

EFFECT OF BLOCK OWNERSHIP ON PERFORMANCE OF MALAYSIAN PROPERTY COMPANIES

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ABSTRACT

Concentration of ownership is said to be more evident in Asian firms due to the prevalence of family-controlled and state-controlled firms. This study empirically examines the relationship between firm performance and the presence of block holders. It analyses panel data drawn from 81 Malaysian property firms studied during the period of 1999-2005. Results from ordinary least squares and two stage least squares regression within a simultaneous equation system suggests firms with high block ownership has a negative impact on firm performance. The results indicate that firm performance represented by Tobin's Q does not reward firms with block owners as the market fears large shareholders would impose their wills in order to improve their own positions at the expense of other shareholders, thus favouring a dispersed ownership structure. However, contrasting findings were reported when an accounting measure is used as firm performance. The findings also show that causality runs in both directions indicating that block ownership is a determinant of performance and vice versa.

Keywords: Block ownership, performance, corporate governance

INTRODUCTION

Complete separation of ownership and control rarely exist in any firm. It is a common phenomenon that a certain percentage of shareholdings would belong to managers, who due to the size of their ownership would have some control over the firm (Denis and McConnell, 2003).

Studies and literature documenting ownership structure in Asian economies are scarce, especially in examining its relation with firm performance. The limited literature and empirical work on Asian companies (Zhuang, Edwards and Capulong (2001); Claessens, Djankov and Lang (1996, 1999a, 1999b, 1999c)) showed that the pattern of ownership in these companies differs dramatically from that of Western countries where Asian companies exhibit a very high concentration of ownership. Whilst the impact of ownership concentration on firm performance varies with the level of economic and institutional development of a country and also with the variation across industries and differing securities laws across countries, this study which focuses on the property industry in Malaysia gives an insight into the ownership structure and its effect on performance. Furthermore, previous studies on East Asian economies concentrated on

periods before the Asian financial crisis and since ownership concentration in Malaysia is reported in the hands of a few well connected families, this study on the post-crisis sheds some light on the situation after the crisis where major institutional developments on corporate governance have been introduced. Amongst them are the Malaysian Code on Takeovers and Mergers 1999 which requires a higher standard of corporate disclosure and behaviour from the involved parties and the release of the Malaysian Code on Corporate Governance 1999 which focuses on board of directors, directors' remuneration, shareholders, accountability and audit.

Rationally, the presence of large block owners can increase monitoring activities as they have strong incentives to maximize firm value. With their ownership status, they have access to relevant information and can thus prevent managers from engaging in moral hazard type behavior. This can assist in resolving the main principal-agent problem that is inherent in modern corporations, that is the conflict of interest between shareholders and managers (Jensen and Meckling, 1976). Whilst Shleifer and Vishny (1997) argue that large shareholders can address the agency problem as they are interested in profit maximization and have sufficient control over company assets to realize their ambition, large shareholders do come with costs when their interests are not fully aligned with those of minority shareholders. In a similar vein, although Jensen and Meckling (1976) suggest that top management's having a percentage of shares could align the interests of managers and shareholders, Morck, Shleifer and Vishny (1988) and McConnell and Servaes (1990) argued that at a certain level of ownership, managerial shareholders, having established their power could run the firm in a way that serves their own interests. Furthermore, with large shareholdings they would be able to hold on to their positions even if they should be replaced.

Inside shareholders who are directors of a firm have easy access to corporate assets and can therefore divert resources for their personal gain by investing in unprofitable projects that could provide them with private benefits. Controlling shareholders could also buy products from the firm at prices below market value and channel them to another private company which they owned. Alternatively, they could also sell related materials from their private companies at higher prices to the firm. These are some examples where controlling directors can expropriate wealth from the firms at the expense of other non-controlling shareholders. However, well-meaning controlling directors will only approve for the firms to invest in positive NPV projects as they believe their personal wealth will increase proportionately with the firms' success. These controlling directors, who could be family members, have the advantage of having long-term information about the firm's planning and prospects, thus enabling them to carry out strategic commitments made earlier. On the other hand, dispersed shareholders comprising a large number of small shareholders, are more effective in initiating management changes in cases of management failure as shown via the firm's financial performance. However, dispersed shareholders are unable to commit to the same extent as blockholders or controlling families which limits their ability to commit to key corporate stakeholders (Franks and Mayer, 1997).

The above arguments which rest on the belief that ownership structure is related to firm performance has been challenged by Demsetz (1983) and Demsetz and Lehn (1985) who argue that a firm's ownership structure is endogenously determined. They argue that shareholders are well aware of the outcome when they decide to change their firm's ownership structure from concentrated to disperse. Having a disperse ownership means control will be transferred to professional managers. Although this transfer of powers will result in extra costs such as cost of hiring these managers and further expenditure associated with such hiring, shareholders will expect maximization of their shareholdings in return.

Following the above, the main objective of this study is to examine whether ownership structure has an effect on a firm's performance with the focus on property firms. This paper is organized as follows: a description of ownership structures for corporations in the U.K, France and Germany. Ownership concentration in Malaysia is then discussed comparatively with other East Asian countries. Empirical findings on the effects of block ownership on firm performance will then be reported.

