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The effect of ownership concentration on company performance

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The study is to explore a relationship between ownership attributes and the performance of the firm (value of the firm). The ownership concentration or type of ownership will be divided into a few categories either institutional or individual companies, foreign or non foreign holding companies and government or non government holding companies. The study found that companies in Malaysia with foreign or government stakeholders prefer institutional type ownership. Furthermore, companies with foreign stakeholders have higher EVA as compared to companies with non-foreign holdings, while companies with government as their stakeholders have lower values of EVA than the companies without government stakeholders. It also found that the value of institutional type of ownership is lower as compared to EVA value of individual type of ownership.

Key words: Size, institutional, EVA, company performance, ownership.

INTRODUCTION

As ownership concentration is believed to influence performance, Banz (1981) had found that ownership and size have an effect on firm performance. Jahera et al. (1993), studied the relationship between the effectiveness of corporate risk diversification, as measured by the correlation between the firm’s stock and the market, and performance, as measured by excess stock returns. There was a significant positive relationship between diversification and performance after controlling for ownership and size.

Mitton’s (2002), study of the relationship between stock returns and ownership structure variables indicates that each increase of 20% in ownership concentration is associated with a higher of 2.6% of stock return. Furthermore, Clark and Wójcik, (2003) had argued that high ownership concentration indicates a more closed corporate governance regime. With less information available to outside investors and a higher potential for insider trading, companies with more closed corporate governance tend to exhibit more volatile stock market prices. In brief, high ownership concentration tends to inhibit corporate stock market returns. Continuing the study, Clark and Wójcik, (2005) examined the financial valuation of a German model. The relationship of ownership concentration and firm performance, and ownership concentration and market performance were studied. They found that concentrated ownership would encourage a longer-term competitive and investment strategy. They show that financial markets discount ownership concentration and there is a significant negative relationship between ownership concentration and the average daily rate of return.

Based on the previous literature, we believe there is a relationship between ownership attributes and performance. The ownership concentration or type of ownership will be divided into two categories either institutional or individual companies. Further, a study of the behavior of foreign holding companies and government holding companies as variables will be made. The research questions of the study are:

1. Do companies with foreign stakeholders exhibit higher
values of EVA compared to non-foreign holding companies?
2. Do companies with government stakeholders (comprising minimum 20% holding) exhibit higher values of EVA compared to non-government holding companies?
3. Is there any difference in EVA values between institutional and individual types of ownership business structure?

INSTITUTIONAL VERSUS INDIVIDUAL OWNERSHIP

Brous and Kini (1994) examined whether the level of institutional ownership results in a greater degree of monitoring of a specific corporate decision. They found a significant positive relation between announcement period abnormal stock returns and institutional ownership, and find a significant positive relation between analysts' abnormal forecast revisions in five-year earnings growth and institutional ownership. McConnell and Servaes (1990) also found a positive relation between firm value and institutional ownership.

Shleifer and Vishny (1997) shows that the organization of investors into a few large institutional investors improves managerial efficiency as they can afford to invest in information, monitor managers, and reduce the conflict of interests between owners and managers. Filatotchev et al. (2003) found that institutional investors in Taiwan had a positive effect on corporate performance; the institutional investors will lead to high company performance.

Gadhoum and Ayadi (2003) studied the relationship of ownership structure to changes in corporate risk behavior for Canadian firms. They found that ownership structure of the firm was negatively related to its level of risk and that this relation was a complex and non-linear one. Yoshikawa and Phan (2003) observe that a number of research studies have already examined the effects of ownership structure and concentration on firm strategies and performance (Amihud and Lev, 1981; Baysinger et al., 1991; David and Kochhar, 1996; Hill and Snell, 1989). These US-based studies generally support the view that concentrated institutional ownership leads to more shareholder-oriented strategies.

