International Journal of Academic Research in Business and Social Sciences
2016, Vol. 6, No. 11
ISSN: 2222-6990

The Impact of Government Policy on Equity Ownership Landscape in Malaysia

Mohd Abdullah Jusoh
Faculty of Management and Economics, Universiti Pendidikan Sultan Idris, Tanjong Malim, Perak.

Noor Atiqah Ab Talib
Faculty of Management and Economics, Universiti Pendidikan Sultan Idris, Tanjong Malim, Perak.

DOI: 10.6007/IJARBSS/v6-i11/2551 URL: http://dx.doi.org/10.6007/IJARBSS/v6-i11/2551

Abstract
The rapid growth of Malaysian economy after the independence has not diluted the concentrated ownership among Malaysian companies. However concentrated ownership of share had changed dramatically from foreign investors to Malaysian residents. Malaysia capital market is characterized by high concentration of ownership. This situation heightened by a relatively small, undeveloped and illiquid capital market. This study provides contribution and uniqueness to the literature since it is focus on the developing economy. Malaysia economic is a unique setting since the implementation of the NEP showed dramatically changes in equity ownership among Malaysian companies. The government policies stimulate and enhance the equity changes in this country. The study has a very important implication to Malaysian economic since it provides an appraisal of the delivery mechanism adopted by the government to redistribute wealth equitably.
Keywords: Government Policy, Equity Ownership, Malaysia

Introduction

The Malaysian economy has undergone considerable structural change since independence. The primary sectors of agriculture and mining dominated the economy in the late 1970s. The industrialization has transformed the economic structure. The manufacturing became the leading contributor to GDP in 1984 and from 1988 until 2009. As many other East Asian countries, Malaysian listed companies are typically characterized by concentrated shareholding dominated by family and other significant participation of owners in management (Liew, 2007). Evidence provided by La Porta et al. (1998) and Cleassens et al. (2002) regarding the degree of concentrated ownership in Malaysia, where the average share of common equity owned by the largest three shareholders in the ten largest companies is 54 per cent compared to UK and US which are 19 per cent and 20 per cent respectively. Study by Rahayu and Rashidah (2005) on the sample of 100 companies with concentrated ownership revealed that share held by block holders in each company are 55.84 per cent. This is based on the 5 per cent cut off level on market capitalization. The highest concentrated ownership accounted was 89 percent and the minimum concentrated ownership was 5.90 percent. These finding reflects that the ownership are highly concentrated among Malaysian Corporations.

In addition, most of the large shareholders often have cross holdings and pyramid structure where controlling shareholders have the voting right over the cash flow right (La Porta et. al 1999). Pyramid group refers to situation which the shareholders through a chain of control have a voting right in many companies (Rashidah 2006). Most of the companies in Malaysia also hold shares in other companies as part of cross holding or business group. It provides opportunities for controlling shareholders to maximize their private benefit of control and expropriate minority shareholders' wealth. The expropriation problem by controlling owners might be more severe in the firm where the controlling owners are also in the management team (Wiwattanakantang 2001).

Corporate Ownership Structure in Malaysia

The assessment of equity ownership in Malaysia will have to start with the National Economic Policy (NEP). Figure 1.1 shows that there has been progress in the accumulation of shared capital by bumiputra[1] where their ownership has increased from about 1.6 per cent in 1960 to 19.1 per cent in 2004. The Chinese increased their share from 22.8 per cent in 1960 to 40.9 per cent in 2004. However, the foreign residents have seen their share reduced to 28 per cent in 2004 compared to 62.1 per cent in 1960. All these have been hotly disputed, especially by the other Malaysians, with the argument that the statistics are incorrect and unfairly against the other Malaysians.