OWNERSHIP STRUCTURE IN U.K., FRANCE, GERMANY AND ASIAN FIRMS

Corporations can be divided into two categories, namely those with a widely held or dispersed ownership and those with controlling owners. In widely held financial institutions and corporations, no owners have significant control rights. Controlling owners can be further categorized into those run by families and those run by a state or government (Claessens, Djankov and Lang, 2000). Ownership and governance structures vary between countries due to different legal and taxation systems, historical and cultural backgrounds and differing industrial and capital market characteristics. Generally, ownership concentration in corporations falls with the economic development of the country, meaning that as a country prospers economically, the ownership patterns of its corporations is likely to change gradually to a widely held or dispersed structure (Claessens, Djankov and Lang, 2000).

Variation in ownership and governance structure between countries can be categorized into two types, namely market-based systems and relationship-oriented systems (Kaplan, 1997). In the U.S and U.K, the managers of listed firms are self monitored and indirectly disciplined by the market to act in the best interest of shareholders. Corporate ownership in these two countries is categorized as widely dispersed. Although institutions hold two-thirds of the equity of 2,000 quoted U.K companies, the ownership is widely held with no one institution owning a substantial portion of the companies (Franks and Mayer, 1997). Smaller property companies in the U.K are being held closely by their managers whilst larger companies have more institutional investors (Ooi, 2000). A latter study on 38 U.K property companies shows that executive ownership is low at 2.2%. However 37.11% of

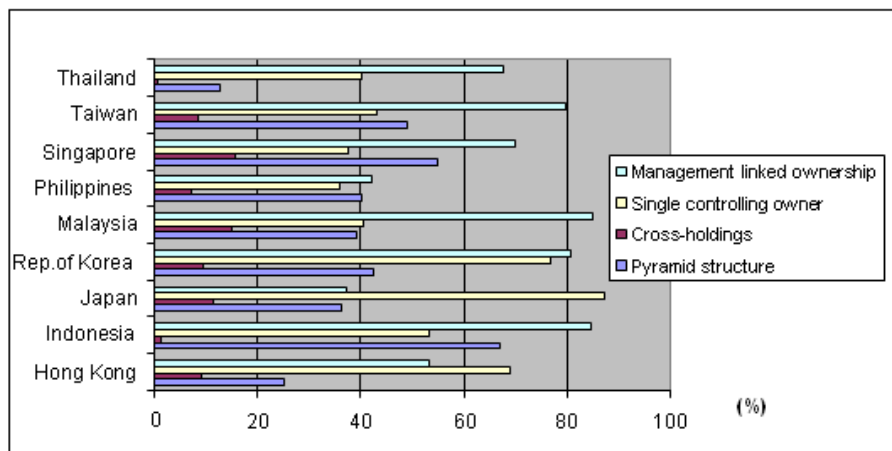
the shares are owned by the five largest investors, indicating property companies do have a relatively high incidence of block holders (Eichholtz, Kok and Otten, 2008).

In France and Germany public companies, in which ownership is more concentrated compared to the U.K and U.S, nevertheless have a similar ownership pattern. They are dominated by the corporate sector as their biggest shareholder followed by family ownership. Although banks in Germany hold large share stakes, they are rarely majority shareholders (Franks and Mayer, 1997). Germany which can be categorized as having relationship-oriented systems in which monitoring is being carried out by long-term inter corporate relationship, involves more participation from shareholders in corporate governance matters and relies more on debt-financing (Seifert, Gonenc and Wright, 2005). The highly regulated real estate investment trusts (REITs) on the other hand limits the maximum ownership by any single shareholder not exceeding 10 percent of outstanding REIT shares. This deters the formation of large block ownership in the U.S. REITs (Ghosh and Sirmans, 2005) which is consistent with the findings of Campbell et al. (2001) reporting there are no hostile deals involving U.S. REITs in the last decade.

The pattern of ownership in Asian companies differs dramatically from that of Western countries. The limited literature and empirical work on Asian companies shows that they exhibit a very high concentration of ownership. Although control by a single shareholder is found in more than two-thirds of East Asian firms (Claessens, Djankov and Lang, 2000), difference across countries is still significant as shown by Claessens, Djankov and Lang (1999). Japan and Korea being the most developed among the countries demonstrate a widely held ownership structure similar to that of Western countries. All other East Asian countries, however, exhibit family type ownership, whilst state ownership is significant in Singapore and Malaysia. Ownership by widely held financial institutions is not a common occurrence among East Asian countries whilst widely held corporation ownership is only seen in Taiwanese firms.

Another common occurrence in East Asian economies is the existence of pyramid structures and cross-holdings. These mechanisms are seen as methods used to enhance control even with small ownership stakes (Claessens, Djankov and Lang, 1999b). Control through a pyramid structure can be defined as owning a majority of the stock of one corporation that holds a majority of stock in another corporation. This structure can be repeated a number of times, thus creating several levels. Claessens, Djankov and Lang's (1999c) research showed that as high as 66.9 per cent of Indonesian and 55 per cent of Singaporean corporations gain control via pyramiding, whilst less than 25 per cent of Thai and Hong Kong corporations are controlled through this method (Figure 1). Cross-holdings, which can be defined as ownership of shares in a company by another company is less visible in all countries except for Malaysia and Singapore, where cross-holding is evident in about 15 per cent of its corporations. Indonesia and Thailand showed minimal cross-holding ownership.

