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Ownership Structure and Firms' Performance: Evidence from Finance Sector in Malaysia

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Abstract

Corporate governance is an internal control system that is essential for sustainable growth and continuous improvements to cater the needs of all parties involved, including investors, employees, customers and shareholders. The study of significance of ownership structure to the firms' performance in Malaysia is not done extensively in Malaysia. This study gives a better understanding on the issue to strengthen such structures. The corporate governance have been used to address the issue of ownership structure. It is stated that corporate governance can reduce the conflict of interest among shareholder and management. This paper examines the relationship between ownership structure variables and firms' performance using a sample of 14 firms that listed in Bursa Malaysia in finance sector from 2010 to 2014. Firms' performance is measured using return on assets (ROA) while managerial ownership (MO) and foreign ownership (FO) represents ownership structure variables. The results from random effects model reveal that the variables are insignificant but they have the positive relationship. From these findings, it revealed that managerial ownership has a positive impact on performance supported by numerous research that had been done.

Keywords: Corporate Governance, Managerial Ownership, Foreign Ownership, Return on Assets.

Introduction

Corporate governance gives a structure of control systems that help the organization in accomplishing its objectives, while avoiding undesirable conflicts. The pillars of corporate governance consist of ethical behavior, accountability, transparency, and sustainability are essential to the corporate governance. Organization that grasp these standards are bound to deliver long term value than those that are lacking in one or all. Corporate governance is not only concern with the investor interest but requires adjusting the needs of managements. In addition, the Malaysian Code on Corporate Governance (MCCG) presented in 2000 has been a significant tool for corporate governance reform and has impacted corporate governance practices of companies positively. The MCCG reflects global principles and internationally recognized practices of corporate governance which are above and beyond the minimum required by statute, regulations or those prescribed by