Institutional Ownerships and Market Performance

Sami R. M. Musallam (Dr.)

Senior Lecturer, Faculty of Business and Management, Asian Institute of Medicine, Science, and Technology (AIMST) University, Malaysia
Email:samimslam@yahoo.com

Doi:10.5901/mjss.2015.v6n4s3p570

Abstract

This study examines the effects of institutional ownerships on market performance using a panel data from companies that are listed on Bursa Malaysia during the period of 2000 to 2009, this study uses Generalized Least Square (GLS) method. Results of GLS show that among seven Government-Linked Investment Companies (GLICs), only Permodalan Nasional Berhad (PNB) and Lembaga Tabung Angkatan Tentera (LTAT) have positive and significant impact on market performance. In addition, foreign and family ownerships also give positive impact on market performance. In contrast, the impacts of other five GLICs, state, domestic, board ownerships are not related to market performance. This study is one of first effort to examine each GLIC in Malaysian market. So far the previous studies have been done focusing GLICs as whole. The implications of this study will be for the policy maker and investors to make better decisions.

Keywords: *GLICs, institutional ownerships, market governance, market performance, Malaysia*

1. Introduction

Most of important research on the area of corporate governance literature that discussed on ownership structure with market performance (Berle & Means, 1932; Claessens, Djankov, & Lang, 2000; Gillian & Starks, 2003; McConnell & Servaes, 1990). It was Berle and Means (1932) who initially contended the distinction between ownership and control in explaining the relationship ownership structure and market performance. According to Claessens et al. (2000), Ownership pattern can be categorized into either as a widely controlled firm or a firm with controlling shareholders or concentrated ownership. Fundamentally, concentrated ownership can be divided into four categories, that is, widely held corporations, widely held financial institutions, families, and government control. Furthermore, Gillian and Starks (2003) argue that the enormous amount of investments made by foreign and domestic owners motivate them to become more informed and involved owners. Consequently, in firms where foreigners and domestic institutions own shares, the ownership structure creates an economic incentive for informed behavior and presents an opportunity for active shareholders to influence corporate policy and performance. Finally, McConnell and Servaes (1990) find that the fraction of shares owned by institutional investors is positive and significant on market performance.

One of the important institutional investors is Government-Linked Institutional Investors (GLIIs), better known as Government-Linked Investment Companies (GLICs) in Malaysia are monitored by federal government. The GLICs include Kumpulan Wang Simpanan Pekerja (EPF), Khazanah Nasional Berhad (KNB), Kumpulan Wang Amanah Pencen (KWAP), Lembaga Tabung Angkatan Tentera (LTAT), Permodalan Nasional Berhad (PNB), Khazanah Nasional Berhad (KNB), Kementerian Kewangan Diperbadankan (MFI), Khazanah Nasional Berhad (KNB), and Lembaga Tabung Haji (LTH)[1]. Among them, EPF, PNB, LTAT, LTH, and National Social Security Organization of Malaysia (SOCSO) established the Minority Shareholder Watchdog Group (MSWG) in 2001 to monitor the management of the firms that are listed on Bursa Malaysia, to protect minority shareholders interest, and to encourage institutional investors' participation (Abdul Wahab, How & Verhoeven, 2007). Regarding GLICs, New Economic Model (NEM) has been issued by Malaysian government recently. One objective of NEM is that GLICs especially EPF should divest 10% their stakes in Malaysian market and put them as international markets to create new opportunities for domestic and foreign investors. Therefore, it is important to study the performance of each GLIC in Malaysia.

Another important institutional investor is also state ownership. Unlike GLICs, the state ownership in Malaysia is

[1] *The literal translation in English for EPF is Employees Provident Fund, LTAT is Armed Forces Fund Board, LTH is Pilgrimage Fund, KWAP is Pension Trust Money Group, PNB is National Capitalization Limited, KNB is National Treasure Limited, and MFI is Ministry of Finance Incorporation.*

monitored by state government. The Malaysian policy governs state ownership due to the fact it represents Malaysia people interests including the important socio-political agenda and for the state government as the means to rationalize the distribution of economic resources among different races. Accordingly, companies owned by state should follow distribution of residual performance to their shareholders (Chu, 2004). Therefore, it is important to study the performance of state ownership in Malaysia.

