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Does Ownership Structure Matter to Strategic Change? Evidence of the Malaysian Firms Research Article

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Abstract

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This study aims to examine the impact of ownership structures on strategic change of Malaysian public listed companies. In this study, we utilized panel data analysis to examine the correlation between family ownership, institutional ownership, foreign ownership and managerial ownership with strategic change using Malaysian listed data from 2013 to 2020. Our sample included 736 firm-year observations, with finance-related companies excluded from the analysis. The empirical findings of this study demonstrate that family ownership structure has a negative impact on strategic change. This research contributes to the theoretical understanding of how emerging firms can enhance their ownership structure to facilitate strategic change within the company. The study emphasizes the significant difference in ownership structure towards strategic change, providing valuable insights for companies seeking to improve their performance.

Keywords: *Family ownership, foreign ownership, institutional ownership, managerial ownership, strategic change*

Introduction

In the contemporary and swiftly evolving business landscape, organizations need to exhibit agility and adaptability in order to flourish and uphold their competitive edge. This phenomena is even more pronounced in the 21st century, as businesses find themselves grappling with rapid globalization, heightened competition (Domunguez-CC & Barroso-Castro, 2017), technological advancements, and shifts in individual and societal behaviours. These factors have led to a complex and demanding environment for enterprise management (Choi & Szewczyk, 2018). Such changes, coupled with increasing uncertainty in the business, have increased the risks associated with business operations. Even well-established industry leaders may confront an array of challenges that reflect the need for strategic change in the firms.

One of the foremost challenges currently confronting businesses pertains to the ever-changing nature of the market. Organisation nowadays is undergoing a substantial transformation due to advancements in technology, shifting consumer preferences, and the emergence of disruptive new players in the industry. As a result of globalisation and technological changes, the environmental conditions are becoming more uncertain, dynamic and complex (Lindskov, 2022), which has made managing enterprise becomes complex and challenging (Choi & Szewczyk, 2018). Consumer preferences have been shifting which led to the change in market. Nevertheless, it is essential to understand and respond to consumer needs to succeed in the marketplace (Kotler & Keller, 2016). These phenomena have disrupted conventional business models, placing firms in vulnerable market positions and eroding their market shares. In light of the evolving expectations of customers, the company needs to pinpoint fresh opportunities for value creation and delivery, all the while redefining its competitive stance through strategic change. As customer's expectations continue to evolve, the company must identify new opportunities to create and deliver its value to the customers. Given the continuous changes in both the internal and external environments of these firms, they are compelled to promptly respond to these shifts and recalibrate their developmental strategies. Firms must rapidly adapt to the shifting internal and external landscape and embrace strategic change to achieve and maintain a competitive advantage (Zhou et al., 2014). As noted by Ukil & Akkas, (2017), strategy is not a one-time activity, but companies which implement strategy have to continuously make systematic and logical changes to enhance their competitiveness and to maintain their survival in market.

Strategic change, as defined by Choi & Szewczyk, (2018), involves reallocating resources and refocusing a firm's efforts. They observed that significant internal strategic changes can be brought about through activities like product development and restructuring, such as divestitures and spinoffs. Moreover, external changes, such as substantial acquisitions, can result in dramatic shifts. Strategic change has evolved into an important aspect of business development, and is necessary for directing changes in the business environment and the associated risks.

In Malaysian context, the justification of this study us motivated by the results of increased competition in Malaysian market. Malaysia has been ranked as number 27th most competitive nation out of 63 countries in World Competitive Ranking 2020 (The Star, 2020).As firms become more competitive, Zhou et al., (2014) highlighted that they must get ready to adjust on strategic change. In addition, Domunguez-CC & Barroso-Castro, (2017) argued that the growth of companies can be measured by the numbers of its mergers and acquisitions. The local newspaper has reported that Malaysian had recorded a slump of 52% in private and equity (PE) investment and mergers and acquisition in Malaysian in 2018 due to globalization (NST Business, 2019). Consistently, The Swiss Institute of Technology in Zurich also came out

with a report that indicate Malaysia economic globalization index in the year 2020 was 81, which ranked as number 27 among 191 highly globalized countries.