Figure 1: Methods used to enhance control in East Asian Corporations (1996)



Source: Claessens, Djankov and Lang (1999c)

One final characteristic of the ownership pattern in East Asian countries is that most corporations that are not widely held have a single controlling owner. Japan, Korea and Hong Kong exhibit such ownership pattern (Figure 1). Another method of control prevalent in East Asian economies studied by Claessens, Djankov and Lang (1999c) is that a member of the controlling family is likely to hold the top management position. Their findings showed that about 80 per cent of companies in Malaysia, Korea, Indonesia and Taiwan that are without widely held ownership have managers who are family members of the controlling owner, indicating a high incidence of management-owner linked organizations.

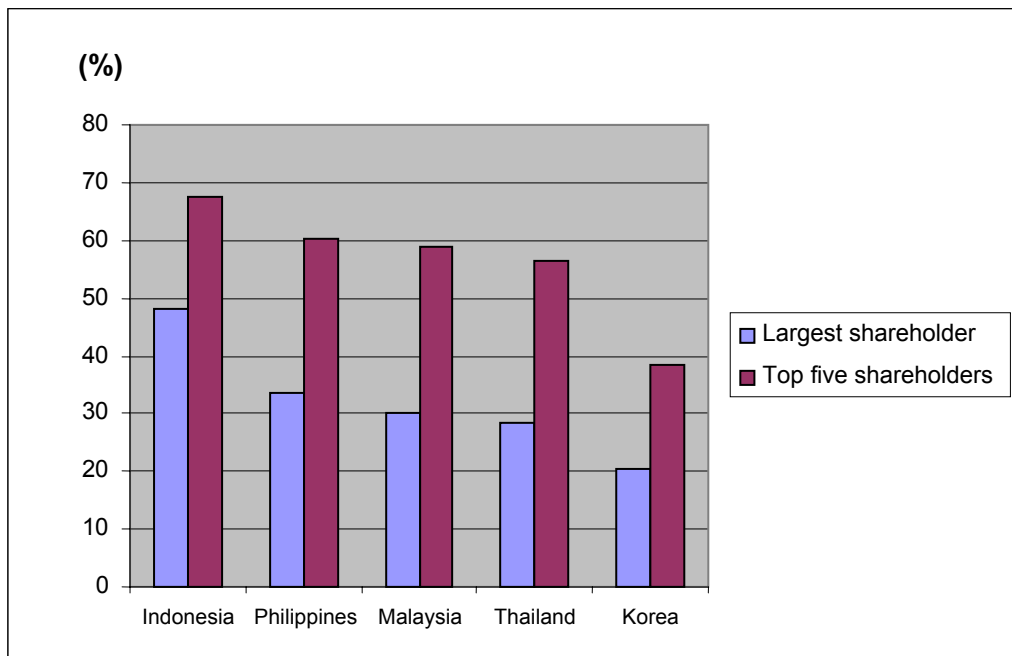
Ownership structure in Malaysia

Studies and literature documenting ownership structure in Malaysia are scarce, especially for periods before the Asian economic crisis. However since the crisis, several International Organizations and researchers have taken a keen interest in the development of the corporate governance structure in Asia. Though the amount of research done on East Asian countries, particularly with regard to Malaysia, is much less than those on the U.S. and European economies, the few studies done serve as the foundation for possible future research. Lim's (1981) research, which reported that Malaysian corporations exhibit concentrated ownership, was probably the earliest study with respect to corporate ownership in Malaysia.

The next study was carried out in 1999 by Claessens, Djankov and Lang using 1996 data. Studies of ownership concentration and other control mechanisms rarely update the data beyond the crisis period. Another comprehensive study by Zhuang, Edwards and

Capulong (2001) of all Malaysian public listed companies in 1998 showed that the top five shareholders own 58.8 per cent of the corporate shareholdings (Figure 2), indicating high concentration of ownership and supporting earlier studies done by Claessens, Djankov and Lang (1999a, b,c). In addition, the largest shareholder owned 30 per cent of a company's shareholding (Figure 2). Family ownership is also significant in Malaysian corporations, 42.6 per cent of corporations from the sample are ultimately owned by families and the top ten families control 24.8 per cent of the market capitalization (Claessens, Djankov and Lang, 2000).