Foreign versus non-foreign holding

Dahlquist and Robertsson (2004) studied the investment behavior of foreign investors in association with equity market liberalization, and found a strong link between foreigners' trading and local market returns, net purchases by foreign investors on the other hand, induced a permanent increase in stock prices, suggesting that local firms reduced their cost of equity capital. They also find a strong link between a firm’s fraction of foreign ownership and the magnitude of the cost reduction. Foreign investors seem to prefer large and well-known firms, and these firms realize the largest reduction in capital cost. Furthermore, their analysis suggests that foreigners increase their net holding in firms that have recently performed well.

Yoshikawa and Phan (2003) said that other studies have examined the relationships between shareholdings by banks, partner firms and foreign investors and the performance of Japanese firms (Aoki, 2002; Gedajlovic and Shapiro, 2002; Kang and Shivdasani, 1995; Nitta, 2000; Prowse, 1990). Generally, they found that foreign ownership correlates with higher performance. These results suggest that foreign shareholders are more effective in driving firm performance and they do not discount the possibility that foreign owners are just good stock pickers (Nitta, 2000).

Oxelheim and Randoy (2002) examined the effect of foreign (Anglo-American) board membership on corporate performance measured in terms of firm value (Tobin's Q). The results indicate that foreign board membership is significantly related to firm value (positive), foreign ownership (positive), foreign listing (positive), foreign subsidiary (positive), board independence (negative), and block holder ownership (positive). Based on an analysis of 128 responses, Pangarkar and Lim (2003) found that Singapore firms' foreign subsidiaries achieve moderate levels of performance. The data analysis also revealed that FDI performance was positive under the following conditions: the host government attitudes were positive and the subsidiaries were of large size in relative to the parent.

Patibandla (2002), found the opening of the Indian economy to foreign investment has not only increased product market competitive conditions but has also led to a gradual move of Indian corporations towards better corporate governance practices. His findings show that increasing presence of foreign institutional investors has a positive effect on corporate performance in terms of profitability.

Government versus non-government holding

To extend the ownership issues, Ang and Ding (2004) compared the financial and market performance of Government Link Companies (GLC) with non-GLCs, where each has a different set of governance structure, the key difference being government ownership. They show that Singaporean GLCs have higher valuations and better corporate governance than a control group of non-GLCs. The results hold even when we control for firm specific characteristics such as profitability, leverage, firm size, and foreign ownership.

On the average, GLCs provided superior returns (on both assets and equity), and are valued more highly, through their better management of expenses than non-GLCs. Since GLCs are generally correlated with better governance practices, the results support the view that investors in the Singaporean market do value the higher
standards of corporate governance found in the GLCs. Dean et al. (2005) examined the performance of domestic Chinese firms in various ownership categories versus foreign-invested enterprises (FIEs) based on two nation-wide surveys conducted by the National Bureau of Statistics in 1998 and 2002. It was found that both domestic non-state-owned firms and foreign-invested enterprises performed better than state-owned enterprises. Meanwhile, three categories of Chinese firms privately owned, collectively owned, and shareholding had higher performance levels than the foreign-invested enterprises.

**RESEARCH METHODOLOGY**

The judgment sampling for non-random sampling will be used instead of random sampling since judgment is used in selecting the sample. For this study all public listed companies in Bursa Malaysia, subject to its required information being available, is used as a sample of the study. The larger numbers of sample companies are expected to make the study more transparent and representative of across section of companies in Malaysia.

The scope of the study only includes companies listed in Bursa Malaysia with availability of data thru at the sample period. The company must be actively traded on Bursa Malaysia, and should not be classified as PN4 companies. It must have completed a full accounting period or 12 months business operation for each year and the accounting period must be consistent and have the same year-end throughout the research period. Based on these criteria, for period between 1997 to 2002, 245 samples of Main Board companies were selected.

**RESULTS AND FINDINGS**

Based on Table 1, 245 samples collected over the period of 1997 to 2002, 188 of the companies (76.73%) are institutional ownership while the remaining 57 companies (23.27%) are individual ownership companies. In terms of foreign ownership, 44 companies (17.96%) are foreign holding companies, while 201 companies (82.04%) are non-foreign holding. 37 companies (15.10%) are classified as government holding companies, while 208 companies (84.90%) are non-government holding. As for diversification of activities, 81 companies (33.06%) are deemed to be diversified and 164 companies (66.94%) are non-diversified.