This paper aimed to investigate how different ownership structure in Malaysia contributed to strategic change. Malaysian firms provides an interesting investigation due to its highly concentrated ownership structure (Abdullah et al., 2017a; Amer Al-Jaifi et al., 2017).It has been well documented that the more concentrated the ownership structure of the firms, the better controlling shareholders can take over the company's decision control (Rahman & Reja, 2015; Saghi-Zedek, 2016).

We extend the literature about the effect of ownership structures over strategic change in emerging markets by analysing a unique sample of Malaysian public listed companies during the period of 2013 to 2020. Our results show a negative relationship between family ownership and strategic change. The results validate the argument of agency theory that separation of ownership between the principal and agents reduces the conflict of interest that exist between both parties.

A second contribution of this paper is the analysis of the policy of ownership structures in firms that plan to implement strategic change. Studies have documented that different ownership structures have contributed differently to strategic change. For example,S. Wang et al., (2020), analyzed a sample of Chinese firms listed on the Shenzhen Stock Exchange and the Shanghai Stock Exchange, foun that a better strategic change is transferred through low family firms ownership structures. We posit that the family firms have different priorities and are reluctant to pursue strategic change. This study provides insights for practitioners, including key management personnel and managers, enabling them to appraise the present governance strategy and evaluate the prevailing ownership arrangement within Malaysian companies as they strive for strategic change. The findings of this research enable these practitioners to contemplate the influence of internal governance frameworks, for example through policy and guidelines in firms, when they are pursuing strategic changes. Furthermore, it empowers them to gauge the efficacy of the companies' governance structure in addressing business challenges, facilitating growth, and ensuring survival in a fiercely competitive market.

The remainder of the paper is organized as follows: First, we review the background literature and propose hypotheses to test the relationship between ownership structures and strategic change. Second, we describe our methodologies and present the study results. Finally, we conclude the paper by discussing the implications and limitations of the study.

Literature Review

Agency Theory

Agency theory posits that ownership structure in firms plays crucial role with regards to principals and agents in a company. According to agency theory, the separation of ownership and control in modern corporations can lead to agency conflicts, where managers may act in their own self-interest rather than maximizing shareholder value (Hatane et al., 2020). Conflict of interest occurs between managers and principals, and as a result, corporate ownership structure is a mechanism to control the conflict through both parties is necessary (Ekadjaja et al., 2019).One aspect of ownership structure that affects agency conflicts is the identity of the controlling shareholders. Malaysia provides an interesting investigation due to the highly concentrated ownership structure (Abdullah et al., 2017; Al-Jaifi, 2017). When ownership concentration in the firms are high, the main agency problem arises between the large or controlling shareholders and minority shareholders (Gonzalez et al., 2017). Research

has shown that the more concentrated the ownership structure of firms, the better the controlling shareholders can take over the company's decision control (Rahman & Reja, 2015; Saghi-Zedek, 2016). This concentration of ownership can exacerbate agency conflicts, as controlling shareholders may prioritize their own interests over those of minority shareholders (Putri & Nurfauziah, 2022). Literatures have documented that different types of ownership structures may affects firms differently. For instance, family ownership has been found to exacerbate agency conflicts, as family-controlled firms may prioritize the interests of the controlling family over those of minority shareholders (Rodriguez-Garcia & Menéndez-Requejo, 2023). On the other hand, other types of ownership structures, particularly institutional ownership, can play a monitoring role through monitoring and dialogue engagement (Maznorbalia et al., 2023).