Other non-GLIIs and state ownerships are domestic, foreign, and family. Domestic and foreign ownerships could play a significant role in monitoring the performance of invested companies. Their ownerships have been found to be related to the greater discipline on executive compensation (Almazan, Hartzell, & Starks, 2005) and the improved the acquisition decisions (Chen, Harford, & July, 2005). Abdul Wahab, How, and Verhoeven (2007) argue that institutional ownership that demands good corporate governance would simply invest in companies with good governance mechanisms and avoid companies with poor governance in Malaysia. In addition, Family ownership is common among both privately held firms and listed firms. For example, in South and East Asia, Western Europe, Latin America, the Middle East, and Africa, the vast majority of listed companies are controlled by family (Claessens et al., 2000; Faccio & Lang, 2002). In Malaysia, most of listed companies are controlled and owned by families and those companies seem to be inherited by the founders' descendants (Abdul Rahman, 2006). Furthermore, Claessens et al. (2000) conducted a study on the distinction between ownership and control in Asian countries (i.e., Malaysia, Indonesia, Singapore, Taiwan, Japan, Hong Kong, South Korea, Thailand, and the Philippines) and reported that Malaysia ranks as the third highest in term of family owned companies after Thailand and Indonesia. The final important ownership is the one by board. Jensen and Meckling (1976) argue that higher board ownership improves market performance because it better aligns the incentives of the manager with other shareholders, by reducing agency problems between managers and owners.

Most of studies on the relationship between ownership structure and market performance in Malaysia so far have been focused on Market-to-Book Value Ratio (MTBVR) as a measure of performance (see for example Amran & Ahmad, 2010; Anderson & Reeb, 2003; Sulong & Mat Nor, 2010; Taufil-Mohd, Md-Rus, & Musallam, 2013). Given these studies, total investment returns cannot be captured. Therefore, an extended study is needed. This paper is to examine the effect of institutional ownerships on market performance.

2. Literature Reviews and hypotheses

Eng and Mak (2003) argue that the costs of agency increased in government-owned companies because of conflicting objectives between pure profit goals of commercial businesses and goals related to the interests of the nation. Estrin and Perotin (1991) argue that government-owned companies do not focus on maximizing corporate performance because the government has political as well as economic objectives, and that corporate performance will be inferior because of weaker governance arrangements. However, Ang and Ding (2006), Caves and Christensen (1980), Kay and Thompson (1986), and Kole and Mulherin (1997) argue that companies with government interventions have better governance practices and improve firm performance.

Several different ways test the performance of government ownership in Malaysia. Lau and Tong (2008) and Sulong and Mat Nor (2010) look at the percentage of total equity of government ownership while Ghazali (2010) focus on government ownership as dummy variable. They found that the effect of government ownership is positive and significant on market performance. Furthermore, Taufil-Mohd et al. (2013) test the performance of each GLIC. This paper will extend the Taufil-Mohd et al. (2013) study by using Total Investment Return (TIR) as measure of market performance to have the clearer picture of total investment performance. Therefore, it is hypothesized that market performance is related to each GLIC.

There has been a debate on the effect of state ownership and the performance of group affiliated companies. Guthrie (1997) argues that affiliated firms with control state ownership could build and improve slacks of resources and however become more diversified. Hence, affiliated firms in diversification could improve firm performance by cross-subsidization among others within the same group (Keister, 2001). Moreover, State ownership can monitor managers and positively influence firm performance (Le & Buck, 2009). Some studies argue that state ownership is detrimental to market performance. Estrin and Perotin (1991) suggest that state-owned companies will not focus on maximizing shareholders value because state has different objectives and political issues, and that market performance in such companies will be lower because of weaker governance arrangements. Qi, Wu, & Zhang (2000) argue that firms with higher state ownership tend to underperform, and that privatization is more beneficial to their shareholders. However, Sun and Tong (2003) argue that a higher state ownership in listed firms has insufficient role to monitor mangers and decrease the performance of the firm. Therefore, it is hypothesized that market performance is related to state ownership.

Khanna and Palepu (2000) argue that foreign ownership performs an effective monitoring function of the firm management. Foreign ownership might influence market performance due to several reasons. Among them are strong monitoring of managers and reduce agency costs (Stulz, 1999), providing a wealth of experience in dealing with managerial opportunism, and mitigating agency conflicts in different national and cultural settings which makes them better and more experienced monitors (Thomsen & Pedersen, 2000), allowing firms to easily access superior technical, managerial talents, and financial resources (Chibber & Majumdar, 1999), and obtaining various investment benefits from the government (Wiwattanakantang, 2001). However, Wiwattanakantang, (2001) provides two reasons in which foreign ownership affects market performance negatively. Firstly, foreign shareholders face difficulties to monitor managers because of the company is located in other countries. Secondly, most of the firms that have foreign corporations as their controlling shareholders are run by professional managers who do not owned any stake in the firms. Oxelheim and Randoy (2003), Sun and Tong (2003), and Piesse, Filatotchev, and Lien (2005) find that the effect of foreign ownership is positive on market performance. In contrast, Lau and Tong (2008) find foreign ownership is not associated with market performance. Thus, it is hypothesized that market performance is related to foreign ownership.

