks and balances to board decision-making as well as to evaluate top management. It is also assumed that they are less likely to be influenced by the controlling shareholder through the CEO[24] (Fama and Jensen, 1983b). However, whether these assumptions still hold in emerging markets is yet to be investigated. In this research, the significant negative relationship between independent directors' tenure and firm value in family firms (in exclusive industries only) shows that the assumptions of agency theory (with respect to principal-principal conflict) with regards to the effectiveness and "true independence' of independent directors; do not hold within family firms in exclusive industries in emerging markets such as Malaysia. This provides a new perspective to agency theory (with respect to principal-principal conflict), hence, making a theoretical contribution. This result also proves that the managerial hegemony theory as discussed in Chapter 2 is applicable in the Malaysian context within family firms in exclusive industries. This is because it is proven that the management of family firms in exclusive industries do exert their influence upon the independent directors as the latter's tenure increases as shown by the significant negative relationship between average independent directors' tenure and firm value in these firms.

Thirdly, by examining the moderating effects of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation, independent directors' tenure as well as the number of domestic banks that the firm engages with, and firm value; this research extends the existing theory of ownership structure by providing robust empirical evidence on how controlling shareholders' ownership influences expropriation within firms. The findings that there is a significant positive moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value as well as between

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[24] The CEO is usually someone hired by the controlling shareholder and he is supportive of the latter (Peng and Jiang, 2010).

average independent directors' tenure and firm value in Malaysian family firms shows that controlling shareholders' ownership can indeed mitigate expropriation via RPTs as well as reduce expropriation due to long tenure of independent directors in family firms. On the other hand, the findings that there is a significant negative moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value as well as between the number of domestic banks that the firm engages with and firm value in Malaysian non-family firms suggest that large controlling shareholders in non-family firms are likely to be involved in minority shareholder expropriation. All these findings contribute to the theory of ownership structure.

Aside from theoretical contributions, there are also policy implications of this research.

7.4.2   Policy Implications

There are several policy implications of this research.

Firstly, the significant negative relationship between RPTs which are likely to result in expropriation (in family firms) and average independent directors' tenure (in family firms in exclusive industries only) against firm value as well as the significant negative moderating effect of controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value and between the number of domestic banks that the firm engages with and firm value in Malaysian non-family firms; indicate to the Securities Commission (SC) that minority shareholder expropriation do exist within Malaysian public-listed family and non-family firms. As such, the SC should re-evaluate Part 8, Para. 8.1-8.3 of the Malaysian Code of Corporate Governance (MCCG) 2012 so that in the future, it can improve the codes of corporate governance. Currently, through these provisions, MCCG 2012 does not include protection of minority shareholder rights. Protection of minority shareholders'

rights would be able to strengthen the relationship between the firm and shareholders as it encourages minority shareholders to be more proactive in the firm's decision-making (La Porta et.al., 1997, 1998; Qian and Zhao, 2011). This is consistent with the objectives of Part 8, MCCG 2012. Protection of minority shareholders' rights is also important as it is part of the objectives of the Malaysian Capital Market Master Plan (CMP) issued in 2001 (Shim, 2006). Hence, if the SC issues codes of corporate governance in the future, it should include protection of minority shareholder rights as part of its objectives in improving corporate governance.

Secondly, the significant negative relationship between independent directors' tenure and firm value as found in family firms in exclusive industries only, suggests that the recommendation in MCCG 2012[25] which limits the independent directors' tenure to a maximum of nine years is applicable and should be continued. This recommendation should particularly target family firms in exclusive industries only as shown by the research results. The reason is because the research results show that long tenure of the independent directors reduces firm value in this type of family firms.