Strategic Change

Numerous scholars have presented viewpoints regarding the definition of strategic change. In the year 1978, Mintzberg, (1978) introduced a concept that transformed strategy into a model for allocating corporate resources. His study defined strategic change as the reassignment of a firm's primary resources over time, serving as a significant wellspring of competitive advantage while also contributing to the firm's survival. Subsequently, in 1980, Ansoff, (1980) characterized strategic change as the process by which companies reselect and rearrange their products and markets. Following this, an abundance of literature emerged focusing on strategic change as a pivotal and integral alteration occurring at the strategic level. For instance, this encompasses changes in product diversity (Wiersema & Bantel, 1992), geographical diversity (Sanders & Carpenter, 1998), and research and development (R&D) intensity (Hoskisson & Hitt, 1988). The area of strategic change mushroomed as new environment were introduced, which provides a broader and different perspective of the study on strategic change. Rajagopalan & Spreitzer, (1997) argued that environmental changes have prompted the changes in a company's status, tied to resource allocation and market share – in essence, that is the essence of strategic change.

Building upon Finkelstein & Hambrick, (1990); Mintzberg, (1978)concept of strategic change, Finkelstein & Hambrick, (1990) devised a Strategic Resource Allocation Profile (SRAP), drawn from observations of resource allocation spanning a temporal span. The SRAP functions as an evaluative index, composed of six factors that encompass various management aspects within the company, including advertising intensity, R&D intensity, newness of plant and equipment, non-production overhead, inventory levels, and financial leverage. These six indicators are believed to be within the potential control of the organization's leaders and constitute essential elements of the firm's strategic profile (Finkelstein & Hambrick, 1990). Similarly, Müller & Kunisch, (2018) interpreted strategic change as the redefinition of an organizational mission or a significant realignment of overarching priorities and goals within an organization to reflect a new direction.

Family ownership

The empirical literature on family ownership provides evidence that family ownership puts more incentives than others to protect their firms' reputation. Board members who are from family members have strong family values, that are found to invest less in monitoring (Eulaiwi et al., 2016) and improves the firm's performance (Ting et al., 2016). Similar to this evidence in Malaysia, a study on sub-samples of family and non-family companies by Omer & Al-Qadasi, (2020) indicates that family firms with an effective board is less likely to invest more in monitoring, and the board will be more effective and spend more in investment to oversee the managerial activities in non-family companies. The family members, especially those with

young successors in the family firms are found to be an adaptive event to the life cycle of the firm and a high level of strategic change due to the need to prove their competence to the family seniors (Zhao et al., 2020). In addition, family ownership firms are beneficial to firms as studies found these types of ownership structures tend to practice voluntary disclosure related to external factors and global conditions (Md Zaini et al., 2020). As the environment of industry changes very quickly, implementing strategic change is one of the ways that firms can perform in order to remain competitive and viable. For example, in family ownership firms, strategic change is an important element for a firm’s survival through generations to preserve socioemotional wealth (Wong et al., 2020).

Although there are several studies that suggest family ownership firms are better in governance, other results found contrasting evidence. Given that family-owned firms to favour to work on their own interests, the firm's interests and the other minority shareholders might be ignored (Makhlouf et al., 2018). The family owners may make decisions which are beyond the controlling steps to fulfil the interest of the family members while the non-family owners are striving to ensure decisions are made in the interest of the rest of the stakeholders. In a study on the relationship between family firms and strategic change, Belling et al., (2021) argued that social value and human capital values in family firms dropped when they chose to implement strategic change. Similarly, Wong et al., (2020)argues that family ownership firms are reluctant to initiate strategic change due to the will to protect socioemotional wealth of the family business In another study on the moderating effects of family-owned firms, Ref. (K. Wang et al., 2020) reveals that family involvement weakens the relationship between environmental uncertainty and firm’s strategic change since family firms have the advantage of accessing resources and have lower agency costs. Therefore, consistent with the study on family ownership structure and strategic change, this study develops the following hypothesis:

Hypothesis 1 (H1): Family ownership is negatively associated to strategic change.

