

FAMILY OWNERSHIP, ETHNIC COMPOSITION AND FINANCIAL METRICS: EVIDENCE OF MALAYSIAN LISTED FIRMS

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ABSTRACT

Asian corporate structures are characterized by concentrated ownership, with extensive family ownership and dominance by controlling shareholders. In Malaysia, this phenomenon is primarily shaped by two major ethnic groups, the Chinese and the Malays. This study examines the Malaysian corporate landscape by analyzing ownership concentration and ethnic composition among listed firms in 2021. A total of 727 companies were selected, categorized into family owned and non-family owned firms, with further segmentation by Chinese and Bumiputera ownership. Using descriptive statistics, this paper also evaluates some financial metrics to identify patterns and disparities across these groups. The findings contribute to a deeper understanding of corporate governance, financial performance, and the potential influence of ownership and ethnicity in Malaysia's business environment. They offer insights into how family ownership and ethnic identity shape corporate strategies and economic outcomes.

Keywords: Family Firms, Ethnicity, Bumiputera

INTRODUCTION

Prior studies have grouped corporate ownership structures into two categories namely widely held and closely held firms. A major distinction between these two types of firms is that a widely held firm does not have any owners with substantial control rights. Meanwhile, a closely held firm is identified when its shares are owned by identifiable and cohesive groups of insiders [2], that form the ultimate control [1]. These shareholders generally have long-lasting stable relationships with the company, and they are typically members of the company's founding families. Majority of shares in firms with concentrated ownership specifically family firms, are owned by identifiable and cohesive groups of insiders who have longer term and stable relationships with the firms.

It is well documented in the literature that families are the most significant type of firms with concentrated ownerships that shape a pattern of ultimate owners [1]. Corporate ownership structures in the UK and US are more diffused as compared to ownerships and control in Malaysian public corporations which are more concentrated and family dominant [2]. In Malaysia, family firms constitute for more than two-third of the total firms while the remaining is generally held by state or institutional investors or else categorized as widely held corporations [3].

Literature on family business suggests that the reciprocal nature of family and business in family firms motivates distinctiveness of family firms [11]. The reciprocal nature of economic and non-economic value created through the combination of family and business systems within a family. It is believed that the distinctive attributes, such as strong family ties, undiversified family holdings, and strong desire to pass the firm onto subsequent successors and higher concerns to retain family reputation are likely to provide substantially different incentive structures. These factors, along with stronger concern for maintaining the family reputation is likely to influence key financial attributes at least with regards to leverage, profitability and growth.

Businesses with strong family ties, undiversified family holdings, and a deep commitment to preserving their legacy tend to have distinct incentive structures. Malaysia's corporate ownership structure is distinct because it is shaped by two major ethnic groups, Bumiputera and non-Bumiputera. Evidence suggests that while non-Bumiputera businesses hold a dominant share of ownership and control, they receive comparatively less financial support from the government and its financial institutions. Research by [7] highlights the close ties between the government and businesses, where political affiliations influence the distribution of subsidies and financial assistance. [5] provide empirical evidence that link political patronage to corporate leverage, reinforcing the role of relationship-based capitalism in Malaysia. [8] refer ethnically-favoured firms are Bumiputera controlled firms which refers to Malays and other indigenous people. These people are also known as "son of the soil". Similarly, [8] reveal that the financial crisis led to unexpected shifts in investment opportunities and a significant reduction in subsidies for politically connected firms. Given these dynamics, Malaysia's corporate landscape offers a unique setting for examining the relationship between corporate ownership, ethnicity and various financial attributes, along with potential disparities between these groups.

METHODOLOGY

The sample comprises the Bursa Malaysia non-financial and non-government linked public listed companies whose annual reports are available in 2021. Financial and corporate data are obtained from Bloomberg's database and annual report of the companies. There are 919 companies listed at Bursa Malaysia as at 31 December 2021. Out of that total, 790 companies were listed on the Main Market and the remaining of 129 companies are listed on the ACE market. Due to unavailability of latest annual reports, 60 companies are excluded from the total companies listed. The study also excludes 132 firms out of which 43 firms are finance-related companies and 89 companies are government-linked. The final sample consists of 727 firms. Table 1 summarizes the sample selection procedure employed in this study.

Table 1. Sample selection procedure

Number of firms	Total
Total number of firms listed at Bursa Malaysia in 2021	919
Total numbers of firms without latest annual report	<u>60</u>
	859
Less: Finance companies	43
Government linked companies	<u>89</u>
Total number of companies in the sample	<u>727</u>

This study employs a cross-sectional analysis of all firms under eight different industries as classified by the Bursa Malaysia. The process of identifying a family firm is guided by family firm definition used by [4]. Following [2], this study categorizes a firm as a family firm if the largest shareholder is a family, an individual or an unlisted entity with a minimum control threshold of 20 percent. The percentage of family shareholding in a firm is used to set a dichotomous variable in which a family firm is coded as 1, 0 if otherwise. The definition of family firm used by [4] is more appropriate with the nature of public firm ownerships in Malaysia because the data in this study indicates that substantial percentage of equity holdings of public listed firm are held by private firms. The ultimate owners of the unlisted firms can be identified from the information disclosed in the annual reports.