Thirdly, the Central Bank should evaluate the bank-directed lending policy which is still prevalent in Malaysia (Ang, 2009; Ang and Sen, 2011) particularly to politically-connected (Boubakri, Cosset and Saffar, 2009) large non-family firms which have easy access to bank-directed lending (Ang, 2009; Ang and Sen, 2011), as the results show that there is a significant negative moderating effect of controlling shareholders' ownership on the relationship between the number of domestic banks that the firm engages with and firm value in non-family firms. Bank-directed lending policies provide opportunities for controlling shareholders to expropriate the loans they obtain from the domestic banks, as debt provide incentives for expropriation in emerging markets (Faccio et.al., 2001c).

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[25] Part 3, Para.3.3.

7.5   LIMITATIONS OF RESEARCH

There are two limitations of this research.

First, the credit crunch which occurs during the global financial crisis in emerging markets such as Malaysia (Cetorelli and Golberg, 2010; Claessens et.al., 2010; Tong and Wei, 2011) might be the reason for the existence of insignificant results in family firms in the relationship between the number of domestic banks that the firm engages with and firm value as well as the moderating effects of controlling shareholders' ownership on this relationship. As explained earlier in this chapter, the credit crunch could have resulted in the reduction of domestic bank-lending to family firms. Hence, this reduced the level of domestic loan expropriation by family controlling shareholders during the period of study. Therefore, it is difficult to obtain significant results in the analysis of minority shareholder expropriation through the domestic banking channel in family firms during this period. Similarly, due to the credit crunch, it is also difficult to achieve significant results in the analysis of the moderating effect of controlling shareholders' ownership on this relationship as there is not much expropriation which they can reduce through the domestic banking channel as their ownership increase as a result of corporate reputational effects of the Transmile case. Basically, the credit crunch have inhibited the achievement of significant results in the relationship between the number of domestic banks that the firm engages with and firm value in Malaysian family firms as well as in the moderating effects of controlling shareholders' ownership on this relationship, which, otherwise, could possibly have been achieved.

Second, the significant research results related to the hypotheses as found in this study are mainly restricted to market-based measures only. This shows that the market-based performance measures are more sensitive to Agency Problem Type II (principal-principal conflict). This occurs possibly because accounting-based performance

measures in this study may be subject to management manipulation (Chakravarthy, 1986; Lubatkin and Shrieves, 1986; Purkayastha, 2013). Hence, a true and unbiased comprehensive research results encompassing both market-based and accounting-based performance measures could not be entirely achieved in this study. Therefore, the significant results obtained in this study ought to be viewed within the context of the limitations of the research results whereby the accounting-based performance measures may be subject to management manipulation which resulted in contradictory research findings as well as results which are restricted to only one type of performance measure.

Third, there is an element of survivorship bias in this research as firms in the sample are obtained with the condition that the company have survived the entire period of analysis. In addition, firms which are listed after 31st December, 2007 or delisted from the Main Market are excluded from the sample. Hence, this survivorship bias inhibits a more complete sample from being utilised in this research. If there is no such inhibition, a better and clearer research results could have been achieved with a larger sample size.

7.6   SUGGESTIONS FOR FUTURE RESEARCH

There are four suggestions for future research.

First, future research could analyse the relationship between the number of domestic banks that the firm engages with and firm value in Malaysian family firms during a period without credit crunch. This will provide a clearer picture as to whether minority shareholder expropriation through the domestic banking channel does occur among Malaysian family firms. Similarly, a comparison of minority shareholder expropriation through the domestic banking channel between family and non-family firms during periods without credit crunch could also provide a clearer picture as to whether expropriation through the domestic banking channel (if any) is stronger in family firms or non-family firms.

Second, future research could analyse why long tenure of independent directors reduces firm value only in Malaysian family firms in exclusive industries and not in Malaysian family firms in non-exclusive industries as well as why controlling shareholders with high equity stakes in large non-family firms in exclusive industries or biased industries negatively moderates the firm value effects of RPTs. As explained earlier, this may possibly be due to lower market competition encountered by these firms in exclusive industries which result in less job commitment of their independent directors, and ultimately result in minority shareholder expropriation through RPTs as well as due to the long tenure of these directors. However, there is still limited direct empirical evidence on these issues. Future research could provide more empirical evidence on these issues in an in-depth manner.