Institutional ownership

Literatures suggests that institutions, whether financial or non-financial, tend to adopt diverse investment approaches (Ahmed & Hadi, 2017; Harjoto et al., 2018). Align with the agency theory, certain institutions appoint their representatives to serve on boards not solely for financial gains, but also to effectively monitor the managers (Ahmed & Hadi, 2017). The greater authority garnered through institutional ownership grants them voting power, which incentivizes vigilance over top-level management and concurrently influences firm strategies (Ahmed & Hadi, 2017; Ying et al., 2017). H. Wang et al., (2019) highlighted that companies owned by financial institutions face diminished scrutiny concerning management practices due to the institutions' focus on short-term returns and financial liquidity. On the other hand, non-financial institutional owners is due to their core business, and they are interested in sharing the relevant technology, and resources in terms of the experience they acquired. The decisions made by these investors are based on their expectations, and they will likely increase their shares in companies that prove their performance (Chung & Lee, 2020).

Extensive literature found different evidence on the impact of institutional ownership. Al-Jaifi et al., (2019) reported that institutional investors have a positive effect on the internal audit function as well as improving the audit committee effectiveness, while Manzaneue et al., (2016) provides evidence that institutional ownership is associated with lower business failure risk, diminished earnings manipulation (Bao & Lewellyn, 2017) and improved firms’ value (Kao et al., 2019; Nuringsih & Susanto, 2020). Furthermore, giving the power to the

institutional owners in voting enables them to shape business operations and counteract free-rider tendencies among board members (Ahmed & Hadi, 2017). The positive effect of institutional ownership extends to areas of corporate social responsibility (CSR) disclosure (Oh et al., 2017) and firm performance (Allam, 2018). The majority of empirical evidence stands on the side which agree that agrees that institutional owners, often are the parents of subsidiary companies, that the existence of these investors curtails the agency cost (Nuringsih & Susanto, 2020). Finally, in a study examining the effect of institutional ownership on strategic change by Sun et al., (2016) uncovers a significant positive correlation in the relationship.
Following these insights, the study proposes the following hypothesis:

Hypothesis 2 (H2): Institutional ownership is positively associated with strategic change

Foreign Ownership

Shares that are owned by foreign investors are called foreign ownership (Phung & Mishra, 2016). Shubita & Shubita, (2019); Tangke, (2021)suggest that foreign-owned firms exhibit in improved operational performance and enhance firms' value. In a similar vein, many studies also reported a positive impact when firms are owned by foreign companies. For example, foreign ownership firms are correlated with a reduction in earnings manipulation and improved earnings of the firms (Vo & Chu, 2019)and improved overall firm performance (Mukhopadhyay & Chakraborty, 2017). These findings align with the argument by Subastian & Setiawan, (2022) which explains that foreign ownership firms are inclined towards risk-taking resulting in the firms under their control to improve their profit level. In addition, foreign ownership also brings in new resources and capabilities to the local firms, which resulted in an improvement in productivity (Sousa et al., 2021).
However, apart from the improvement to firms that foreign owners might bring into firms, Liedong et al.,(2023) argue the monitoring activities by these investors are distinguishable between developing and developed countries. Their results indicate that foreign shareholders have lesser implementation of monitoring in developing nations, as compared to rigor monitoring demonstrated in developed economies. Similar evidence also is observed in a study of foreign-owned bank, where the investors exhibit heightened sensitivity to exchange fluctuations, whilst providing lesser response to local demand (Fidrmuc & Kapounek, 2020). As noted by Alquist et al., (2019), foreign owners may be able to perform in certain areas, for example, firm's credit constraints, but they put lesser focus on the local input. Following the argument, we put forward the following hypothesis:

Hypothesis 3 (H3): Foreign ownership is positively associated with strategic change.