Figure 1.1: Ownership of share Capital (percentage)

	1960	1970	1980	1990	2000	2010
Bumiputra Individuals and Trust Agencies	1.5	2.4	12.5	19.2	19.1	19.1
Chinese	22.8	27.2	n.a	45.5	37.9	40.2
Indians	0.9	1.1	n.a	1.0	1.5	1.5
Others	-	-	-	-	0.9	0.8
Nominee Companies	2.1	6.0	n.a	8.5	7.9	9.2
Locally controlled firms	10.1	n.a	n.a	0.3	n.a	n.a
Foreigners	62.1	63.4	42.9	25.4	32.7	28.8

Sources: Seventh Malaysia Plan, 1996-2000; Eighth Malaysia Plan, 2001-2005; Nine Malaysia Plan 2006-2010.

The statistics reveals the evidence of the development of Malaysian equity market which was heavily influenced by the NEP. Meanwhile, the Industrial Coordination Act (ICA) 1975 has liberalised the NEP to be more accommodative towards non-Bumiputra and foreign business communities (Heng, 1997). The NEP has entrenched government intervention in the corporate sector. As a result, politics and business became intertwined in Malaysia economic.

[1]Bumiputra means son of soil', which consist of the Malays and indigenous people, while the Chinese and Indians are group as non-bumiputra (Torii, 1997).

According to Jomo (1995) The Malaysia market was dominated by large trust funds such as the Permodalan Nasional Berhad (PNB) and Employees Provident Fund (EPF). The rapid growth of Malaysia's economy after the independence has not diluted the concentrated ownership among Malaysian companies. However, concentrated ownership of share had changed dramatically from foreign investors to Malaysian residents. Lim (1981) found the ownership of share among the 100 largest companies in the 1960s was highly concentrated.

This is consistent with Hanifa&Hudaib (2006) which stated that Malaysia capital market is characterized by high concentration of ownership. Most of companies are managed and owned principally by founding family. Hanifa&Hudaib, (2006) added that the mean of shareholding of the single largest shareholders and five largest shareholders of companies are 31 percent and 62 per cent respectively. In this environment the separation of ownership and control is not very clear. The majority of owner still retain the control of their company even though the companies are listed, which implies that the ownership rights and management control are centred in the hand of a small circle family members and trusted associates. This situation is sometimes heightened by a relatively small, undeveloped, and illiquid capital market which provides no discipline and control of management through the market for corporate control. As has been argued by Hanifa & Hudaib (2006), the Malaysia stock market is not strong and does not have effective self regulation institutions. Similarly, the government oversight in the market is not that strong.

This situation creates a series of agency problems, such as ineffective corporate governance that directly results in reducing the company performance and lack of demand for independent auditing to supply quality of financial information (DeFond et al. 2000; Wang et al. 2005). Bushman, Piotroski and Smith (2004) stated that company with higher government ownership are associated with lower level of financial transparency. Malaysia is one of the countries that had a high level of government intervention in the market. It is interesting to examine the impact of government ownership on business performance.

Changes of corporate ownership distribution in Malaysia

Since the colonialism era, the ownership and control of corporate had been largely in foreign hands. The Malaysia government introduced NEP to remedy the economic ownership ratio which 2.4:34.3:63.4 for Bumiputra, other Malaysians and foreigners respectively in 1970 to a more equitable distribution rate of 30:40:30 by 1990. Through these delivery mechanisms, government statistics indicate that equity held by Bumiputra individuals and government-linked agencies increased from 2.4 per cent in 1970 to its peak of 20.6 per cent in 1995, before falling to 18.7 per cent in 2004. Chinese equity ownership continued to raise during the NEP decades, from 27.2 per cent in 1970 to 45.5 per cent in 1990 and declined to 40.9 per cent in 2004. The most significant changes in corporate ownership patterns was the appreciable decline in foreign ownership of Malaysian corporate equity from 63.4 per cent in 1970 to a low of 25.4 per cent in 1990, though it increased appreciably to 32.7 per cent in 1999 and in the year 2004, the figure fell back to 28.8 per cent. During the period of 34 year (1970-2004) equity ownership among Malaysian corporation has dramatically changed**.**