Figure 2: Ownership concentration

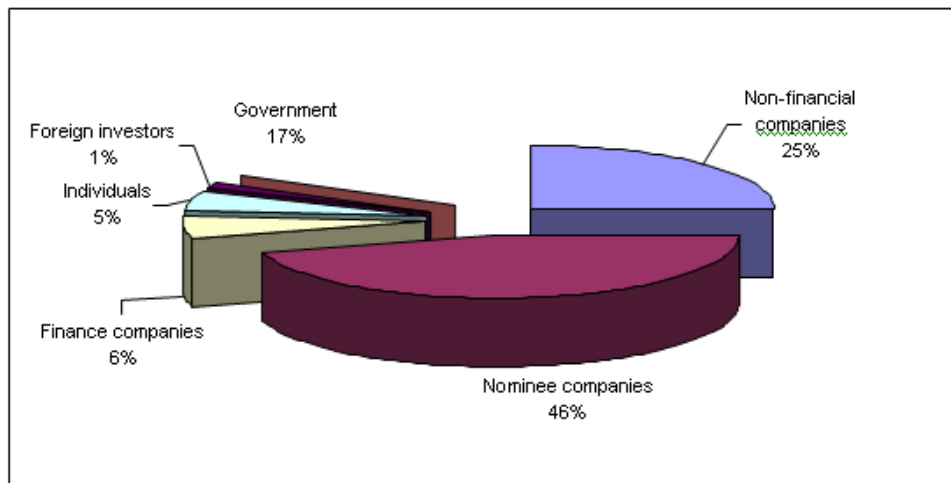


Source: Zhuang, Edwards and Capulong (2001)

Besides ownership through direct shareholdings, control in Malaysia is also enhanced through pyramiding, management-linked ownership and cross-holdings. Malaysia is reported as having the highest incidence of management-linked ownership and cross-holdings (Figure 1). Ownership through pyramiding is reported at 39.3 per cent which although not the highest in the region, is still relatively high. Nonetheless, the findings in regard to Malaysian ownership structure is consistent with its East Asian neighbors, although its concentration of ownership by families is not as high as Indonesia and Philippines but more like that of Singapore.

A study by the Asian Development Bank revealed that among the top five shareholders in Malaysia, nominees are the largest shareholder group (Figure 3). The study which was conducted on 1997 data, showed that the nominee companies held 45.6 percent of the total shares. Non-financial companies owned 25.1 percent whilst government or state ownership is 17.2 percent. Foreign ownership is minimal at 1.5 percent.

Figure 3: Ownership composition of an average non-financial PLC held by the top 5 shareholders



Source: Country Studies under RETA 5802, Asian Development Bank (1999 a,b,c,d, and e)

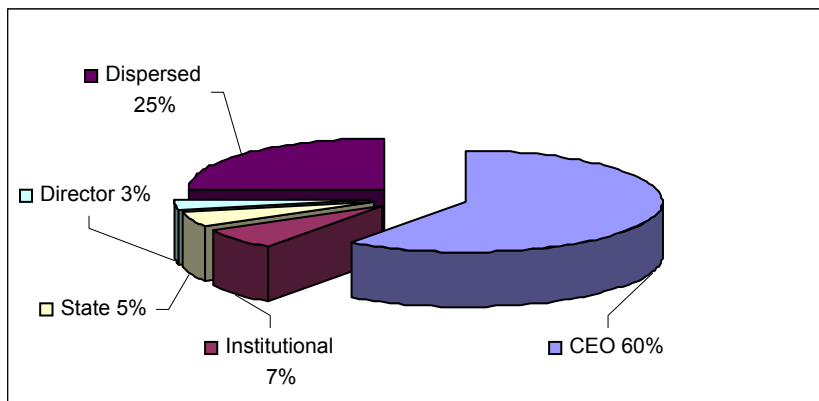
Acknowledging that the majority of ownership through nominee companies and institutions was by families and political parties, the Securities Industry (Central depositories) Act 1991 was amended in 1998. Since the main reason for shareholders opting for ownership through nominee companies is their reluctance to reveal their true identities, the 1991 amendment prohibited omnibus accounts so that beneficial owners are required to reveal their identities. Thus, the practice of using nominee accounts can be expected to reduce in the future.

To sum up, block ownership in Malaysia can be identified by four ownership categories as follows:

- Block ownership held by CEOs or owners.
- Block ownership held by Directors.
- Block ownership held by institutions.
- Block ownership held by state governments.

Figure 4 shows the percentage of ownership with different categories for Malaysian listed property firms.

Figure 4: Block ownership



Source: Shakir (2007)

Previous empirical findings

Empirical evidence on the relationship between ownership and firm performance has produced mixed findings. A number of studies (Morck, Shleifer and Vishny, 1988; McConnell and Servais, 1990; Hermalin and Weisbach, 1991; Cho, 1998; Holderness, Kroszner and Sheehan, 1999) showed that initially firm performance increases but later decreases with percentage ownership. However studies that took into account the endogeneity issue (Agrawal and Knoeber, 1996; Demsetz and Villalonga, 2001) reported non-significant relationships between ownership and value.