Following [12], the element of ethnicity is determined by examining the names of directors. If the names are of Chinese origin, for example, having surnames of Tan, Chong, or Lee, the criterion is satisfied, that is the director is Chinese. Similar method is also used to identify Bumiputera directors or Malay names. The ethnicity variable is measured using a dichotomous variable set as 1 if a board of directors is predominantly Bumiputeras, 0 if otherwise. Alternatively, the percentage of Bumiputera directors on boards also can be used to proxy for firm ethnicity.

DATA ANALYSIS AND FINDINGS

Table 2 provides descriptive statistics for the variables used in the study. Panel A reports results for continuous variables and Panel B presents those for dichotomous variables. As shown in Panel B of Table 2, there are 491 family-controlled firms which count about 68 percent of the total sample firms. The percentage of total firms with family ownership in this study is lower than that previously reported by [2] and [3], in which these studies document 78.5 percent and 76 percent of their sample firms are owned by families respectively. Although the percentage is lower, it nonetheless confirms the findings of those prior studies which indicate that the majority of firms in Malaysia is predominantly owned and controlled by families.

Table 2 (Panel B) shows that Bumiputera controls only 22 percent of the total firms (160 firms of the total of 727 firms) and 17 percent of the total family firms (85 firms of the total 491 family-controlled firms). This distribution is slightly lower than that reported by [12] where Bumiputera controls approximately 28 percent of their total sample. This difference is likely due to an employment of data set in a different time frame, possibly resulting in a change of firms' ownership during that period. These figures reflect that businesses in Malaysia are dominantly owned by non-Bumiputeras and they are mostly consisting of Chinese [8].

Panel A also shows that the sample firms encompass a wide range of firms' age ranging from the youngest to the oldest of 2 and 103 years old respectively. The average age of family firms is 21 years old, whereas the average age of the firms in the total sample is 23.3 years. Average age of non-family firms, however, considerably longer, almost 28 years. With respect to firm size, the sample firms also cover a wide range of firms, some moderately

small and some relatively large, ranging from RM2.17 million to RM45.414 billion of total assets. Similar patterns of firm size also appear to be true family-controlled firms. With respect to tangibility, the study finds that, on average, tangibility for all firms and family-controlled firms are somewhat similar at about 51 percent and the rate is about 2.5 percent higher for non-family firms. The proportion of tangible assets to total assets is higher in this study compared to that reported by [5] which is 22.34 percent.

Bank-related debt is about one-third of total debts (34 percent) employed by Malaysian firms while debt market instruments such as bond, notes, and debentures are less preferred in Malaysia with only 7.4 percent of this type of debt issued by the sample firms. Debt market instruments employed by family firms are 1.5 percent higher than those in non-family firms. The finding of this study supports the assertion that due to lack of a viable secondary debt market, most Malaysian firms seek their financing needs from financial institutions [5]. Finally, it appears that Malaysian firms prefer to borrow short term rather than issue long-term debts as evidenced by 70 percent of total debts are short-term debts.

On average, family-controlled firms employ slightly less debt in their capital structure (38.9 percent) relative to all firms and non-family firms (39.6 percent) and (40.9 percent) respectively. This finding is consistent with those reported by [9], who respectively document that family firms in the US and Western Europe countries are less levered. One of possible reasons that family firms are less levered is because the managers cum owners of these firms are more risk-averse since debt increases the probability of bankruptcy [10]. Moreover, in the event of bankruptcy proceedings, firms are more likely to be forced to change management and control and this will adversely affect the personal wealth of the managers/owners and human capital tied to the firm [6].

The univariate analysis in Panel A of Table 2 indicates that the mean sales growth for family firms is almost similar to that of all firms, with both showing negative sales growth of -3.0 percent and -3.6 percent, respectively. The sales growth for non-family firms is slightly lower, with a negative mean of -4.7 percent. This negative growth may be attributed to the economic slowdown caused by the COVID-19 pandemic, as the data was collected for the year 2021, a period marked by significant disruptions in business operations and declining consumer demand. The pandemic likely led to reduced sales, supply chain constraints, and overall financial uncertainty, contributing to the observed negative growth across firms.

Return on assets (ROA) of family firms range from -44 percent to 54 percent with a mean of 4.8 percent. It also indicates that the mean of return on assets (ROA) for family firms is higher than that in non-family firms approximately by 1.6 percent.