Managerial Ownership

The effect of managerial ownership has on the firms are explained by the convergence of interest hypothesis by Morck et al., (1988) and incentive alignment effect (Idris et al., 2022). Based on the this argument, managerial ownership has the capability to align the interests of managers and shareholders (Uddin et al., 2019). When managers are given a share of ownership, their opportunistic managerial behaviors decrease, and they tend to act in the interest of the owners. The shareholdings held by managers help to align the interests between managers and shareholders (Jensen & Meckling, 1976). That is, the more managerial ownership awarded to the managers, the better the firm's corporate performance and the lesser the opportunistic managerial behavior. This traditional agency theory view is in favor of the incentive alignment effect (Idris et al., 2022).

In relation to this view, literature gathered evidence on firms that benefit from managerial ownership. Owusu & Weir, (2018) found that higher managerial ownership in the country tends to mitigate agency costs. It is important for a company to have a board that is effective in aligning management's interest and shareholders' interest as the board of directors are the one accountable for the overall performance of the companies. In addition, Uddin et al., (2019) examine the effect of managerial ownership on leverage structure decision-making using data from 2003 to 2017 in Dhaka Stock Exchange and found that the managerial ownership structure is statistically significant to the debt–equity ratio at 10% level of significance. Consistently, Zaitul et al., (2019) found that high managerial ownership firms tend not to pay a dividend, which is in line with the convergence governance hypothesis that managerial ownership has essential benefits to managers so that they have the same interest as the other shareholders. In addition, apart from the impact of reducing agency cost firms can achieve from managerial ownership structure, literature also finds supports that managers who have access to inside information can also involve themselves in the strategic decision making process within their firms (Singla et al., 2017). Further, according to a study on a relationship between managerial ownership structure and its influence to accruals earning management, Idris et al., (2022)suggest that managerial ownership improve the quality of annual earnings by reducing the levels of earnings management. Consistent with the argument, we develop the following hypothesis:
Hypothesis 4 (H4) : Managerial ownership is positively related to strategic change.

Figure 1 presents the research framework adopted in this study.

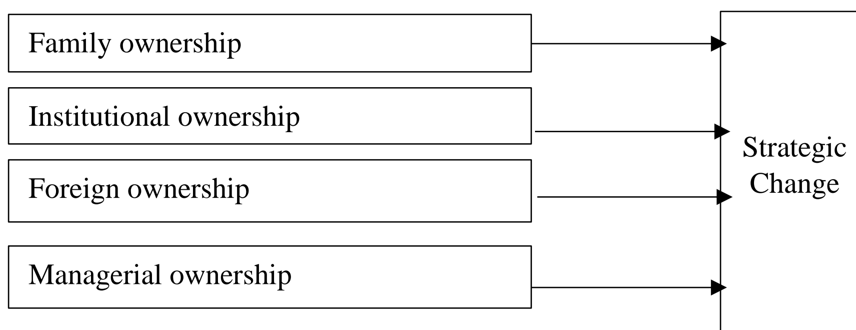

Figure. 1. Research Framework

Methodology

Data

For the period from 2013 to 2020, we identified in Bloomberg Terminal and Bursa Malaysia an initial sample of firms for our study. We gather strategic change information from the Bloomberg Terminal using tickers that are raised within the terminal. All ownership data based on four types: family ownership, institutional ownership, foreign ownership and managerial ownership are obtained from manual extraction in the annual report which are obtained from Bursa Malaysia website. We collected 5,647 firm-year observations for the analysis of this study. The. finance-related firms, are excluded from the sample, as they fall under the Banking and Financial Institutional Act of 1989 and have distinct characteristics and regulatory requirements (Al-Jaifi, 2017; Ting et al., 2016). All the data are identified from nine sectors in Bloomberg database which are plantation, property, consumer, construction, trading and services, technology, finance, mining, and industrial products.