In a more comprehensive approach by using a simultaneous equation model, Ghosh and Sirmans (2003) examined the relationship between ownership structure, board independence and CEO characteristics on performance for U.S. equity REIT firms. Their findings indicate that CEOs with higher stock ownership and control through longer tenure on REIT boards tends to reduce outside representation and their tenure on REITs boards which in turn affects REIT performance. In line with the findings of Ghosh and Sirmans (2003), Hartzell, Sun and Titman (2006) who investigates 153 unique REITs for the period of 1995 to 2004, found evidence of positive relationship between Tobin's Q and higher institutional ownership or lower insider ownership. These results imply that institutional ownership being block owners monitors the firms' investment policies as opposed to possible expropriation by insiders' with high ownership. On the contrary, Capozza and Sequin (2003) who examines 75 REITs listed in National Association of Real Estate Investment Trusts from 1985 to 1992 showed that firms with greater insider

holdings recorded lower managerial expenses and they are more inclined to invest in less risky assets. In addition, higher levels of insider ownership are associated with higher premium to net asset value and higher multiple cash flows. Another study on 42 REITs by Cannon and Vogt (1994) showed contrasting results between the two types of REITs; advisor REITs and self-administered REITs. Whilst advisor REITs underperform and undertake less market risk with low-insider ownership, ownership structure has no effect on self-administered REITs. This implies that agency problems are more prominent in advisor REITs.

In Asian economies, Lins (2003) examined the effect of ownership structure on firm value using a sample of 1433 firms from 18 East Asian countries. Their regression results show that large blockholdings by non-management are positively related to firm performance and become more significant in countries with low levels of shareholders' protection. However, results differ when ownership is concentrated in the hands of top management and family members as shown from studies done by Baek, Kang and Park (2004) on Korean listed firms and Lemmon and Lins (2003) on 800 firms from eight East Asian countries. They found evidence that stock returns were significantly lower for firms with such ownership concentration. The two studies on Malaysian listed firms, however, showed contrasting results. Tan (2005) who studied 221 Malaysian listed firms found that ownership concentration is positively correlated with firm performance without identifying the identity of the blockholders, whilst Haniffa and Hudaib (2006) reported a negative association between market performance and the proportion of shares held by the five largest shareholders when they examined 347 firms during the period 1996-2000. Haniffa and Hudaib (2006) however found no association between managerial ownership and market performance.

It is noteworthy that the earlier studies discussed above revealed mixed findings. The first group of studies which was initiated by Morck, Shleifer and Vishny (1988) and replicated by many (McConnell and Servais, 1990; Hermalin and Weisbach, 1991; Cho, 1998; Holderness, Kroszner and Sheehan, 1999; Thomsen and Pedersen, 2000) found a bell-shaped (first increasing than decreasing) relationship between ownership and performance. Later studies however found no significant relationship between the variables when the endogeneity issue was addressed, whilst studies on East Asian firms revealed a positive association between ownership and performance when block ownership is by non-managers (Lins, 2003). However, performance declines when ownership is held by family or top-management. Large external blockholders play their role as monitoring agents, thus substituting for inadequate institutional governance mechanisms. This was proven by Lins (2003) when he found the relationship between ownership and performance more positive in countries where investors' protection is low. Claessens, Djankov and Lang (2000) and Seifert, Gonenc and Wright (2005) suggest that among other things the association of firm performance and ownership is dependent on the economic environment of the country and the legal protection of individual shareholders. This might serve to explain the insignificant and ambiguous relationship between performance and ownership structures when studies were done across countries.

Since the impact of ownership concentration on firm performance varies with the level of economic and institutional development of a country and also with the variation across industries and differing securities laws across countries, this study which focuses on the property industry in Malaysia can be expected to give an insight into the ownership structure and its effect on performance for a five year period. Furthermore, previous studies on East Asian economies concentrated on periods before the crisis and since ownership concentration in Asia including Malaysia is reported in the hands of a few well connected families or companies, this study on the post-crisis period will shed some light on the situation after the crisis where major amendments on securities laws have been introduced. Based on the above evidences and theoretical perspective, the following hypothesis is derived:

H1: There is a positive association between block ownership and firm performance.

SAMPLE DATA

The sample data comprise firms listed under the property counter which traded at Bursa Malaysia during the period 1999 – 2005. There were 103 listed property firms during the 7-year study period. However, 22 firms were not included as these firms had either ceased operation or were de-listed at any point of time during the above period. This study acknowledges the potential survivorship bias due to the omission of these firms. However, these firms could not be included as their annual reports which are the main source of data are not available to the public once they have being delisted. Thus the final sample size consists of 81 firms with 567 data points representing firm-year observations.

Sources of data

Relevant data pertaining to the ownership structure, board of directors, leadership structure and financial statements of the companies are retrieved from the annual reports of the individual companies. Annual reports from 1999 and the period thereafter can be assessed online via the Bursa Malaysia website whilst hard copies of reports prior to 1999 can be viewed at the Bursa Malaysia Library.

Data description

The variables are grouped into 2 components; namely independent and dependent variables. Dependent variable which represents firm performance is proxied by Tobin's Q, whilst the main independent variable tested is block ownership. However, block ownership is not tested in isolation against Tobin's Q as other control variables that represent corporate governance mechanism such as board of directors, leadership structure and financial structure are also tested alongside block ownership as independent variables. As in previous research, these control variables are included in the regression to test if the relationship between the independent and dependent variable is spurious. The control variables are selected based on previous empirical research on the relationship between corporate governance mechanisms and firm performance. The following subsection

explains the terms of measurement for Tobin's Q, block ownership and a summarized table for other control variables included.

Terms of measurement – independent variable block ownership

Block ownership or majority shareholder as defined by the Kuala Lumpur Stock listing requirement (Chapter 1, Definition and Interpretation, page 26) is:

“major shareholder means a person who has an interest or interests in one or more voting shares in a company and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is not less than 5 per cent of the aggregate of the nominal amounts of all the voting shares in the company”.