Bumiputras Equity Ownership

The restructuring objective of the NEP was designed to get rid of excessive foreign control of ownership in Malaysian corporation. Simultaneously, it attempted to rectify the popular perception of the Chinese domination in corporate ownership. It was determined that the Malay community should increased their share of corporate to 30 percent by 1990 in compared to 40 per cent for other Malaysians and 30 per cent for non-residents. The Malaysia government setup the NEP after the riot in May 1969. However, the NEP objective of 30 per cent Bumiputra equity has not been achieved. Bumiputra stake has increased significantly from a mere 2.4 per cent in 1970 to 19.2 per cent in 1990. Accordingly, the 1991-2000 National Development Policy (NDP), which replace the NEP, has adopted a more pragmatic approach. However, it failed to increase the Bumiputra ownership which remains to 20. 6 per cent in 1995 and reduce to 18.7 per cent in 2004. Some authors critic that the NEP has caused bumiputra seek protection behind the quota walls and develop a “get-rich quickly” mentality.

Government Link Company (GLC) Transformation Program

The Government Link Company (GLC) Transformation Program was launched for the first time in May 2004. It is part of an ongoing effort by the Malaysia Government to drive the development and grow the economy. The launching involved the introduction of the Key Performance Indicators (K.P.I), board composition initiatives, the revamp of Khazanah Nasional Bhd, as well as the changes in the management of a number of GLC’s. There are three (3) key principles of the GLC transformation program. Firstly, this program is part of the larger national development strategies. Secondly, the program focuses on enhancing the performance of GLC. Thirdly, this program takes full cognizance of matters relating to governance, shareholder value and stakeholder management. This is a comprehensive effort in order to enhance the corporate performance especially for the company that related with government ownership. Since the Malaysia government has significant ownership in Malaysia corporations through its GLC, this program is expected to contribute significant effect toward the performance of the companies in Malaysia.

To sustain the momentum created by the launching of initial measures, the Putrajaya Committee on GLC High Performance (PCG) was formed in January 2005 to follow through and catalyze the GLC Transformation Program. PCG was chaired by the Second Finance Minister, with participation from the heads of the Government-Linked Investment Companies (G.L.I.C.’s) namely KhazanahNasionalBhd (KNB), PermodalanNasionalBhd (PNB), Employees Provident Fund (EPF), LembagaTabungAmanahTentera (LTAT) and LembagaUrusanTabung Haji (LUTH) as well as representatives from the Ministry of Finance (MOF) and the Prime Minister’s Department to work together to monitor the developments and to recommend further measures of improvements.

Due to the absence of a liquid capital market in emerging economies, a corporation might find alternative sources for its financing needs. Affiliation with other companies within the group might be a potential way to resolve the problems (Claessens, Djankov&Klapper 2000; Joh 2003). Business groups to which a company belongs to and the group’s banking affiliation could be seen as an internal capital market in providing financing need (Leff 1978). Malaysia corporate sector is characterized by the existence of politically connected corporation (Gul 2006), and most of previous authors agreed that a major factor that contribute to the Malaysian Government involvement in the corporate sectors is the government's new economic policy (NEP) launched in the late 1969. The intervention of Malaysia government in corporation through government Link Company (GLC), politically connected company and their affiliation group play an important role in Malaysia economic. As a result, the market will offer lower financing cost (Banerjee, Leleux&Vermaelen 1997) for this companies and easy access to capital sources hence it might increase the corporate performance. Therefore, GLCs and politically connected companies are supposed have better performances compared to non-GLCs and non-political connected companies. This provide a unique setting to test the agency theory in order to explain the relationship between ownership structure and company performance when government and politic together influent the economy.

Specifically in the Malaysia context, the transformation of Government-Linked Companies (GLCs) into high-performing entities is critical for the future prosperity of Malaysia. To facilitate this transformation, the Putrajaya Committee on GLC High Performance (PCG) was set up in January 2005. Its principal mandate is to design and implement comprehensive national policies and guidelines to transform GLCs into high performing entities and establish the institutional framework to program-manage and subsequently to oversee the execution of these policies and guidelines. However, there are no initiatives to evaluate the effectiveness of this effort by comparing different types of ownership structure and company performance among Malaysia corporations. This is very important since GLC represent 53 per cent of Malaysian listed company and 89 per cent of Kuala Lumpur Composite index in 2005[2]. The GLC transformation program and the establishment of PCG factors provide a unique setting to examine the interplay and the effect of macroeconomic changes.