For companies with at least 20% foreign stakeholders, 42 companies (95.45%) are institutional ownership, while only 2 companies (4.55%) are classified as individually owned. In turn, 37 of the companies with at least 20% government stakeholders, 35 companies (94.59%)
Table 2. Interaction table of descriptive analysis.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Diversified company</th>
<th>Non-diversified company</th>
<th>Institutional ownership</th>
<th>Individual ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>20% Government and 20% foreign holding</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>20% Government and non-foreign holding</td>
<td>9</td>
<td>23</td>
<td>30</td>
<td>2</td>
</tr>
<tr>
<td>Non-government and 20% foreign holding</td>
<td>11</td>
<td>28</td>
<td>37</td>
<td>2</td>
</tr>
<tr>
<td>Non-government and non-foreign holding</td>
<td>61</td>
<td>108</td>
<td>116</td>
<td>53</td>
</tr>
</tbody>
</table>

are institutionally owned, while only 2 companies (5.41%) are individually owned. Thus, it is apparent that companies with foreign or government stakeholders, are more inclined toward institutional type ownership when making an investment.

For companies with foreign stakeholders, 11 companies (25.00%) are in diversified business activities, while 33 companies (75.00%) in non-diversified businesses. For companies with government as stakeholders, 9 companies (24.32%) are in diversified business activities, while 28 companies (75.68%) are in non-diversified business activities. It can be concluded that companies with foreign or government as stakeholders are more inclined towards having concentrated core business activities instead of diversified business activities.

For institutional type ownership companies, 132 companies out of 188 (70.21%) are in non-diversified business activities as compared to only 56 companies (29.79%) in diversified business activities. However, of the individual type ownership companies, 25 companies (43.86%) are non-diversified businesses activities, while 32 companies (56.14%) are diversified businesses activity. Thus, it can be seen that while institutional ownership companies preferred concentrated business activity, while individual ownership did not exhibit any tendency towards diversified or non-diversified business activity.

Based on Table 2, 5 companies (2.04%) are jointly owned by foreign and government. In turn, 32 companies (13.06%) have been invested by government and non-foreign holding. In addition, 39 companies (15.92%) represented companies with only foreign stakeholders, while 169 companies (68.98%) represented companies without foreign or government stakeholders.

For companies with foreign and government stakeholders, no companies were engaged in diversified business activity while 5 others (100%) are concentrated or non-diversified business activity. For company with only government as stakeholders, 9 companies out of 32 companies (28.13%) are diversified in business activity and 23 companies (71.88%) are non-diversified in business activity. Only 11 companies (28.21%) from companies with only foreign stakeholders conduct diversified business activity, and 28 companies (71.79%) are not diversified in its business activity. In contrast the study revealed that for companies without foreign or government holdings, 61 companies (36.09%) are diversified in nature and while 108 companies (63.91%) are not. Thus, it can be concluded that the degree of concentrated business tends to increase with government and foreign as stakeholders for the company.

Five (5) companies with foreign and government stakeholders, are also an institutional type of ownership. Out of 39 foreign stakeholders companies, 37 of the companies (94.87%) are institutional type of ownership and 2 companies (5.13%) are individual of ownership. In comparison with companies with only government as stakeholders, 2 of the companies (6.25%) are individual type of ownership and 30 companies (93.75%) are institutional type of ownership. For company without foreign or government stakeholders, 116 of them (68.64%) are institutional type of ownership, while 53 companies (31.36%) are individual type of ownership. In conclusion, it can be said that foreign and government stakeholders tend to prefer institutional type ownership.

Interaction between ownership attributes and company performances

For panel pool regression analysis, the main board listed companies’ data for year 1999 to 2002 are used. The 4 year study period has been chosen since the period is considered as the period after the economic crisis effect. Nine hundred and eighty (980) observations and four (4) year period are used in the panel pool regression analysis.