Third, future studies on minority shareholder expropriation which analyse firm value effects should utilise performance measures which are less subject to management manipulation such as market-based performance measures (McGuire et.al., 1990). This will reduce the distortions in the research results which could yield a more unbiased research findings.

Lastly, future research can compare whether minority shareholder expropriation is higher during the period 2007-2009 (whereby the global financial crisis and the Transmile corporate reputational effects prevail) or during the pre-2007 period within the context of the Malaysian institutional setting. This future study is interesting as the extant literature only provide limited empirical evidence on this issue. Future research can also examine minority shareholder expropriation using monthly or annual buy and hold stock returns as part of the market-based performance measures at it is a better measure of firm value (which is more aligned to shareholder objectives).

7.7   CONCLUSION

Basically this chapter discuss the conclusions drawn from the research results from the previous chapter. It also discuss the implications of the findings, research significance, limitations as well as suggestions for future research.

With consideration of the limitations of this study, generally, the findings in this research shows that Agency Problem Type II (principal-principal conflict) exist within Malaysian family and non-family firms. However, minority shareholder expropriation through RPTs is found to be more prominent in family firms compared to non-family firms. In addition, the reduction in firm value due to long tenure of independent directors within family firms in exclusive industries shows that in this type of firms, longer tenure of independent directors is detrimental to the interests of minority shareholders as family controlling shareholders could exert more influence on these directors as their tenure increase, thus, reducing their true independence and increasing minority shareholder expropriation.

On the other hand, the positive moderating effect of family controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value as well as between average independent directors' tenure and firm value suggests that family firm reputational effects is able to reduce minority shareholder expropriation in Malaysian family firms, particularly in the aftermath of the Transmile fiasco. Vice versa, the negative moderating effects of non-family controlling shareholders' ownership on the relationship between RPTs which are likely to result in expropriation and firm value and between the number of domestic banks that the firm engages with and firm value in Malaysian non-family firms; suggests that controlling shareholders with high equity stakes in large non-family firms might be involved in

minority shareholder expropriation through RPTs as well as through the domestic banking channel.

Hence, all these brings into dispute the argument by Peng and Jiang (2010) that reputational effects is a poor substitute for institutional deficiencies in emerging markets such as Malaysia.

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9.0   APPENDICES

9.1   APPENDIX A

9.1.1   List Of Public-listed Companies Utilised In This Research

No.	Family Firms
1.	A-Rank Bhd
2.	Abric Bhd
3.	Adventa Bhd
4.	AHB Bhd
5.	Ahmad Zaki Resources Bhd
6.	AIC Corporation Bhd
7.	Air Asia Bhd
8.	Amalgamated Industrial Steel Bhd
9.	Analabs Resources Bhd
10.	Ann Joo Resources Bhd
11.	APB Resources Bhd
12.	APM Automotive Bhd
13.	APP Industries Bhd
14.	Asas Dunia Bhd
15.	Asia File Corporation Bhd
16.	Asia Pacific Land Bhd
17.	Atis Corporation Bhd
18.	Atlan Bhd
19.	Atur Maju Resources Bhd
20.	AutoAir bhd
21.	AV Ventures Bhd
22.	AandM Realty Bhd
23.	Baneng Holding Bhd
24.	Baswell Resources Bhd
25.	Batu Kawan Bhd
26.	BCB Bhd
27.	Berjaya Land Bhd
28.	Berjaya Sports Toto Bhd
29.	Bintai Kinden Bhd
30.	BLD Plantation Bhd
31.	Bolton Bhd
32.	Bonia Bhd
33.	BoxPak Bhd
34.	BP Plastic Bhd
35.	Brem Holdings Bhd
36.	Bright Packaging Bhd
37.	BSL Corporation Bhd
38.	BTM Resources Bhd
39.	Cab Cakaran Bhd
40.	Canone Bhd
41.	CPBIP Bhd
42.	CCK Consolidated Bhd