Domestic ownership is more likely to vote in and contribute to management decisions based on share of their ownership (Brickley, Lease, & Smith, 1988) and attempt to effect the top management to manage for long-term interests of shareholders (Holderness & Sheehan, 1988). Pound (1988) argues that the positive impact occurs when institutional investor or domestic ownership plays more efficient role in monitoring managers than individual and when it has a greater expertise to monitor the company at lower costs than individual investor does. In contrast, he argues that the negative impact occurs when institutional investor or domestic ownership conspires with company managers against their own fiduciary duty to their beneficiaries. Douma, George, & Kabir (2006), Thomsen and Pedersen (2000), Piesse et al. (2005), and Wei and Varela (2003) find that performance is positively related to domestic ownership while Wei, Xie, and Zhang (2005) find that performance is negatively related to domestic ownership. Thus, it is hypothesized that market performance is related to domestic ownership.

Family-owned firms represent a highest percentage of shareholders ownership that have a good incentive market structure, a strong voice in a company, and a powerful motivation to see that the companies succeed (Demsetz & Lehn, 1985). Carney and Gedajlovic (2002), Fama and Jensen (1983), Demsetz and Lehn (1985), James (1999), and Jensen and Meckling (1976) argue that family ownership has a better monitoring system that leads to reduce agency costs and enhance market performance. Amran and Ahmad (2010), Anderson and Reeb (2003), Saito (2008), Piesse et al. (2005), and Villalonga and Amit (2006) find that the impact of family ownership is positive on market performance. In addition, Amran and Ahmad (2010) and Saito (2008) argue that family-owned firms are better monitoring than non-family-owned firms and lead to enhance firm performance. However, Thomsen and Pedersen (2000) find that the impact of family ownership is negative on market performance. In contrast, Chang (2003) and Randoy, Dibrell, and Craig (2009) find that market performance is not related to family ownership. Therefore, it is hypothesized that market performance is related to family ownership.

Brickley et al. (1988) claim that when managers and directors take ownership of a firm, they have the motivation to pursue efficient management of the firm and the board is careful in monitoring managers' activities. Shleifer and Vishny (1997) state that directors and managers need to work consistently to protect their image so as to add value to their human capital in the future. Donaldson and Davis (1994) and Davis, Schoorman, and Donaldson (1997) support the stewardship theory argument where managers and owners or professional directors do not have any conflict of interest and have convergence of interests with firm goals. Krivogorsky (2006) find that the effect of board ownership is positive on market performance. This result is in agreement with the arguments of Brickley et al. (1988). In contrast, Haat, Rahman, & Mahenthiran (2008) find that board ownership is not related to market performance. Therefore, it is hypothesized that market performance is related to board ownership.

3. Research Methodology

The population of the study consists of 793 companies listed on the Main Market of Bursa Malaysia before 31st December 1999. Because of different statutory requirements and materially different types of operations, 33 banks and financial companies exclude from a sample of the study (Amran & Ahmad, 2010), resulting with a population of 760 non-financial companies. Out of the population, 190 companies are selected systemic randomly (1 of 4). Relevant variables for these 190 companies are collected from 2000 up to 2009 or up to the year before delisting. This procedure leads to the final sample of 1716 company-year observations. The choice of the period is due to the fact that after Asian Financial Crisis (AFC) more attention to market governance has been paid. The variables include one measure of performance that is TIR is used as dependent variable, five ownership variables, which are GLICs ownership namely PNB, LTAT, LTH, EPF,

KNB, MFI, and KWAP, state ownership, foreign ownership, domestic ownership, family ownership, and board ownership, and three control variables which include firm age, firm size, and leverage ratio are used as independent variables. Data on ownership is collected manually from annual reports while the rest of the data are collected from DataStream. Table 1 presents measurements of variables:

Table 1: Measurements of Variables

Variables	Descriptions
Dependent variable	One measure of market performance is used:
TIR_{it}	Total Investment Return of company i in year t. TIR is measured by [(market price year end plus dividends) divided by last year market price-year end-1] * 100.
Independent variable	
Ownership variables	
GLICs ownership:	Seven GLICs ownership variables are used
EPF_{it}	EPF ownership in company i in year t.
PNB_{it}	PNB ownership in company i in year t.
$LTAT_{it}$	LTAT ownership in company i in year t.
LTH_{it}	LTH ownership in company i in year t.
$KWAP_{it}$	KWAP ownership in company i in year t.
KNB_{it}	KNB ownership in company i in year t.
MFI_{it}	MFI ownership in company i in year t.
State Ownership (SO_{it})	State ownership in company i in year t.
Foreign Ownership (FO_{it})	Foreign ownership in company i in year t.
Domestic Ownership (DO_{it})	Domestic ownership in company i in year t.
Family Ownership ($FAMO_{it}$)	Family ownership in company i in year t.
Board Ownership (BO_{it})	Board of directors ownership in company i in year t.
Control variables	
Firm Size ($FSIZE_{it}$)	The natural logarithm of total assets of company i in year t.
Firm Age ($FAGE_{it}$)	The natural logarithm of firm age since listed on BM of company i in year t.
Leverage Ratio (LEV_{it})	Long term debt divided by total assets of company i in year t.

Panel data analysis is used in this study to analyze the impact of the independent variables on market performance. A panel data analysis is used because it can eliminate the unobservable heterogeneity that exists in the sample (Himmelberg, Hubbard, & Palia, 1999). Using panel data that consist of observations on cross sectional and time series usually gives the researchers a large number of data points, increases the degree of freedom, and decreases the collinearity among the independent variables. Using panel data may also improve the efficiency of statistical estimates (Hsiao, 2003). Panel data is also used to analyze dynamic change and helps detect and measure effects that simply cannot be observed in pure time series or cross-sectional data (Gujarati, 2003).

This study uses GLS method instead of Ordinary Least Squares (OLS) method[2] to estimate the panel data regression models (Bozec & Laurin, 2008; Gurbuz, Aybars, & Kutlu, 2010; Peng, 2004; Thonet & Poensgen, 1979; Sulong & Mat Nor, 2010). When a method with OLS does not meet its assumptions that display heteroskedasticity and autocorrelation problems, GLS can be used to tackle these problems. Cook-Weisberg (CW) or Breusch-Pagan (BP) test is used to test for heteroskedasticity while Durbin-Watson (DW) test is used to test for autocorrelation. Thus, the following GLS method is estimated:

$$TIR_{it} = B_0 + B_1\, EPF_{it} + B_2\, PNB_{it} + B_3\, LTAT_{it} + B_4\, LTH_{it} + B_5\, KWAP_{it} + B_6\, KNB_{it} + B_7\, MFI_{it} + B_8\, SO_{it} + B_9\, FO_{it} + B_{10}\, DO_{it} + B_{11}\, FAMO_{it} + B_{12}\, BO_{it} + B_{13}\, FSIZE_{it} + B_{14}\, FAGE_{it} + B_{15}\, LEV_{it} + e_{it}$$

Where: The variables are described in Table 1.

4. Results and Discussions

Table 2 presents the descriptive statistics of the variables used in the study. The mean value of TIR is -1.139% with the maximum value of 857.810% and minimum is -123.320%. The standard deviation is 60.245%. Meanwhile, the highest mean value among GLICs is 2.332% (PNB) and the lowest value is 0.126% (MFI) with maximum (standard deviation) values of 79.950% (7.448%) and 21.060% (1.289%) respectively. In addition, the highest mean value of non-GLICs ownership is 29.826% (family ownership) while the lowest mean value is 1.252% (state ownership) with maximum (standard deviation) values of 74.730% (21.987%) and 61.880% (6.746%) respectively.

[2] *OLS, Random Effect, and Fixed Effect are also tested in this study. The results show that the hypothesis of OLS is accepted against Random Effect and Fixed Effect.*

Table 2: Descriptive Statistics of the Variables

Variables	Minimum	Median	Maximum	Mean	Std. Deviation
TIR (%)	-123.320	-9.915	857.810	-1.139	60.245
EPF (%)	0.000	0.000	69.000	2.053	5.023
PNB (%)	0.000	0.000	79.950	2.332	7.448
LTAT (%)	0.000	0.000	73.150	0.393	2.950
LTH (%)	0.000	0.000	25.450	0.799	2.915
KWAP (%)	0.000	0.000	16.130	0.250	1.389
KNB (%)	0.000	0.000	63.610	0.800	5.840
MFI (%)	0.000	0.000	21.060	0.126	1.289
SO (%)	0.000	0.000	61.880	1.252	6.746
FO (%)	0.000	1.258	57.510	4.240	7.008
DO (%)	0.000	0.215	33.980	2.402	4.864
FAM (%)	0.000	31.695	74.730	29.826	21.987
BO (%)	0.000	29.195	74.657	27.520	22.168
FAGE*	1.000	12.000	37.000	12.861	6.038
FSIZE**	1,763,000	339,720,000	71,343,301,000	1,450,900,000	5,680,200,000
LEV (%)	0	11.953	95.573	19.558	21.944

Notes.*Firm age in years;** Firm size in Million Ringgit Malaysian (RM); Total number of observations for all variables are 1716, For the definition of variables refer to the table 1.

