UNIVERSITI PUTRA MALAYSIA

OWNERSHIP STRUCTURES, OPERATING PERFORMANCE AND PRODUCTIVITY IN INDONESIA AND MALAYSIA

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By

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Thesis Submitted to the Graduate School of Management, Universiti Putra Malaysia, in Fulfilment of the Requirements for the Degree of Doctor of Philosophy

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DEDICATION

THIS WORK IS DEDICATED

TO

MY WIFE (YULIAN HASNUR),

MY LOVELY DAUGHTERS (SYIFA, SELENA, SABRINA),

MY LATE FATHER & MY MOTHER AND MY PARENTS IN LAW

WHO ENCOURAGED ME TO FULFILL MY DREAMS,

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirements for the degree of Doctor of Philosophy

OWNERSHIP STRUCTURES, OPERATING PERFORMANCE, AND PRODUCTIVITY IN INDONESIA AND MALAYSIA

By

CITRA SUKMADILAGA

OCTOBER 2013

Chairman : Professor Shamsher Mohamad, PhD

Faculty : Graduate School of Management, UPM

The relationship between ownership concentration and company performance has been an issue of interest among academics, investors, and policy makers because of the key issue is in understanding the effectiveness of family and state ownership that serves as a control mechanism. This study focused on analyzing two types of ownership adopted from Claessens, et al. (1999), namely family and state owned enterprises. It examined the impact of family and state ownership on firm performance in selected emerging market. In a more specific manner, this study attempted to address the following question*: Do different ownership structures lead to different performance?*

To date, there are a few studies on the economic and financial performance of firms associated with family owned (FOEs) and state owned enterprises (SOEs) in Indonesia and Malaysia. Understanding the firms' performance will help the state

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and stockholders to draft policies in order to overcome weaknesses and ensure that the market and stockholders investments are protected. Agency problems tend to arise in many ways that can be a cause in wealth of shareholders and/ or bondholders since this affects firm's performance. So far, there are still many inconclusive findings about whether family and state ownership give positive or negative impact on firm's performance.

This study employed Malmquist Productivity Index as economic performance measurement while abnormal operating performance used as financial performance. Abnormal operating performance chosen because, according to Barber and Lyon (1996), it is calculated by using operating income despite of earning per share. Operating income has advantages compared to earnings in two aspects. First, since operating performance can be obscured by special items, tax considerations, or the accounting for minority interests, Barber and Lyon argued that operating income is a cleaner measurement than earnings of the productivity of operating assets. Second, researchers often study corporate events that result in changes in capital structure. Such changes affect interest expense and, consequently, earnings net of interest expense, but leave operating income unaffected (assuming that the capital structure changes do not affect the firm's operation).

Meanwhile in terms of productivity, according to Griffel, et al. (1996), the Malmquist index does not require the profit maximization or cost minimization assumption. This assumption is particularly relevant for SOEs, as most of the firms under state ownership do not necessarily follow the objective of profit maximization. Secondly, it is the preferred method when input and output price information are not

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available or could be distorted due to regulatory practices. Lastly, the use of non-parametric strength of DEA, which does not require a parametric functional form on the technology, can handle multiple input and output characteristics of various industries in which the sample firm operate.

This study used a sample that classified as family and state ownership that listed in Indonesia Stock Exchange and Bursa Malaysia. Furthermore, to define their performance, matched sample was needed which base on similar SIC Code and size of company. Period of study is from 1992 to 2007 and was divided into three sub-periods which is before Asian crisis (1992-1996), during Asian crisis (1997-2000), and after Asia crisis (2001-2007).

Technical efficiency study in Indonesia showed that SOE had better performance than FOE since SOE's performance increased more stably during research period. This result is parallel with productivity index research result where Indonesia's SOE exhibited higher productivity than FOE due to the SOE's significant productivity index enhancement. Moreover this study also revealed that FOE's productivity index increase came from new technology adoption while the increase of SOE's productivity index was resulted from efficiency change enhancement of several SOE samples.