No.	Family Firms
43.	Century Bond Bhd
44.	Century Logistic Bhd
45.	Cepat Wawasan Bhd
46.	Changhuat Corporation Bhd
47.	Cheetah Corporation Bhd
48.	Choo Bee Metal Bhd
49.	Chuan Huat Resources Bhd
50.	Classic Scenic Bhd
51.	CNAsia Bhd
52.	Coastal Contract Bhd
53.	Cocoa Land Bhd
54.	Comintel Bhd
55.	Compugates Bhd
56.	Country Heights Bhd
57.	Crescendo Corporation Bhd
58.	Crest Builder Bhd
59.	CYL Corporation Bhd
60.	CI Holding Bhd
61.	Dataprep Bhd
62.	Degem Bhd
63.	Deleum Bhd
64.	Delloyd Ventures Bhd
65.	Dialog Group Bhd
66.	DKLS Bhd
67.	Dijaya Corporation Bhd
68.	Dolomite Corporation Bhd
69.	Dominant Enterprise Bhd
70.	DPS Bhd
71.	Dreamgate Bhd
72.	DXN Bhd
73.	DBE Resources Bhd
74.	Eden Bhd
75.	Ekovest Bhd
76.	Emas Kiara Bhd
77.	Encorp Bhd
78.	Eng Kah Bhd
79.	Eng Tex Bhd
80.	Eonmetall Group Bhd
81.	EP Manufacturing Bhd
82.	Esthetic International Group Bhd
83.	Eupe Bhd
84.	Eurospan Bhd
85.	Euro Holdings Bhd
86.	FACB Industries Bhd
87.	Farlim Group Bhd
88.	Farms Best Bhd
89.	Favelle Favco Bhd
90.	Federal Furniture Bhd
91.	Fiamma Bhd

No.	Family Firms
92.	Fima Corporation Bhd
93.	Fitters Bhd
94.	Formis Resources Bhd
95.	FurniWeb Bhd
96.	FSBM Bhd
97.	Freight Management Holding Bhd
98.	Gadang Bhd
99.	Gefung Bhd
100.	General Corporation Bhd
101.	Genting Bhd
102.	Ge-Shen Corporation Bhd
103.	George Kent Bhd
104.	Glenealy Plantations Bhd
105.	Globetronics Bhd
106.	Golden Frontier Bhd
107.	Glomac Bhd
108.	Goldis Bhd
109.	Golsta Bhd
110.	Goodway Bhd
111.	Gopeng Bhd
112.	GR&D Central Enterprise Bhd
113.	GR&D Hoover Bhd
114.	Green Packet Bhd
115.	Guan Chong Bhd
116.	Gunung Capital Bhd
117.	Guoco Land Bhd
118.	Hai-O Enterprise Bhd
119.	Haisan Bhd
120.	Harbour-Link Bhd
121.	Harnlen Bhd
122.	Hevea Bhd
123.	Hexza Corporation Bhd
124.	Hiap Tek Bhd
125.	HIL Industries Bhd
126.	Hing Yiap Knitting Bhd
127.	Hirotako Bhd
128.	Hong Leong Industries Bhd
129.	Hovid Bhd
130.	HPI Industries Bhd
131.	Hock Sin Leong Bhd
132.	Hock Seng Lee Bhd
133.	Huat Lai Bhd
134.	Hua Yang Bhd
135.	Hume Industries Bhd
136.	Hunza Properties Bhd
137.	Hup Seng Bhd
138.	Hwa Tai Corporation Bhd
139.	Hytex Bhd
140.	Ibraco Bhd