Thus data was collected on the percentage of shares held by shareholders having 5 per cent or more to the total number of shares issued. This represents the ultimate ownership held by shareholders having 5 per cent or more of the total number of shares issued which may include direct and indirect shareholdings by directors, institutions and state government. This definition is widely used by other studies (La Porta et al. 1999 ; Claessens et al. 2000; On and Tan, 2007) to reflect ownership by crossholdings and/or pyramids which is widely existent in Malaysian companies.

The terms of measurement used, although similar to other studies (Mak and Kusnadi, 2005; Mak and Li, 2001; Griffith, 1999) do differ from those of other researchers. Demsetz and Villalonga (2001) measured major ownership as percentage of shares owned by the five largest shareholders, whereas Morck, Shleifer and Vishny (1988) classified block holdings as combined shareholdings of all board members who have a minimum stake of 0.2 per cent. Due to the high level of ownership concentration in European companies, Thomsen and Pedersen (2000) measured ownership concentration by the ownership share of the largest owner. As there is no consensus concerning the terms of measurement for this variable, it was thought best to comply with the definition tabulated by the Kuala Lumpur Stock Exchange listing requirement.

Terms of measurement – dependent variable Tobin's Q

Many past studies (Agrawal, 1996; Cho, 1998; Hermalin and Weisback, 1991; Himmelberg, Hubbard and Palia, 1999; McConnel and Servaes, 1995) on control mechanisms and firm performance have employed Tobin's Q as their proxy to firm performance, although other indicators such as return on equity and return on assets are also widely used. However, there are many variations on the computation of Tobin's Q. Several studies (Agrawal and Knoeber, 1996; Himmelberg, Hubbard and Palia, 1999) for instance define Tobin's Q by market value of stock, preferred stock and debt to book value of assets, while others (Hermalin and Weisback, 1991) compute Tobin's Q by market value of stock, preferred stock and debt to market value of capital stock, inventories and other assets.

Perfect and Wiles (1994) empirically compared five estimators of Tobin's Q to examine how sensitive empirical analyses are to changes in the construction of Tobin's Q. They based their five estimations upon the computation developed by Lindenberg and Ross (1981) which is defined as:

$$\text{Tobin's Q} = \frac{\text{Market value of firm}}{\text{Replacement value of assets}}$$

Some researchers, notably Perfect and Wiles (1994), used a modified version of Lindenberg and Ross's technique, utilising market value and book value estimates as input values. Basically, they substituted different estimates of the market value of the firm's bonds and replacement value of assets into the formula computed by Lindenberg and Ross (1981). Generally, there is no significant difference among the estimators as shown by the empirical results. However due to the availability of data and consistency with other studies, Tobin's Q based on Lindenberg and Ross (1981) is adopted as proxies for performance in this study.

The computation of Tobin's Q is as follows:

$$\text{Tobin's Q} = \frac{(\text{Equity} \times \text{year end share price}) + (\text{book value of liability})}{\text{Book value of assets}}$$

Terms of measurement for each variable used in the analysis are explained and summarised in the Table 1 below:

Table 1: Summary for terms of measurement

Variables	Terms of measurement
Block ownership	% of shares held by shareholders owning 5% or more
Board size	Total number of directors on the board
Outside directors	Total number of outside directors on the board
Family business	Dummy variable 1 if it is a family business and 0 if it is not
CEO ownership	% of shares held by CEO divided by total outstanding shares
Equity	Fully issued and paid-up share capital of ordinary shares at the end of the financial year of each company (measured in logarithm)
Market value	Equity multiplied by share price (measured in logarithm)
Investment in property	Land held for development plus development properties plus investment properties (as in balance sheet) (measured in logarithm)
Leverage (Debt/Assets)	Total debt divided by total assets
Tobin's Q	Equity multiplied by share price plus book value of liability divided by book value of assets
Return on assets	Net profit divided by book value of assets.

Descriptive statistics of ownership structure

Descriptive statistics on overall data and time-series data are presented in Table 2. A comparison with other countries are included to provide an indication on how Malaysian firms fare on Corporate Governance in terms of control mechanisms compared to other countries. Generally, ownership structure statistics indicate minimal longitudinal variations but a huge variation cross-sectionally. The statistics in Table 2 showed an average of 47.7 per cent of block ownership is found in property firms with the maximum ownership of 98.42 per cent. The ownership pattern is similar to those reported by Claessens, Djankov and Lang in 1999.

Table 2: Descriptive statistics of ownership structure

Variables		Overall	1999	2000	2001	2002	2003	2004	2005
BLKOWN (block ownership)	Mean	47.67	48.58	46.94	47.46	48.28	47.29	46.43	48.25
	Min	0	0	0	0	0	0	0	0
	Max	98.42	82.28	80.58	84.16	85.83	86.17	98.42	89
	Std Dev	20.02	20.28	20.60	19.84	20	18.42	21.34	20.85

This is consistent with the study of 731 Malaysian public listed firms by Samad (2002) who showed that 58.8 per cent of total equity in the Malaysian corporate sector was held by the five largest shareholders in those companies. Similar findings were also reported by La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) who in an earlier study showed that 54 per cent of the shareholdings of the ten largest non-financial Malaysian firms are concentrated in the hands of the three largest shareholder. Malaysia is therefore the fourth highest amongst East Asian Corporations after Sri Lanka, Philippines, and Indonesia. Haniffa and Cooke (2002) reported block ownership of 68 per cent, a higher percentage as their study involved the top ten shareholders in non-financial Malaysian companies.