Table 1 shows the summary of the sample which we break down into nine industries that we have identified earlier. The last column shows the total number of observations according to the industry analysed, while the last row shows the total number of observations in the eight years analysed in our sample. After deletion of outliers, the initial sample of 771 firms for 8 years (5,647 firm-year observations) was reduced to 4,931 firm-year observations. The industry that contributes to the highest observation is industrial product, which provides a summary of the sample breakdown.

Industry	**Total firm-year observation**
Industrial products	1,613
Consumer Products	1,161
Properties	661
Trading and Services	537
Construction	331
Plantation	281
Technology	206
REIT	113
IPC	28
Total (n)	4,931

Table 1. Summary Statistics of Sample Based on Industry

Dependent variable

We define strategic change using six dimensions following the previous study (Díaz-Fernández et al., 2019; Le & Kroll, 2017; Oehmichen et al., 2016; Tarus, 2014). This model is observed over time(Tarus, 2014)and is developed and validated by Finkelstein & Hambrick, (1990). Following our theoretical conceptualization, we operationalized strategic change similar to other studies on strategic change by Back et al., (2020); K. Wang et al., (2020). This study chooses six financial indicators: advertisement expenditure, R&D investment, rate of fixed assets renewal, overhead rate, inventory level and financial leverage to measure firms' strategic change. Firstly, we compute the difference between year t and year t-1 in every indicator. Secondly, we adjust these difference values using the industry medians. Thirdly, we take the absolute values of these industry-adjusted differences and standardize them. The mean of these standardized values is the extent of strategic change (sc).

Independent Variables

To study the effect of ownership structure on strategic change, we constructed four different ownership structure. First, we use the percentage of total outstanding shares of the firm held by the family, including family members, family managers and family-controlled holding companies to measure family ownership structure. This measurement was similarly used in previous research conducted by Al-Najjar & Kilincarslan, (2016); Eulaiwi et al., (2016). Secondly, institutional ownership is measured by the proportion of shares held by the five largest institutional investors, which is consistent with the previous study by Abdullah et al., (2017); Abu Qa'dan & Suwaidan, (2019); Singh et al., (2018). Thirdly, this study uses a proportion of shares held by foreign investors to measure foreign ownership structure which was similarly used in studies by Abu Qa'dan & Suwaidan, (2019); Al-Najjar & Kilincarslan, (2016); Mohd Ghazali, (2020). Finally, the measurement for managerial ownership structure

is taken from the previous study of Eulaiwi et al., (2016). The measurement used is the proportion of shares held by executive and non-independent directors to total directors in the firm. Our analysis controls for different company-specific variables that have been shown to affect strategic change. We use natural logarithm of total assets to consider the effect of firm size as being used in previous studies (Cucari et al., 2018; K. Wang et al., 2018; Zhu et al., 2020) and board size which is measured by number of directors on the board of the company (Ahmad et al., 2018; Eulaiwi et al., 2016; Singh et al., 2018; Tarus, 2014).
Hausman tests and Breush-Pagan Lagrangian Multiplier (BPLM) test were performed, and the results of tests shows that the POLS method is preferable for null hypothesis.

Results

Descriptive Statistics

Table 2 shows the descriptive statistics for the dependent variable and the four independent variables classified in the previous section. The average strategic change score of -0.03 indicates that, on average, the sample companies have implemented strategic changes at a rate of -0.03 percent, compared to -59% Ref. (Kalasin, 2021) and -9% by (Back et al., 2020). The sample companies exhibit a significant range of strategic change implementation, as evidenced by the standard deviation of 0.06. Table 2 also confirms that on average, institutional ownership ranked the highest ownership structure in Malaysia, followed by family ownership, managerial ownership and then foreign ownership. In addition, Table 2 also indicates that not all ownership structure exists in Malaysian firms. Some companies appear to have minimum 0.000 ownership in each ownership structure but the highest proportion of ownership structure was found in family firms, which is 300.3. The median percentage of family ownership is 37.55 but institutional ownership structure has a slightly higher median value of 47.437