No.	Family Firms
141.	I-Bhd
142.	IGB Bhd
143.	Imaspro Bhd
144.	Ingress Bhd
145.	Integrated Rubber Corporation Bhd
146.	Integra Bhd
147.	IOI Corporation Bhd
148.	Ipmuda Bhd
149.	Ireka Corporation Bhd
150.	Jadi Corporation Bhd
151.	Jasa Kita Bhd
152.	Jaycorp Bhd
153.	Jaya Tiasa Bhd
154.	JMR Corporation Bhd
155.	Johan Holdings Bhd
156.	Johore Tin Bhd
157.	Kamdar Bhd
158.	Karabunai Corporation Bhd
159.	Kawan Corporation Bhd
160.	KBB Resources Bhd
161.	Kein Hing International Bhd
162.	Kencana Petroleum Bhd
163.	Ken Holdings Bhd
164.	Khee San Bhd
165.	Khind Bhd
166.	Kian Joo Bhd
167.	Kia Lim Bhd
168.	Kim Hin Bhd
169.	Kim Loong Bhd
170.	Kinsteel Bhd
171.	KKB Engineering Bhd
172.	KNM Bhd
173.	Knusford Bhd
174.	Kobay Bhd
175.	Komark Bhd
176.	Konsortium Logistik Bhd
177.	Kossan Bhd
178.	Kotra Industries Bhd
179.	KPS Consortium Bhd
180.	Kretam Holdings Bhd
181.	Kriss Asset Bhd
182.	KSL Bhd
183.	KL Kepong Bhd
184.	Kumpulan Europlus Bhd
185.	Kumpulan Fima Bhd
186.	Kumpulan HandL High Tech Bhd
187.	Kumpulan Powernet Bhd
188.	Kwantas Corporation Bhd
189.	KYM Holdings Bhd

No.	Family Firms
190.	Latexx Bhd
191.	Lay Hong Bhd
192.	LB Aluminium Bhd
193.	LBI Capital Bhd
194.	LBS Bina Group Bhd
195.	Len Cheong Bhd
196.	Lebar Daun Bhd
197.	Lee Swee Kiat Bhd
198.	Leweko Corporation Bhd
199.	Lien Hoe Corporation Bhd
200.	LiiHen Bhd
201.	Lingui Bhd
202.	Lion Corporation Bhd
203.	Lion Diversified Bhd
204.	Lion Forest Bhd
205.	Lion Industries Bhd
206.	Lipo Corporation Bhd
207.	London Biscuit Bhd
208.	Leader Steel Bhd
209.	LTKM Bhd
210.	Luster Industries Bhd
211.	Lysaght Bhd
212.	Malaysian AE Model Bhd
213.	Magni Bhd
214.	Mahajaya Bhd
215.	Mah Sing Bhd
216.	Malton Bhd
217.	Mamee Bhd
218.	Malaysian Bulk Carriers Bhd
219.	Malaysia Pacific Industries Bhd
220.	Mechmar Bhd
221.	Melati Ehsan Holdings Bhd
222.	Melewar Industrial Group Bhd
223.	Metal Reclamation Bhd
224.	Metro Kajang Bhd
225.	Metronic Bhd
226.	Mega First Corporation Bhd
227.	MHC Plantation Bhd
228.	MHouse Bhd
229.	Mieco Bhd
230.	Minetech Bhd
231.	Mintye Bhd
232.	Mitrajaya Bhd
233.	MK Land Bhd
234.	MTD ACPI Engineering Bhd
235.	MTD Capital Bhd
236.	Muda Bhd
237.	Mudajaya Bhd
238.	Muhibah Bhd