Table 3 shows the Pearson's correlation results between independent variables for the 1716 observations. Based on the results, none of the correlation coefficients have reported a value higher than 0.8 or 0.9, which might lead to the problem of multicollinearity (Judge, Hill, Griffiths, Lutkepohl, & Lee, 1988). The highest correlation is 0.625 between board ownership and family ownership.

Table 3: Correlation Matrix between Independent Variables

Variables	EPF	PNB	LTAT	LTH	KWAP	KNB	MFI	SO	FO	DO	FAM	BO	FAGE	FSIZE	LEV
EPF	1														
PNB	0.030	1													
LTAT	-0.013	-0.018	1												
LTH	0.045	0.006	-0.008	1											
KWAP	0.237**	0.022	-0.009	-0.001	1										
KNB	0.161**	-0.007	-0.007	0.023	0.098**	1									
MFI	0.118**	0.011	0.003	0.004	0.051*	0.354**	1								
SO	-0.029	-0.016	-0.005	-0.026	-0.030	-0.018	-0.005	1							
FO	0.088**	-0.003	0.028	-0.032	0.060*	-0.001	-0.034	-0.056*	1						
DO	0.138**	-0.016	0.002	0.028	0.024	0.136**	0.155**	-0.033	0.044	1					
FAM	-0.118**	-0.130**	0.038	-0.096**	-0.129**	-0.182**	-0.111**	-0.159**	-0.064**	0.014	1				
BO	-0.200**	-0.134**	-0.052*	-0.045	-0.144**	-0.167**	-0.105**	-0.165**	-0.042	-0.073**	0.625**	1			
FAGE	0.070**	0.080**	0.054*	0.017	0.034	0.015	-0.075**	-0.033	0.120**	0.028	-0.039	-0.142**	1		
FSIZE	-0.031	-0.034	0.010	-0.007	0.046	-0.022	-0.021	-0.008	0.048*	0.006	0.058*	0.011	0.013	1	
LEV	0.011	-0.004	0.008	-0.008	0.012	-0.032	-0.038	-0.034	0.007	0.001	0.055*	0.006	0.025	0.403**	1

Note. * Correlation is significant at the 0.05 level; ** Correlation is significant at the 0.01 level; For the definition of variables refer to the table 1.

Table 4 shows the results of OLS and GLS regression. The results of OLS in column 2 show that the method using TIR suffers from heteroscedasticity problem based on CW/BP test that gives value (2376.69) with p-value of 0.000 and also from autocorrelation problem based on DW test that gives value (1.735) respectively with F-critical of 1.903. Therefore, this study is used GLS to tackle the problems.

The results of GLS in column 3 show that the value of R^2 is 3.5%, while the value of F-statistic is 4.157 with p-value of 0.000. Indeed, the effects of PNB and LTAT ownerships are positive and significant on TIR. This result indicates that any increase in each PNB and LTAT leads to decrease agency cost and improve company performance. In addition, the effect of family ownership is positive and significant on TIR, indicating that higher family ownership leads to better performance. The reason of this relationship is that higher ownership by families makes them work harder and take actions that would increase their utilities at the expense of minority shareholders, such as drawing scarce resources away from profitable projects to satisfy their non-pecuniary compensation (Demsetz, 1983). Furthermore, the impact of foreign ownership is also positive and significant on TIR. This finding indicates that that foreign ownership can monitor and align manager interests to maximize firm value (Ghazali, 2010; Sulong & Mat Nor, 2010). It also indicates that foreign investors may monitor the management of companies more closely in Malaysia, hence, the company performance enhances

(Sulong & Mat Nor, 2010). On the other hand, the effects of other five GLICs (EPF, LTH, KWAP, KNB, and MFI), state, domestic, and board ownerships are not associated with company performance.

Robustness analysis is also used in this study to remedy the outliers or extreme observations by truncated variables. Data of extreme observations are truncated if the above variables are more than three standard deviations away from the mean (Chena, Hongb, & Steinc, 2002). The results of Robustness analysis is summarized on column 4 of table 4. It shows that the results are similar to the one before truncated variables except for that the effect of domestic ownership becomes positive and significant on TIR, while the effect of firm age becomes negative and significant on TIR.