Foreign versus non-foreign holding companies

Based on Table 3, the average EVA of foreign holding companies (20%) is higher compared to...
non-foreign holding companies. Dahlquist and Robertsson (2004) found that net purchases by foreign investors induced a permanent increase in stock prices, suggesting that local firms reduced their cost of equity capital. They also find a strong link between a firm’s fraction of foreign ownership and the magnitude of the cost reduction. Foreign investors seem to prefer large and well-known firms, and these firms realize the largest reduction in capital cost. Furthermore, the analysis had suggested that foreigners increase their net holding in firms that have recently performed well. It is believed that foreign investors in Malaysia had invested in companies that are able to provide higher returns to their investments, thus, their EVA values were higher as compared to companies with non-foreign as stakeholders. The globalisation of ownership creates an opportunity for foreign shareholders to buy large stakes in the firm. However, the investors must have confidence that the capital they provide will be properly monitored (Oxelheim and Rando, 2002). An agency theory perspective suggests that increases in foreign ownership would lead to realignment in Japanese corporate governance practices (Kikuchi, 1999; Yoshikawa and Phan, 2001). Foreign ownership thus, becomes a means for achieving a lower cost of capital (Oxelheim and Rando, 2002). Nitta (2000), had quoted that Aoki (2002), Gedajlovic and Shapiro (2002); Kang and Shivdasani (1995) and Prowse (1990), had found that foreign ownership correlates with higher performance and while these results have been interpreted to mean that foreign shareholders are more effective in driving firm performance, they do not discount the possibility that foreign owners are just good stock pickers. Thus, the study concludes that value of the companies with foreign stakeholders is higher compared to companies without foreign stakeholders.

Government versus non-government holding companies

Ang and Ding, (2004) had found that GLCs provide superior returns (on both assets and equity) on average, and are valued more highly given their better management of expenses than non-GLCs, since GLCs and are generally associated with better governance practices. However, in Malaysia (Table 3), companies with government as their stakeholders tend to exhibit lower EVA scores than the companies without government stakeholders. Such a finding tends to be contrary to the idea that companies with government holdings tend to have better corporate governance practices and are better well monitored. It is believed that the Malaysian government prefers investing in public amenities companies to protect public interest. These types of companies do not have higher value than their competitors, where the competitors are usually profit-oriented organisation.

Institutional versus individual holding

Based on Table 3, the average EVA of institutional type ownership holding companies is lower as compared to individual type ownership holdings. Lien et al. (2005), has found that there is some evidence from the studies of Western countries (Hoskisson et al., 1994; Wruck, 1989; Young and O’Byrne 2002) that the presence of institutional investors promotes good governance and significantly enhances firm performance. Filatotchev et al. (2003) found that institutional investors in Taiwan exhibited positive correlation to corporate performance. However, Malaysian public listed companies exhibited a reverse situation, and did not exhibit the norm that the individual ownership tends to generate higher value compared to institutional ownership since the stakeholders will monitor the company performance closely and they only choose activities which can generate return higher than their cost of capital and operate businesses to maximise their return on capital.

Conclusion

The study reveals that companies in Malaysia with foreign or government stakeholders prefer institutional type ownership when making an investment. Further the companies with foreign or government stakeholders also prefer concentrated or core business activities to diversified business activities. As for companies with both government and foreign stakeholders, preference was geared more towards non-diversified business activities or concentrated types of business. It is also found that companies with government or foreign stakeholders have higher degrees of concentrated business compared to companies in which both of the parties were not their stakeholders. On the other hand, institutional type of ownership companies preferred concentrated business activities; however, individual ownership did not exhibit any tendencies towards diversified or non-diversified business activities.