Variables	Observation	Mean	Median	Standard Deviation	Min	Max
sc	4,931	-0.030	-0.0422	0.060	-0.117	1.112
FAO	4,931	35.405	37.55	24.057	0.000	300.3
INO	4,931	47.447	47.83	21.364	0.000	233.65
FOO	4,931	6.319	0.000	188.84	0.000	70.130
MAO	4,931	11.368	3.420	15.732	0.000	122.99
FS	4,931	6.336	6.190	1.564	-6.215	12.109
BS	4,931	7.408	7.000	1.941	3.000	16.000

sc=Strategic change; FAO= Family ownership; INO= Institutional ownership; FOO= Foreign ownership; MAO= Managerial ownership; Board ethnicity; BEL= Board education level; MD= Multiple directorship; FS= Firm size; BS= Board size.

Table 2. Descriptive Statistics

In Table 3, a Pearson correlation matrix is derived to identify if there is econometric problem such as multicollinearity in the model (Buertey et al., 2020). The highest correlations among the variables is between institutional ownership structures and family ownership structure (0.446). However, the figure did not exceed the rule of thumb which is 0.8 (Buertey et al., 2020), therefore there is no multicollinearity within the variables.

	1	2	3	4	5	6	7
sc (1)	1						
FAO(2)	-0.037***	1					
INO(3)	-0.013	0.446	1				
FOO(4)	0.020	0.421***	0.184	1			
MAO(5)	0.012	-0.014	-0.514	-0.109	1		
FS(6)	0.002	0.204	0.297	0.100	-0.219	1	
BS(7)	0.027	0.091	0.151	-0.038***	-0.070	0.403***	1

sc=Strategic change; FAO= Family ownership; INO= Institutional ownership; FOO= Foreign ownership; MAO= Managerial ownership; Board ethnicity; BEL= Board education level; MD= Multiple directorship; FS= Firm size; BS= Board size.
Notes: *p<0.10, **p<0.05, ***p<0.01

Table 3. Pearson Correlation

Empirical Results

Table 4 shows the results of the relationship between ownership structure and strategic change when controlling for board size and firm size. The variables FAO and FOO are statistically significant to sc. The findings in Table 4 show a significant negative relationship between family ownership and strategic change at 5% level. This finding implies that family ownership structures firms led to lower strategic change and they are reluctant to implement strategic change. This result is consistent with the argument that family members who implement strategic change negatively impact the social and human capital values within the family (Belling et al., 2021). For example, in order to protect the socioemotional wealth in the family, family members refuse to implement strategic change (Wong et al., 2020). This supports the view that family ownership firms increase agency conflict since they have power in assessing the resources and agency cost (Omer & Al-Qadasi, 2020; Subastian & Setiawan, 2022; K. Wang et al., 2020). This result support Hypothesis 1 that there is significant negative relationship between family ownership and strategic change.

Variables	Coefficient	t-value
Constant	-0.047	0.393
FAO	-0.001	-2.47**
INO	0.000	1.71
FOO	0.001	1.27*
MAO	0.001	-0.10
FS	-0.000	1.65
BS	0.007	-0.86*

Notes: *p<0.10, **p<0.05, ***p<0.01

Table 5. Multiple Regression Results

The result in Table 4 also indicates that foreign ownership structure is positive and significantly related to strategic change, supporting Hypothesis 4 in this study. Consistent with previous studies, a higher level foreign ownership is found to be risk taker compared to companies which have low foreign ownership Ref. (Subastian & Setiawan, 2022), which resulting the foreign ownership firms are associated with positive operating performance and

firm's value (Shubita & Shubita, 2019; Tangke, 2021). These type of owners favour decision which resulted to lower earnings management and higher earnings Ref. (Vo & Chu, 2019), and resulting in better firms' performance (Mukhopadhyay & Chakraborty, 2017).
The results show that the control variable, BS, are statistically significant at a 1% level, implying that board size play significant roles in determining the level of strategic change within a firm.