5. Conclusion

This paper examined the effect of institutional ownerships on market performance using a sample of 190 nonfinancial companies during a period of 2000 to 2009. The GLS method is used instead of OLS method to estimate the panel data to tackle the heteroscedasticity and autocorrelation problems. The results of GLS shows that the effects of two GLICs (PNB and LTAT), foreign, and family ownerships are positive and significant on market performance while the effects of other five GLICs (EPF, LTH, KWAP, KNB, and MFI), state, domestic, and board ownerships are not related to market performance. This finding indicates that increase in each PNB, LTAT, foreign, and family ownerships do improve market performance while increase in other five GLICs, state, domestic, and board ownerships do not effect market performance.

Table 4. OLS and GLS models by using TIR

Variables	OLS	GLS	GLS (after removing extreme observations)
const	0.020	-0.089	-0.049
	(0.890)	(0.329)	(0.598)
EPF	-0.118	0.017	-0.159
	(0.717)	(0.956)	(0.573)
PNB	0.166	0.402	0.321
	(0.223)	(0.003)***	(0.000)***
LTAT	4.048	1.456	0.924
	(0.187)	(0.068)*	(0.084)*
LTH	0.104	-0.007	-0.041
	(0.821)	(0.978)	(0.913)
KWAP	-0.528	0.058	0.216
	(0.392)	(0.948)	(0.793)
KNB	0.887	0.569	0.279
	(0.103)	(0.157)	(0.242)
MFI	-1.839	-0.755	-0.268
	(0.056)*	(0.247)	(0.682)
SO	0.123	0.071	0.061
	(0.335)	(0.478)	(0.457)
FO	1.083	0.981	0.850
	(0.000)***	(0.000)***	(0.000)***
DO	0.545	0.273	0.479
	(0.070)*	(0.127)	(0.008)***
FAM	0.163	0.123	0.114
	(0.110)	(0.085)*	(0.068)*
BO	-0.109	-0.049	-0.051
	(0.243)	(0.435)	(0.314)
FAGE	-0.016	-0.014	-0.021
	(0.451)	(0.423)	(0.087)*
FSIZE	-0.007	-0.002	-0.004
	(0.474)	(0.666)	(0.424)
LEV	0.031	0.003	0.015
	(0.563)	(0.937)	(0.647)
R2	0.067	0.035	0.033
Adjusted R^2	0.059	0.026	0.025
F-statistic	8.264	4.157	3.938
P-value(F)	0.000	0.000	0.000
DWT	1.735	1.947	1.952
F-critical (dL)	(1.903)		
BP/CWT	2376.69	-	-
	(0.000)		

Notes: * Significant at the 0.1 level; ** Significant at the 0.05 level; *** Significant at 0.01 level; Total number of observations for all variables are 1716; For the definition of variables refer to the table 1.

In practical perspectives, this study provides evidence for policy makers that government's NEM policy is supported to divest five GLICs while it is not supported to divest other two GLICs because the two GLICs have good knowledge of the Malaysian capital market and good ability to monitor and value Malaysian companies. However, that may not be the case with foreign markets. The theoretical implication of this paper is that agency costs may decrease in companies with PNB, LTAT, foreign, and family ownerships while it may increase in companies with EPF, LTH, KWAP, KNB, MFI, state, domestic, and board ownerships.

Future research that tries to investigate the relationship between institutional ownership with market performance can also include other control variables to the study such as industry effects, firm risk, and the capital intensity to ensure the robustness of the results. Other market performance measures also can be used as a proxy for market performance such as return on assets (ROA), return on equity (ROE), earning per share (EPS), return on sales (ROS), return on investments (ROI), profit margin (PM), and economic value added (EVA).

References

Abdul Wahab, E.A., How, J.C.Y, & Verhoeven, P. (2007). Institutional investors,market governance and firm performance in Malaysia. *2nd Journal of Contemporary Accounting and Economic.* Symposium Proceedings, 1-53

Almazan, A., Hartzell, J.C., & Starks, L.T. (2005). Active institutional shareholders and cost of monitoring: Evidence from executive compensation. *Financial Management* 34, 5–34.

Amran, N. A, & Ahmad, A. C. (2010). Corporate governance mechanisms and performance: Analysis of Malaysian family and non-family controlled companies. *Journal of Modern Accounting and Auditing,* 6 (2), 1-15. ISSN 1548-6583, USA

Anderson, R.C., Reeb, D.M. (2003). Founding-family ownership and firm performance: evidence from the S&P 500. *Journal of Finance* 58: 1301-1328.

Ang, J. S. & Ding, D. K. (2006) Government ownership and the performance of government-linked companies: The case of Singapore. *Journal of Multinational Finance and Management*. 16: 64–88

Berle, A., & Means, G. (1932). The Modern Corporation and Private Property, *Harcourt, Brace &World,* New York.