EMPIRICAL APPROACH

The relationship between firm performance (proxied by Tobin's Q) and block ownership is tested through a system of simultaneous equation. As mentioned in the previous subsection other control mechanisms are also included in the regression to give a more accurate scenario of the relationship between block ownership and performance. The following equation will identify the relevance and interaction of the other control variables and financial traits in a structural system which will take the following form:

Firm performance = f (blockownership, boardsize, outsidedirectors, ceoown, family, log market value, log equity, log investment in property, leverage).

Whilst the relationship of other governance variables and performance is not discussed in this paper, Pearson correlation coefficients for all variables for the entire sample period are presented in Table 3. Although the correlation reveals a number of significant correlations between the variables, the coefficients in general are quite low.

Table 3: Correlation matrix amongst control variables

	bs	od	ceown	blkown	equity	mv	invprop	family	tobinsq	debt/ assets	roa
bs	1.00										
od	0.40***	1.00									
ceown	0.10**	-0.09**	1.00								
blkown	0.20***	-0.06	0.23***	1.00							
equity	0.10**	0.14***	0.17***	-0.09**	1.00						
mv	0.11***	0.11***	0.16***	0.26***	0.41***	1.00					
invprop	0.11***	0.14***	0.15***	0.13**	0.50***	0.47***	1.00				
family	0.06	-0.15***	0.52***	0.02	0.01	0.01	-0.05	1.00			
tobinsq	-0.16**	-0.07	-0.11**	-0.19**	-0.02	0.18**	-0.05	-0.10*	1.00		
debt/ assets	-0.16***	-0.03	-0.19***	-0.39***	-0.02	-0.02	-0.02	-0.18***	0.80**	1.00	
roa	0.15***	0.07*	0.14***	0.34***	0.04	0.22***	0.11***	0.15***	-0.31**	-0.53***	1.00

*p<10%

**p<5%

***p<1%

The relationship between the dependent and independent variables is estimated by using ordinary least squares (OLS) and two-stage least squares (2SLS). In OLS, all independent variables are regressed on firm performance whereby each of the independent variables is treated as exogenous. However findings from OLS may be biased due to the causality issue as proven by Kole (1996) and Cho (1998). They provided evidence that ownership and performance show evidence of reversed causality, implying that corporate performance could be a determinant of ownership structure instead of vice versa, since investors or managers will hold a larger fraction of the firm's shares if it is known that the firm is doing well in terms of its profitability and investment opportunities. Thus previous studies which reported a significant association between ownership structure and performance without taking into account the causality issue may be biased. Hence, 2SLS regressions within a simultaneous framework are employed to solve this causality issue. Consistent with Demsetz and Lehn (1985), Hermalin and Weisbach (1991) and Cho (1998), firm performance represented by Tobin's Q is treated as endogenous along with the other control variables. In this way, whilst each of the control variables is allowed to affect performance, performance is also allowed to affect each variable simultaneously. This approach follows that of Agrawal and Knoeber (1996), Cho (1998) and Mak and Li (2001).

Results and discussion

Block ownership has a consistent negative impact on Tobin's Q as empirically shown in the various regressions done. Whilst all the parameters are statistically significant, the coefficients are rather small at around 0.01. Although the magnitude of influence on Tobin's Q is small, it is persistent as shown by the consistent significant negative signs and therefore should not be ignored (Table 4). These findings suggest that the market does not reward firms with block owners. According to Agency Theory, the market fears that large shareholders would impose their wills in order to improve their own positions at the expense of other shareholders, thus favouring a dispersed ownership structure. Such a

situation is said to be more rampant in developing Asian economies where the implementation of protection for shareholders has a relatively low priority. Thus, this finding of a negative effect of block ownership on Tobin's Q is not consistent with the stated hypothesis but supports findings of Haniffa and Hudaib (2006) who reported similar negative associations on Malaysian firms. The negative effect also parallels the findings of Friday, Sirmans and Conover (1999) who found increased block holdings on REIT firms is related to lower market to book ratios, suggesting that the presence of large block holders is not in line with the best interests of other shareholders as these block holders may use their positions of power to gain advantage over the widely dispersed small shareholders. However, results from further regressions (not reported) suggest that the relationship between Tobin's Q and block ownership is non-monotonic. When block ownership is held more than 25%, the coefficients for both OLS and 2SLS although negative but are non-significant.