Companies with foreign stakeholders have higher EVA as compared to company with non-foreign holdings, it is believed that foreign investors seem to prefer large and well-known firms, and realize the largest reduction in capital cost. It is agreed that foreign investors in Malaysia invest in companies that are able to provide higher returns to their investments or obtain reduction in their cost of capital, resulting in their EVA being higher than companies with non-foreign stakeholders. The findings are in line with Oxelheim and Rando (2002), Kikuchi (1999) and Yoshikawa and Phan (2001) that foreign investors are interested in the companies that monitor their capital expenditures and adopt corporate
Table 3. Panel pool regressions with common coefficients between ownership attributes and EVA for the year 1999 To 2002.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>-0.045877</td>
<td>0.003101</td>
<td>-14.79300</td>
<td>0.0000</td>
</tr>
<tr>
<td>Leverage</td>
<td>-653556.0</td>
<td>718529.0</td>
<td>-0.909575</td>
<td>0.3633</td>
</tr>
<tr>
<td>Foreign</td>
<td>1.00E+08</td>
<td>31351096</td>
<td>3.197327</td>
<td>0.0014</td>
</tr>
<tr>
<td>Government</td>
<td>-73532007</td>
<td>34103171</td>
<td>-2.156163</td>
<td>0.0313</td>
</tr>
<tr>
<td>Diversification</td>
<td>-60810425</td>
<td>25117273</td>
<td>-2.421060</td>
<td>0.0157</td>
</tr>
<tr>
<td>Type ownership</td>
<td>-73532007</td>
<td>34103171</td>
<td>-2.156163</td>
<td>0.0313</td>
</tr>
<tr>
<td>C</td>
<td>-17208963</td>
<td>26789187</td>
<td>-0.642385</td>
<td>0.5208</td>
</tr>
</tbody>
</table>

R-squared          | 0.223684     | F-statistic| 46.72597    |
Adjusted R-squared | 0.218897     | Prob (F-statistic) | 0.000000 |

Table 4. Panel pool regressions with common coefficients between ownership attributes and EVA with interaction between type of ownership and size variables for the year 1999 To 2002.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>-0.015356</td>
<td>0.014144</td>
<td>-1.085712</td>
<td>0.2779</td>
</tr>
<tr>
<td>Leverage</td>
<td>-614147.0</td>
<td>717150.8</td>
<td>-0.856371</td>
<td>0.3920</td>
</tr>
<tr>
<td>Government</td>
<td>-73394938</td>
<td>34071975</td>
<td>-2.154115</td>
<td>0.0315</td>
</tr>
<tr>
<td>Foreign</td>
<td>1.00E+08</td>
<td>31322066</td>
<td>3.207698</td>
<td>0.0014</td>
</tr>
<tr>
<td>Type ownership*size</td>
<td>-0.032019</td>
<td>0.014469</td>
<td>-2.212856</td>
<td>0.0271</td>
</tr>
<tr>
<td>Type ownership</td>
<td>-20944153</td>
<td>29975184</td>
<td>-0.698716</td>
<td>0.4849</td>
</tr>
<tr>
<td>Diversification</td>
<td>-62395507</td>
<td>25103858</td>
<td>-2.485495</td>
<td>0.0131</td>
</tr>
<tr>
<td>C</td>
<td>-33041884</td>
<td>27703127</td>
<td>-1.192713</td>
<td>0.2333</td>
</tr>
</tbody>
</table>

R-squared          | 0.227285     | F-statistic| 40.84325    |
Adjusted R-squared | 0.221720     | Prob(F-statistic) | 0.000000 |

governance practices. The findings also consistent with Aoki (2002), Gedajlovic and Shapiro (2002), Kang and Shivdasani (1995) and Prowse (1990), that foreign shareholders are more effective in driving firm performance and results reveal that foreign holding companies that increase in size lead to an increase in company values.

However, in Malaysia, companies with government as their stakeholders have lower values of EVA than the companies without government stakeholders. The companies with government stakeholders have lower values compared to companies without government holdings, contradicting the view that companies with government holding exercise better corporate governance and are better monitored. We are of the view that the Malaysian government invests in public interest companies. As such, in addition to good corporate governance practices the government should be directing investment into higher return activities that exhibit positive EVA values. It has been found that the EVA value of institutional type of ownership is lower compared to EVA value of individual type of ownership. It is believed that individual type ownership exhibit higher values of EVA as stakeholders since its control the company individually and dominates all its activities. Due to the high concentration of power, they tend to be able to select and opt for business activities that provide higher returns than cost of capital. The decision of such companies are coloured by priority to maximise returns to its shareholders.

REFERENCES
Ang JS, Ding DK (2004). Government ownership and the performance