Bozec, Y. & Laurin, C. (2008). Large shareholder entrenchment and performance: Empirical evidence from Canada, *Journal of Business Finance & Accounting,* 35, (1 & 2): 25–49

Brickley, J. A., Lease, R. C., & Smith, C. W. (1988). Ownership structure and voting on ant takeover amendments. *Journal of Financial Economics, 20*, 267-291.

Carney, M., & Gedajlovic, E. (2002). The coupling of ownership and control and the allocation of financial resources: Evidence from Hong Kong. *Journal of Management Studies,* 39(1): 123–146.

Caves, D. W. & Christensen, L.R. (1980). The relative efficiency of public and private firms in a competitive environment: The case of Canadian railroads. *The Journal of Political Economy,* 88 (5): 958-976.

Chang, S. J. (2003)**.** Ownership structure, expropriation, and performance of group affiliated companies in Korea. *Academy of Management Journal*, 46,(2): 238-253.

Chena, J, Hongb, H., & Steinc, J. C., (2002). Breadth of ownership and stock returns. *Journal of Financial Economics*, 66, 171–205.

Chhibber, P. K. & Majumdar, S. K. (1999). Foreign ownership and profitability: property rights, control, and the performance of firms in Indian industry. *Journal of Law and Economics,* 42: (1) 209-238.

Chu, E. Y. (2004). The determinants of ownership structure in Malaysia. *Fourth Asia Pacific Interdisciplinary Research in Accounting Conference.*

Claessens, S., Djankov, S., & Lang, L.H.P. (2000). The separation of ownership and control in East Asian corporation", *Journal of Financial Economics*.58: 81-112.

Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a Stewardship Theory of Management. *Academy of Management Review*, 22(1), 20–47.

Demsetz, H., & Lehn, K. (1985). The structure of corporate ownership: Causes and consequences. *Journal of Political Economy*, 93: 1155–1177.

Demsetz, H. (1983). The structure of ownership and the theory of the firm, *Journal of Law and Economics* 26: 375–390.

Donaldson, L., & Davis, J. H. (1994). Boards and company performance: Research challenges the conventional wisdom. *Corporate Governance: An International Review,* 2(3), 65–91.

Douma, S. George, R. Kabir, R. (2006). Foreign and domestic ownership, business groups, and firm performance: evidence from a large emerging market. *Strategic Management Journal,* 27, (7):637-657

Eng, L. L. & Mak, Y. T. (2003). Corporate governance and voluntary disclosure. *Journal of Accounting and Public Policy, 22*, 325-345.

Estrin, S., & Perotin, V. (1991). Does ownership always matter? *International Journal of Industrial Organization.* 9 (1), 55–73.

Faccio, M., & Lang, L. (2002). The ultimate ownership of Western European corporations *Journal of Financial Economics* 65: 365-395.

Fama, E. F. & Jensen, M. C. (1983): Separation of ownership and control. *Journal of Law and Economics* 26, 301–325.

Ghazali, N. A. M. (2010). Ownership structure, corporate governance and corporate performance in Malaysia. *International Journal of Commerce and Management,* 20 (2): 109-119

Gillan, S.L., Starks, L.T., (2003). Corporate governance, corporate ownership, and the role of institutional investors: a global perspective. *Journal of Applied Finance*, 13(2), 4 –22

Gurbüz, A., Aybars, A. & Kutlu, O. (2010). Corporate governance and financial performance with a perspective on institutional