No.	Family Firms
239.	MUH Bhd
240.	Multivest Bhd
241.	Mycron Bhd
242.	Narra Industries Bhd
243.	New Hoong Fatt Bhd
244.	NPC Bhd
245.	NTPM Bhd
246.	NV Multi Corporation Bhd
247.	NWP Bhd
248.	Nylex Bhd
249.	Ogawa Bhd
250.	OFI Industries Bhd
251.	OKA Bhd
252.	Oriental Bhd
253.	Padini Bhd
254.	Pahanco Bhd
255.	Pantech Bhd
256.	Paos Holding Bhd
257.	Paramount Bhd
258.	Parkson Bhd
259.	Patimas Bhd
260.	PCCS Bhd
261.	Pelangi Publishing Group Bhd
262.	Pensonic Bhd
263.	Pentamaster Bhd
264.	Permaju Bhd
265.	Petaling Tin Bhd
266.	Picorp Bhd
267.	Pintaras Bhd
268.	PJ Bumi Bhd
269.	PJ Development Bhd
270.	PLB Engineering Bhd
271.	Poh Kong Bhd
272.	Poly Glass Fibre Bhd
273.	PPHB Bhd
274.	Prestar Bhd
275.	Prinsiptek Bhd
276.	Pulai Spring Bhd
277.	Puncak Niaga Bhd
278.	PW Consolidated Bhd
279.	Priceworth Wood Products Bhd
280.	QL Resources Bhd
281.	Quality Concrete Holdings Bhd
282.	Ranhill Holdings Bhd
283.	Rapid Bhd
284.	Rock Chemical Industries Bhd
285.	Resin Tech Bhd
286.	Reliance Pacific Bhd
287.	Rimbunan Sawit Bhd

No.	Family Firms
288.	Riverview Bhd
289.	Sapura Crest Bhd
290.	Sapura Industrial Bhd
291.	Sapura Resources Bhd
292.	Satang Holdings Bhd
293.	SBC Corporation Bhd
294.	Scientex Bhd
295.	Scomi Engineering Bhd
296.	Scomi Marine Bhd
297.	Selangor Dredging Bhd
298.	Seacera Bhd
299.	See Hup Bhd
300.	Sernkou Bhd
301.	Shangri-La Bhd
302.	SHL Consolidated Bhd
303.	Sitt Tat Bhd
304.	Seni Jaya Bhd
305.	Sino-Huaan Bhd
306.	SKB Shutters Bhd
307.	SKP Bhd
308.	SLP Resources Bhd
309.	SMIS Corporation Bhd
310.	Sarawak Oil Palm Bhd
311.	Selangor Properties Bhd
312.	Southern Acid Bhd
313.	Southern Steel Bhd
314.	Spritzer Bhd
315.	Stamford College Bhd
316.	Stone Corporation Bhd
317.	Subur Bhd
318.	Success Bhd
319.	Sui Wah Bhd
320.	Sumatec Bhd
321.	Sunway City Bhd
322.	Sunway Holdings Bhd
323.	Supermax Bhd
324.	Swee Joo Bhd
325.	Sarawak Plantations Bhd
326.	SYF Bhd
327.	Taan Bhd
328.	TAFI Industries Bhd
329.	Takaso Corporation Bhd
330.	Talam Corporation Bhd
331.	Taliworks Corporation Bhd
332.	Tamadam Bhd
333.	Tanco Bhd
334.	Tasek Bhd
335.	Teck Guan Perdana Bhd
336.	Tek Seng Bhd

No.	Family Firms
337.	Tanjung Offshore Bhd
338.	Thong Guan Bhd
339.	Tiong Nam Logistics Bhd
340.	Transocean Bhd
341.	Tomei Corporation Bhd
342.	Top Glove Corporation Bhd
343.	TPC Bhd
344.	TRC Bhd
345.	Triumphal Bhd
346.	TSR Capital Bhd
347.	TheStore Corporation Bhd
348.	Tradewinds Bhd
349.	Tradewinds Corporation Bhd
350.	UMS-Neiken Bhd
351.	UnimechBhd
352.	Unisem Bhd
353.	United Bintang Bhd
354.	United Kotak Bhd
355.	United U-Li Corporation Bhd
356.	UPA Press Bhd
357.	Voir Industries Bhd
358.	VS Industry Bhd
359.	Wah Seong Bhd
360.	Wang Zheng Bhd
361.	Warisan Bhd
362.	Watta Holdings Bhd
363.	Wawasan TKH Holdings Bhd
364.	Weida Bhd
365.	Wong Engineering Bhd
366.	Woodlandor Holdings Bhd
367.	WTK Holdings Bhd
368.	WWE Holdings Bhd
369.	Xian Leng Holdings Bhd
370.	Yee Lee Corporation Bhd
371.	Yinson Bhd
372.	YLI Holdings Bhd
373.	YNH Property Bhd
374.	Yong Tai Bhd
375.	YTL Cement Bhd
376.	YTL Land and Development Bhd
377.	YTL Power Corporation Bhd
378.	Zecon Bhd
379.	Zhulian Bhd