The Development of Malaysia Capital Market

The Malaysian capital market is huge with a total capitalization at RM553 billion or 185% of GDP as at December 1999. Although the growth was rapid as can be observed from the number of companies listed in the Bursa Malaysia (See Table 2), the market is still under developed because it is mainly made-up of the financial and banking institutions (Bank Negara Malaysia Annual Reports, 2000). As such, the equity investors' rights and protections are immature. In view of this, the Securities Commission (SC) initiated the Capital Market Master Plan (CMP) in 2001 to chart the strategic positioning and future directions of the Malaysian capital market for the next ten years (Securities Commission, 2001).[3] The visions outlined by the CMP are the efficient mobilization and allocation of funds together with high degree of confidence to market participants. Its formulation was driven by the need to provide market participants with clear guidance as to the vision and objectives for the enhancement of the Malaysian Capital Market (Abdul Samad, 2004).

[2]GLC Transformation programme progress review 2008

[3] The CMP was initially announced by the Second Finance Minister and Chairman of Securities Commission in August 6, 1999 and subsequently approved by the Minister of Finance in December 2000 before it's launching in February 2001.

Table 2: Number of Companies in Bursa Malaysia 1973-2010

YEAR	MAIN BOARD		ACE MARKET	TOTAL
2010	844		113	957
2009	844		116	960
	MAIN BOARD	**SECOND BOARD**	**MESDAQ MARKET**	**TOTAL**
2008	634	221	122	977
2007	636	227	124	987
2006	649	250	128	1027
2005	646	268	107	1021
2004	622	278	63	963
2003	598	276	32	906
2002	562	294	12	868
2001	520	292		812
2000	498	297		795
1999	474	283		757
1998	454	282		736
1997	444	264		708
1996	413	208		621
1995	369	160		529
1994	347	131		478
1993	329	84		413
1992	317	52		369
1991	292	32		324
1990	271	14		285
1989	305	2		307
1988	295			295
1087	291			291
1986	288			288
1985	284			284
1984	282			282
1983	271			271
1982	261			261
1981	253			253
1980	250			250
1979	253			253
1978	253			253
1977	256			256
1976	264			264
1975	268			268
1974	264			264
1973	262			262

Source: Bursa Malaysia Berhad (2012)

Specifically in Malaysia context, the transformation of Government-Linked Companies (GLCs) into high-performing entities is critical for the future prosperity of Malaysia. To facilitate this transformation, the Putrajaya Committee on GLC High Performance (PCG) was set up in January 2005. Its principal mandate is to design and implement comprehensive national policies and guidelines to transform GLCs into high performing entities and establish the institutional framework to program-manage and subsequently to oversee the execution of these policies and guidelines. However, there are no initiatives to evaluate the effectiveness of this effort by comparing different types of ownership structure and company performance among Malaysia corporations. This is very important since GLC represent 53 per cent of Malaysian listed company and 89 per cent of Kuala Lumpur Composite index. The GLC transformation program and the establishment of PCG factors provide a unique setting to examine the interplay and the effect of macroeconomic changes.

Conclusion

The development of Malaysian corporate sector is closely linked to government policy in developing private sector as a tool to restructure the society especially corporate participation and ownership (Liew, 2007). The Malaysian government introduced the New Economic Policy (NEP) in 1971 that dramatically changed the ownership and control from foreigners to the government in many Malaysian companies. The objective of the policy is to balance the equity ownership in the country. This policy has entrenched the government intervention in the corporate sector. The Malaysian government becomes large equity holders as a result of listing former government-owned corporations due to privatization in 1983 (Sun & Tong, 2002). There has been an overwhelming government management of economy and society when the Malaysian government own and hold the equity in companies (Azham, 2002). Most of the Malaysian public listed companies are controlled or associated with the government. Therefore, these companies will be monitored closely and supported by the government. As an elected body, the government is expected to care for the community concerns.