Table 2 : Descriptive statistics for full samples and subsamples

Panel A	All firms (727 firms)					Family firms (491 firms)					Non- Family firms (236 firms)				
Continuous Variables															
	Min.	Max.	Mean	Median	Std.Dev	Min.	Max.	Mean	Median	Std.Dev	Min.	Max.	Mean	Median	Std.Dev
Firm Age	2.00	103.00	23.28	17.00	17.33	2.00	96.00	21.01	16.00	15.79	3.00	103.00	27.99	24.00	19.37
Firm Size(RM)	2.17 Mil.	45.41 bil.	765.52 mil.	236.72 mil.	2.52 bil.	5.32 mil.	45.41 bil.	663.80 mil.	204.47 mil.	2.45 bil.	2.17 mil.	34.69 bil.	949.43 mil.	323.70 mil.	2.66 bil.
Firm Size	14.59	24.54	19.36	19.28	1.40	15.49	24.54	19.24	19.14	1.39	14.59	24.27	19.60	19.59	1.41
Tangibility	0.000	0.994	0.517	0.524	0.206	0.001	0.994	0.508	0.514	0.205	0.000	0.986	0.535	0.541	0.208
Bank Debt	0.000	0.955	0.342	0.304	0.294	0.000	0.955	0.339	0.312	0.291	0.000	0.949	0.350	0.302	0.302
Market Debt	0.000	0.926	0.074	0.000	0.175	0.000	0.926	0.079	0.000	0.182	0.000	0.756	0.064	0.000	0.159
S-Term debt	0.000	1.000	0.707	0.765	0.243	0.000	1.000	0.722	0.777	0.237	0.000	1.000	0.677	0.716	0.253
Leverage	0.000	1.281	0.396	0.371	0.221	0.000	1.281	0.389	0.371	0.218	0.000	1.157	0.409	0.371	0.228
Growth	-1.000	1.738	-0.036	-0.058	0.352	-1.000	1.738	-0.031	-0.059	0.346	-0.946	1.654	-0.047	-0.057	0.364
Profit ROA)	-0.488	0.716	0.043	0.048	0.105	-0.44	0.540	0.048	0.051	0.095	-0.487	0.716	0.032	0.041	0.122
Panel B (Dichotomous Variables)					Yes			%			No			%	
Family-controlled firms from total sample firms					491			67.5			236			32.5	
Bumiputera-controlled firms from total sample firms					160			22			567			78	
Bumiputera-family controlled firms from total family firms					85			17.31			406			82.69	

Notes: Firm age represented by numbers of incorporated years at the end of year 2021; Firm size measured as a natural log of total assets; Tangibility of the assets measured as fraction of fixed assets to total assets; Bank debt is a fraction of bank loan to total debt; Market debt is a fraction of market loan (i.e bonds) to total debt; S-Term Debt is the ratio of total current liabilities to total liabilities; Leverage is the ratio of total book value of liabilities to total assets; Sales growth measured as the proportion of increase or decrease of turnover between the current year and the preceding year; Return on assets (ROA) is a proxy of profitability, measured as profit before interest and taxes to total assets. Family- controlled firm is a dummy variable that equals one if the controlling shareholder is a family or an unlisted firm and zero otherwise; Bumiputera is a dummy variable assigned equals to one if a firm's board of directors is predominantly Bumiputera directors, zero if otherwise.

SUMMARY AND CONCLUSION

This study investigates the distinctive ownership patterns of Malaysian public listed firms, characterized by concentrated shareholding and strong family involvement in corporate control. Drawing on agency theory, it argues that family-owned structures may align managerial and shareholder interests, potentially mitigating agency problems. The presence of ethnically concentrated ownership and board compositions further motivates an exploration of how both family ownership and ethnicity influence firm-level financial outcomes.

While the findings instinctively reflex those of prior research conducted in developed economies, this study contributes a novel perspective by contextualizing these relationships within a Malaysian setting. The limited exploration of ethnicity as a financial determinant in existing literature underscores the significance of these results. Ultimately, this study broadens the applicability of established financial theories and enriches our understanding of ownership dynamics in emerging markets. Importantly, this research is a preliminary attempt to examine the complex interplay between concentrated ownership and ethnicity in shaping financial outcomes. It serves as a foundation for more rigorous future investigations and invites scholars to further explore these structural factors as key determinants in corporate finance, governance, and performance, particularly in developing economies with diverse socio-economic landscapes.

The findings of this study not only contribute to the growing body of literature on corporate governance and financial outcomes but also carry meaningful policy implications. The insights offered may be particularly valuable to regulators, capital providers, prospective investors, and the broader public in understanding the distinct financial characteristics of family versus non-family firms within developing economies such as Malaysia. For instance, regulatory authorities may consider enhancing the institutional framework by implementing mechanisms that safeguard minority shareholders from potential expropriation in family-controlled enterprises. One such mechanism could involve requiring more rigorous disclosure practices for transactions that may disproportionately benefit controlling families. Given the prevalence of concentrated ownership by family block holders in Malaysia, it is often financially burdensome for smaller investors to assert their control or claim equitable cash flow rights. This study underscores the need for more robust investor protections and opens the door for further empirical investigation into the nuanced effects of ownership structure and ethnicity on financial governance in emerging markets.

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