No.	State-Owned Firms
1.	Acoustech Bhd
2.	ARK Resources Bhd
3.	Astral Asia Bhd
4.	Bina Darulaman Bhd
5.	Bintulu Port Bhd
6.	Boustead Heavy Industries Bhd
7.	Chemical Company Of Malaysia Bhd
8.	CCM Duopharma Bhd
9.	Central Industrial Corporation Bhd
10.	Damansara Realty Bhd
11.	Eastern Pacific Industries Corporation Bhd
12.	Faber Group Bhd
13.	Formosa Pronsonic Bhd
14.	Golden Pharos Bhd
15.	KFC Holdings Bhd
16.	KLCC Property Bhd
17.	KPJ Healthcare Bhd
18.	Kulim (M) Bhd
19.	Kumpulan Hartatanah Selangor Bhd
20.	Kumpulan Perangsang Selangor Bhd
21.	Kurnia Setia Bhd
22.	Maju Perak Bhd
23.	Malaysia Airline System Bhd
24.	Mentiga Bhd
25.	MISC Bhd
26.	Malaysia Airport Holdings Bhd
27.	Malaysian Resources Corporation Bhd
28.	NCB Bhd
29.	News Straits Times Press (M) Bhd
30.	Pasdec Bhd
31.	Perbadanan Bekalan Air Pulau Pinang Bhd
32.	Pembinaan Limbongan Setia Bhd
33.	Perak Corporation Bhd
34.	Petronas Dagangan Bhd
35.	Petronas Gas Bhd
36.	Pharma Niaga Bhd
37.	PLUS Expressway Bhd
38.	Pos Malaysia Bhd
39.	Proton Holdings Bhd
40.	QSR BR&D Bhd
41.	Silverbird Bhd
42.	Sindora Bhd
43.	SPK Bhd
44.	Suria Capital Bhd
45.	TDM Bhd
46.	Tebrau Bhd
47.	Telekom Bhd
48.	Tenaga Nasional Bhd
49.	TH Plant Bhd

No.	State-Owned Firms
50.	Time DotCom Bhd
51.	Time Engineering Bhd
52.	Tracoma Bhd
53.	UAC Bhd
54.	UMW Holdings Bhd
55.	Utusan Melayu Bhd
56.	Ya Horng Electronics Bhd

No.	Foreign-Owned Firms
1.	AEON Corporation Bhd
2.	Ajinomoto Bhd
3.	Amway Bhd
4.	Apex Healthcare Bhd
5.	Apollo Food Holdings Bhd
6.	British American Tobacco (M) Bhd
7.	Carlsberg (M) Bhd
8.	Chin Teck Plantations Bhd
9.	Cycle and Carriage Bhd
10.	Cymao Bhd
11.	Daiman Development Bhd
12.	Digi.Com Bhd
13.	DNP Holdings Bhd
14.	Dutch Lady Bhd
15.	Eksons Bhd
16.	Esso (M) Bhd
17.	Evergreen Fireboard Bhd
18.	Fraser and Neave Bhd
19.	Guiness Anchor (M) Bhd
20.	Harrison Holdings Bhd
21.	Industronics Bhd
22.	IQ Group Bhd
23.	JT International Bhd
24.	Keck Seng Bhd
25.	Kenmark Industrial Corporation Bhd
26.	KESM Industries Bhd
27.	Kluang Rubber Company Bhd
28.	Kuchai Development Bhd
29.	LaFarge Cement (M) Bhd
30.	Latitude Bhd
31.	LCTH Bhd
32.	Maxtral Bhd
33.	Metech Group Bhd
34.	Metrod Bhd