Corresponding Author

Mohd Abdullah Jusoh
Faculty of Management and Economics,
Universiti Pendidikan Sultan Idris, Tanjong Malim, Perak.
mohd.abdullah@fpe.edu.my

References

Abdul Samad, F. (2004). Corporate governance and ownership structure in the Malaysian corporate sector. *Advances in Financial Economies*, *9*, 355-385.

Azham, M. A. (2002, October). *Ethnicity, foreign investments and strong pragmatic government: Towards interpreting accounting progress in Malaysia*. Paper presented at the Conference on Financial Reporting: Issues in the 21st Century, Universiti Teknologi MARA, Shah Alam.

Banerjee, S., Leleux, B., & Vermaelen, T. (1997). Large shareholdings and corporate control: An analysis of stake purchases by French holding companies, *European Financial Management,3*(1), 23-43.

Bank Negara Malaysia. (2001). *Annual Report*. Kuala Lumpur: BNM.

Bushman, R., & Piotroski, J. (2006). Financial reporting incentives for conservative accounting: the influence of legal and political institutions. *Journal of Accounting and Economics*, *42*(3), 107-148.

Claessens, S., Djankov, S., & Lang, L. (2002). The separation of ownership and control in East Asian corporations. *Journal of Financial Economics, 58*(1-2), 81-112.

DeFond, M., Francis, J., & Wong, T. J. (2000). Auditor industry specialization and market segmentation: Evidence from Hong Kong. *Auditing: A Journal of Practice and Theory*, *19*, 49-66.

Gul, F. A. (2006). Auditors' response to political connections and cronyism in Malaysia. *Journal of Accounting Research,44*(5), 931-963.

Haniffa, R., & Hudaib, M. (2006). Corporate governance structure and performance of Malaysian listed companies. *Journal of Business Finance and Accounting*, *33*(7-8), 1-29.

Heng, P. K. (1997). The new economic policy and the Chinese community in Peninsular Malaysia*. The Developing Economies, 35*(3), 262-292.

Jomo, K. S. (1995). *Privatizing Malaysia: Rents, rhetoric, realities*. Boulder: Westview Press.

La Porta, R., Lopez-de-Silanes, F., Shleiffer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy*, *106*(6), 1113-1155.

La Porta, R., Lopez-de-Silanes, F., & Shleiffer, A. (1999). Corporate ownership around the world. *Journal of Finance*, *54*(2), 471-517.

Leff, N. (1978). Industrial organization and entrepreneurship in the developing countries: The economic groups. *Economic Development and Cultural Change,26*(4), 661-675.

Liew, P. K. (2007). Corporate governance reforms in Malaysia: The key leading players' perspective. *Corporate Governance: An International Review,15*(5), 724-740.

Lim, M. H. (1981). *Ownership and control of the one hundred largest corporations in Malaysia*. Kuala Lumpur: Oxford University Press.

Rahayu, M. S., & Rashidah, A. R. (2005). Ownership of the firm and corporate value. (Working paper). Faculty of Accountancy, University Technology MARA, Shah Alam.

Rashidah, A. R. (2006). Effective corporate governance. Shah Alam: University Publication Centre (UPENA), Universiti Teknologi MARA.

Securities Commission. (2001). *Capital market masterplan*. Kuala Lumpur: Securities Commission.

Sun, Q., & Tong, W. H. S. (2002). Malaysia privatization: A comprehensive study. *Financial Management*, *31*(4), 79-105.

Tam O. K., & Tan, M. G. (2007). Ownership, governance and firm performance in Malaysia. *Corporate Governance: An International Review,15*(2), 208-222.

Wang, Q, T., Wild, J. J., and & Wild, K. (2005, June 30–July 1). *State ownership, institutional environment and audit choice: Evidence from China*. Paper presented at The International Symposium on Auditing Research (ISAR), Nanyang Technological University, Singapore.

Wiwattanakantang, Y. (2001). Controlling shareholders and corporate governance value: Evidence from Thailand. *Pacific Basin Finance Journal, 9*(4), 323-326.