ownership: Empirical evidence from Turkey. *Journal of Applied Management Accounting Research,* (8):2.
Guthrie, D. (1997). Between markets and politics: Organizational responses to reform in China. *American Journal of Sociology*, 102: 1258–1304.
Gujarati, D. N. (2003). Basic econometrics (4th ed.). New York: McGraw-Hill Higher Education.Haat, M. H. C., Rahman, R. A., & Mahenthiran, S. (2008). Corporate governance, transparency and performance of Malaysian companies. *Managerial Auditing Journal*, 23 (8):744-778.
Himmelberg, C., Hubbard, R., & Palia, D. (1999). Understanding the determinants of managerial ownership and the link between ownership and performance. *Journal of Financial Economics,* 53, 353–384.
Holderness, C.G. & Sheehan, D.P. (1988). The role of majority shareholders in publicly held corporations: an exploratory analysis. *Journal of Financial Economics* 20, 317–346.
Hsioa, C. (2003). Analysis of panel data (2nded.). Cambridge: University Press.
James, H. (1999). Owner as manager, extended horizons and the family firm. *International Journal of the Economics of Business*, 6, (1): 41–56.
Jensen, M. & Meckling W. (1976). Theory of the firm: man agerial behavior, agency cost, and ownership structure. *Journal of Financial Economics* 3: 305-360.
Judge, G., C. Hill, E. Griffiths, H. Lutkepohl, & Lee, T.C (1988). Introduction to the Theory and Practice of Econometrics, 2nd ed. New York: John Wiley and Sons.
Kay, J. A. & D. J. Thompson. (1986). Privatisation: A policy in search of a rationale. *The Economic Journal*, 96(381): 13-32.
Keister, L. (2001). Exchange structures in transition: Lending and trade relations in Chinese business groups. *American Sociological Review*, 66: 336–360.
Khanna, T. & Palepu, K., (2000). Is group affiliation Profitable in emerging markets? An analysis of diversified Indian business groups'. *Journal of Finance*, 55 (2):867 – 891.
Kole, S. R. & Mulherin, J. H. (1997). The government as a shareholder: A case from the United States. *The Journal of Law and Economics,* 40(1): 1-22.
Krivogorsky, V. (2006). Ownership, board structure, and performance in continental Europe. *The International Journal of Accounting* 41:176–197
Lau, Y. W. & Tong, C. Q. (2008). Are Malaysian government-linked companies (GLCs) creating value? *International Applied Economics and Management Letters 1(1): 9-12*
Le, T. V. & Buck, T. (2009). State ownership and listed firm performance: a universally negative governance relationship? *Journal of Management and Governmen*t, 10: 9098-5.
McConnell, J. J. & Servaes, H. (1990). Equity ownership and the two faces of debt. *Journal of Financial Economics,* 39(1), 131-157.
Piesse, J., Filatotchev, I., & Lien, Y. C., (2005). Corporate governance and performance in publicly listed, family-controlled firms: Evidence from Taiwan, *Asia Pacific Journal of Management*, 22: 257–283.
Peng, M. W. (2004). Outside directors and firm performance during institutional transitions. *Strategic Management Journal*, 25(5), 453-471.
Pound, J., (1991). Proxy voting and the SEC: Investor protection versus market efficiency. *Journal of Financial Economics*, 29 (2), 241–285.
Qi, D., Wu, W., & Zhang, H. (2000). Shareholding structure and corporate performance of partially privatized firms: Evidence from listed Chinese companies, *Pacific-Basin Finance Journal* 8, 587–610.
Randoy, T., Dibrell, C. & Craig, J. B. (2009). Founding family leadership and industry profitability. *Small Business and Economics*, 32:397–407
Saito, T. (2008). Family firms and firm performance: Evidence from Japan. *Journal of Japanese and International Economies,* 22, 620–646.
Shleifer, A., & Vishny, R. (1997). A survey of corporate governance, *The Journal of Finance*.52 (2): 737-783.
Sun, Q., & Tong, W. H.S. (2003). China share issue privatization: the extent of its success. *Journal of Financial Economics* 70: 3–222
Stulz, R. (1999). Globalization, corporate finance and the cost of capital. *Journal of Corporate and Finance*, 12 (3), 8–25.
Sulong, Z. & Nor, F. M. (2010). Corporate governance mechanisms and firm valuation in Malaysian listed firms: A panel data analysis. *Journal of Modern Accounting and Auditing,* 1, 56, 1548-6583, USA
Taufil-Mohd, K.N, Md-Rus, R, & Musallam, S. R. M. (2013). The effect of ownership structure on firm performance in Malaysia. *International Journal of Finance and Accounting* , 2(2): 75-81
Thomsen, S. & Pedersen, T. (2000). Ownership structure and economic performance in the largest European companies, *Strategic Management Journal,* 21: 689-705.
Thonet, P. J. & Poensgen, O. H. (1979). Managerial control and economic performance in West Germany. *Journal of Industrial Economics,* 28(1), 23-37.
Villalonga, B., & Amit, R. (2006). How do family ownership, control and management affect firm value? *Journal of Financial Economics* 80: 385–417.
Wei, Z., Xie, F., & Zhang, S. (2005). Ownership structure and firm value in China's privatized firms: 1991–2001. *Journal of Finance and Quantitative Analysis*, 40: 87–108.
Wei, Z., & Varela, O. (2003). State equity ownership and firm performance: Evidence from China's newly privatized firms, *Global Finance Journal,* 14:65-82.
Wiwattanakantang, Y. (2001). Controlling shareholders and corporate value: Evidence from Thailand*, Pacific-Basin Finance Journal* 9: 323–362