No.	Foreign-Owned Firms
35.	Malaysian Packaging Bhd
36.	Malaysian Smelting Corporation Bhd
37.	Negeri Sembilan Oil Palms Bhd
38.	Nestle (M) Bhd
39.	Nikko Electronics (M) Bhd
40.	OCI Bhd
41.	Panasonic (M) Bhd
42.	Perstima Bhd
43.	PIE Industrial Bhd
44.	PNE PCB Bhd
45.	Sungai Bagan Corporation Bhd
46.	Shell (M) Bhd
47.	Sunchirin Bhd
48.	Superlon (M) Bhd
49.	Tai Kwong Yokohama (M) Bhd
50.	Tawin Bhd
51.	Texchem (M) Bhd
52.	Tien Wah Press (M) Bhd
53.	Titan Chemicals (M) Bhd
54.	Tong Her (M) Bhd
55.	Uchi Tech Bhd
56.	Wellcall Holdings Bhd
57.	Yeo Heap Seng (M) Bhd
58.	Yi Lai Bhd
59.	YSP South East Asia Bhd

No.	Corporate-Owned Firms
1.	Alam Maritime Resources Bhd
2.	Aliran Insan Resources Bhd
3.	Amtek Bhd
4.	Concrete Engineering Bhd
5.	DKSH Bhd
6.	Ekowood Bhd
7.	Emivest Bhd
8.	Fututech Bhd
9.	Heitech Padu Bhd
10.	IRM Group Bhd
11.	Konsortium Transnasional Bhd
12.	KUB Bhd
13.	MBM Resources Bhd
14.	Minho Bhd
15.	Mulpha Land Bhd

No.	Corporate-Owned Firms
16.	Plenitude Bhd
17.	Star Publications (M) Bhd
18.	Unico-Desa Plantations Bhd
19.	Zelan Bhd

No.	Firms With Mixed Ultimate Ownership For Different Years (Others)
1.	Padiberas Nasional Bhd
2.	Ramunia Bhd
3.	SMPC Corporation Bhd
4.	KeyAsic (M) Bhd
5.	Loh and Loh Corporation Bhd
6.	MUI Properties Bhd
7.	Mulpha International Bhd
8.	Putrajaya Perdana Bhd
9.	UBG Bhd
10.	Global Carriers Bhd
11.	GSB Group Bhd
12.	Petra Energy Bhd
13.	SEG Bhd
14.	Ekran Bhd
15.	Evermaster Group Bhd
16.	LCL Corporation Bhd
17.	Java (M) Bhd

9.2 APPENDIX B

9.2.1   List Of Publications From This Thesis

Symposium

Liew, C. Y., Devi, S. S., & Alfan, E. (2012). *Family firms, expropriation and firm value : Evidence from Malaysia*. Paper presented at the Capital Market Behaviour Symposium, Monash University Malaysia.

Workshop

Liew, C. Y., Devi, S. S., Alfan, E., Munir, S., & Samad, F. (2011). *Expropriation-related variables and firm performance: Evidence From Malaysian family firms*. Paper presented at the The British Accounting and Finance Association, Accounting and Finance in Emerging Economies SIG Sixth Workshop Programme, University of Sunderland, UK.

Conference Proceeding

Liew, C. Y., Devi, S. S., Alfan, E., & Samad, F. (2011). *Expropriation-related variables and firm performance: Evidence from Malaysian family firms.* Paper presented at the Malaysian Finance Association Conference Langkawi, Kedah.