Table 4: Block ownership and control variables on market performance

Independent variables	OLS	2SLS	Fixed effects	Random effects
BLKOWN(block ownership)	-.01(.00)	-.01(.00)	-.00(.31)	-.01(.00)
BS(board size)	-.04(.01)	-.04(.02)	-.03(.14)	-.04(.06)
OD(outside directors)	-.05(.17)	-.06(.14)	-.00(.98)	-.02(.63)
CEOWN(CEO ownership)	-.001(.44)	-.001(.48)	-.00(.45)	-.002(.46)
FAMILY(family business)	-.08(.26)	-.08(.24)	.09(.76)	-.05(.65)
LMV(log of market value)	.19(.00)	.17(.00)	.16(.00)	.16(.00)
LEQUITY(log of equity)	-.12(.02)	-.11(.04)	-.19(.03)	-.12(.07)
LINVPROP(log of inv property)	-.01(.29)	-.01(.32)	-.03(.01)	-.02(.01)
LEVERAGE(debt/book value assets)	.60(.00)	.59(.00)	.24(.27)	.43(.01)
Constant	.36(.66)	.47(.57)		.97(.39)
R-squared	0.133	0.132	.610	
Adj R-squared	0.119	0.118	.537	

(P values are in parentheses)

[Lagrange Multiplier Test vs. OLS = 357.88]

[1 df, prob value = .00000]

[High values of LM or a significant p value favour FEM/REM over OLS]

[Fixed vs Random Effects (Hausman)] = 9.09]

[df, prob value = .429267]

[High values of Hausman statistic favour FEM, low values favour REM]

Findings from 2SLS in a simultaneous equation system where block ownership is regressed on performance and other variables (Table 5) confirm that causality issue should not be disregarded. In contrast to Cho (1998) and Kole (1996), the 2SLS results show that the causality runs in both directions, indicating that ownership structure affects performance and vice versa. A probable situation in which firm performance affects ownership is when management compensation in the form of stock options is exercised (Demsetz and Villalonga, 2001).

Table 5: Dependent variable: block ownership

Independent variables	2SLS	Random effects	Fixed effects
Tobin's Q	-5.25(.00)	-1.47(.04)	-.74(.39)
BS(board size)	1.61(.00)	.57(.11)	.24(.62)
OD(outside directors)	-2.43(.01)	-1.81(.00)	-1.66(.01)
CEOWN(CEO ownership)	.28(.00)	.28(.00)	.29(.46)
FAMILY(family business)	-6.15(.00)	-8.52(.00)	-12.62(.06)
LMV(log of market value)	9.50(.00)	2.94(.00)	1.88(.08)
LEQUITY(log of equity)	-11.29(.00)	1.14(.39)	4.95(.00)
LINVPROP(log of inv property)	.003(.99)	.05(.75)	-.04(.84)
LEVERAGE(debt/book value assets)	-8.03(.02)	-1.06(.74)	3.79(.30)
Constant	86.21(.00)	-30.67(.18)	
R-squared	0.34		.87
Adj R-squared	0.32		.84

(P values are in parentheses)

To check for robustness, block ownership and other control mechanisms are regressed on return on assets as proxy for firm performance. In contrast to their negative impact on market performance, block ownership enhance accounting performance. The results support the notion that with the presence of large block owners, monitoring activities will be increased as block owners have strong incentives to maximize firm value. This is supported by empirical studies by Claessens, Djankov, Fan and Lang (2002) who found that concentrated ownership is associated with a higher market-to-book ratio for East Asian listed corporations, whilst Wiwattanakantang (2001) found that ownership concentration and firm performance are positively correlated for Thai firms.

CONCLUSION

Like their counterparts in other Asian countries, the typical Malaysian firm ownership structure can be categorised as concentrated, with 48 per cent shareholdings by block

holders, whilst CEOs owned an average of 22 per cent of shareholdings. However, issues pertaining to concentrated ownership and the existence of the many family firms are beyond the control of the regulatory body. Similarly, the existence of ownership through pyramiding, management-linked ownership and cross-holdings is not ignored and the calculation of block ownership has taken into account this fact. These characteristics differentiate Malaysian firms from their counterparts in Western economies, giving them unique attributes that may or may not benefit corporate performance.

Firms with dispersed shareholding ownership enhance market performance. In contrast, accounting performance increases with high block ownership. However, it is interesting to note that the negative coefficient for the effect of block owners (-0.01) on market performance is small and almost negligible, whilst the positive coefficient (.15) of block owners on ROA (not reported) is comparatively larger. The effect of block ownership on performance is sensitive to the measurement of performance used. Whilst previous studies have also revealed contrasting results, it is quite certain the difference is attributable to the mathematical computation and the different nature of the two measures. Tobin's Q being a market-based measure captures market performance and reflects market expectations about future earnings whilst ROA is an accounting measure on profitability and regarded primarily as a reporting mechanism (Kiel and Nicholson, 2003) reflecting tangible and balance-sheet effects (Bebczuk, 2005). If generalised inferences are drawn, it can be concluded that the two measures are at opposite ends with each other, as shown in the simple correlation table in Table 3. Due to the above factors and coupled with the fact that they are negatively correlated, it is possible that regressions using the two performance measures as dependent variables will yield contrasting results. Given the conflicting results, future studies could use other proxies for firm performance such as return on equity, operating income and operating cash flows. The existence of causality between performance and block ownership is another issue that should be considered in future research.

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