Discussion

Our research suggests that firms with higher family ownership structure do not likely to pursue strategic change, indicating that when the business that are dominant by family tend to work on their own interests, as a result ignoring the firm's interests and the other minority shareholders (Makhlouf et al., 2018). Family owners may influence the actions that are beyond the controlling steps to fulfil the interest of the family members while the non-family owners are striving to ensure decisions are made for the interest of the rest of stakeholders. Family-owned businesses often have a long history and deep-rooted traditions. This can lead to a conservative approach to change, with a preference for maintaining the status quo rather than taking risks associated with strategic innovations. Family ownership firms is able to use their ownership power to consolidate their control and dominantly taking the decision made by managers (Ade Putra et al., 2022). They are in control of the firm's resources and have lower agency costs, which lead them to decide freely on the family priorities. Previous studies also showed that family firms are working on their own interest, abusing the positions and control to run the family own firms (Makhlouf et al., 2018). Further, previous study proves that social value and human capital value in family ownership firms drops when implemented strategic change (Belling et al., 2021). Family controlled firms choose to implement actions even though it is beyond the controlling steps in order to maintain their own interest Ref. (Makhlouf et al., 2018) and socioemotional wealth of the family (Wong et al., 2020).
Our results also suggest that the presence of foreign investors is associated with a higher likelihood of significant alterations in the firm's strategic direction, policies, and practices. This relationship indicates from the international resources that the foreign investors bring into the firms. Consistent with previous studies, foreign investors often bring new resources which could be diverse experiences and perspectives from various global markets (Sousa et al., 2021). Similarly, Ref. (Subastian & Setiawan, 2022) explains that foreign ownership firms are inclined towards risk-taking resulting the firms under their controls improving their profit level. Thus, they may introduce international best practices, innovative strategies, and management techniques that encourage the adoption of new approaches within the company.
In summary, a positive relationship between foreign ownership and strategic change indicates that foreign investors' involvement can be a catalyst for firm's strategic change. Their presence may result in more dynamic and forward-looking strategies that position the company for enhanced competitiveness and success in a rapidly evolving business landscape.
The results show that the control variable, BS, are statistically significant at a 1% level, implying that board size play significant roles in determining the level of strategic change within a firm.

Conclusion

This study brings further clarification to the agency theory specifically in family-owned firms and foreign ownership firms. Agency theory theorize that the potential conflict exists

between the family owners (principals) and professional managers (agents). Our findings indicate that family ownership structure is negatively associated with strategic change, highlighting that the family's objectives might not align with those of external shareholders, as they prioritize their own interests and long-term legacy. This misalignment can lead to reluctance in embracing strategic changes that may involve short-term risks but long-term benefits for the company. Family owners might favour family socioemotional stability and consistent returns over potential risks associated with change. In addition, we found that foreign ownership structure is positively significant to strategic change. Agency theory emphasizes aligning the interests of shareholders (principals) and managers (agents). In the case of foreign-owned firms, foreign investors as shareholders have a financial stake in firms, which can foster a shared commitment to maximizing the firm's value through strategic changes that enhance competitiveness and profitability. Foreign investors, as outsiders to the firm, provide an external monitoring mechanism that can help mitigate agency problems through transparent and accountable decision-making related to strategic changes.

Recommendations

Incorporating agency theory into discussions about the ownership structure on strategic change helps illuminate the understanding on the underlying conflicts and challenges that can obstruct necessary adaptations of strategic change with regards different ownership structure. It highlights the policymakers and managers how the interests of different ownership structures and external shareholders might differ, leading to agency problems that influence the firm's ability to make strategic changes aligned with the broader business landscape.

Limitations

Although we examined four types of ownership structures, it is important to note that the ownership structures used in this study are from secondary data and are not extended to ethical behaviour. Thus, our results do not imply adhering to principles and practices that are morally and socially responsible in the firm.

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