Meanwhile Malaysia-based technical efficiency study demonstrated that FOEs samples had lower efficiency level than SOEs, which performed little enhancement. During crisis period, the Government supported this enhancement by giving some privileges to SOEs such as lower investment and export financing costs, as well as

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their preferences to the buying and selling. However the increase from both company types showed no significance statistically. According to productivity study in Malaysia, some FOEs samples during crisis period demonstrated productivity increase that might be caused by both early recovery from crisis effects and new technology adoption. SOEs samples performed constant enhancement due to the Malaysian government implementations of capital restructuration and fiscal initiative expansion to several SOEs. Therefore based on this study, both Malaysia's FOE and SOE were productive and statistically significant.

Indonesian Family-owned Enterprises had become more productive during three sub-periods. An observation found that there was a slight increase due to the additional sample companies in crisis period. With further analysis, this study found that the increase was caused not only by additional sample, but also by acquiring new technology for some companies that contributes to the increase of productivity index. When Indonesian State-owned Enterprises was analyzed, the finding revealed that State-owned Enterprises had improved significantly from time to time within the three sub-periods. In contrast with Family-owned Enterprises sample, State-owned Enterprise revealed that the increasing productivity index during crisis was resulted from the increase in efficiency changes from some sample companies, by increasing their market share and their sales.

With regards to productivity, Malaysian Family-owned Enterprises had slightly increased during three sub-periods. From further analyses, the increase during crisis was merely due to some additional samples of companies included in crisis periods. This action led to the increasing of productivity index. Further explanation could be

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derived from an observation from some of highest productivity index, such as White Horse Berhad and Latitude Tree Holding Berhad. Both of them had early recovery since Malaysian government released Government's Second Industrial Master Plan for the 1998 to 2006 period. In 1999, both companies boosted their research and development divisions to create new products with innovative designs. The increase of frontier shift contributed to the increase in productivity index. In closer look, for State-owned Enterprises, the finding revealed that State-owned Enterprises had improved from time to time within the three sub-periods. The productivity increase was due to capital restructuring and the expansionary fiscal initiatives implemented by the Malaysian Government for SOEs such as Tenaga Nasional Berhad and Time Engineering Berhad.

In terms of abnormal operating performance, the combination result between adjusted R^2 and non-parametric Wilcoxon test statistic revealed that Indonesia Family Owned Enterprises had model 1 (Level of industry performance with two digit SIC matched) as the most explanatory power in detecting abnormal operating performance. Meanwhile, the result for Indonesian State Owned Enterprises showed that model 6 (Lagged firm performance and change in industry performance with two-digit SIC and size matched) is the model with the most explanatory power that uses lagged firm performance and change in industry performance.

In analyzing sub-periods, Indonesian Family Owned Enterprises result showed positive number during pre-crisis, crisis, and post-crisis periods. These positive numbers reflected that Indonesian Family Owned Enterprises sample were outperformed if compared to average mean of their industry. However, the mean

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showed a declining trend due to the companies' slow recovery from the crisis, particularly companies that run property industry. Meanwhile with Indonesian State Owned Enterprises sample, model 6 showed positive number for pre-crisis and crisis periods, but in post-crisis, model 6 gave negative number. Positive number means that sample firms showed abnormal operating performance and outperformed than their average industry. Moreover, negative value in post-crisis period came from two firms namely PT. Kimia Farma Tbk and PT. Indo Farma Tbk.

Summary for Malaysian abnormal operating performance, based on the adjusted R^2 and non-parametric Wilcoxon test statistic result revealed that Family Owned Enterprises had model 5 (Lagged firm performance and change in industry performance four digit SIC matched) as the most explanatory power in detecting abnormal operating performance. Finding from pre-crisis and post-crisis periods showed negative values. These results indicated that although Malaysian Family Owned Enterprises had abnormal operating performance, they still underperformed if compared to industry average especially industry with similar four-digit SIC code. As for the State Owned Enterprises, the result showed that model 3 (Level of industry performance with two-digit SIC and size matched) is the model with the most explanatory power level of industry performance. The result showed positive value during three sub-periods. The positive value indicated that Malaysian State Owned enterprises outperform their average industry.

Further observation in sub-periods, Malaysian Family Owned Enterprises result showed model 5 gave negative number during pre-crisis and post-crisis periods. These results gave implication that Malaysian Family Owned Enterprises had

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abnormal operating performance and underperform when compared to industry average especially industry with similar four-digit SIC code. The data revealed that most of sample firms which underperformed were companies that run property industry. Meanwhile, in crisis period model 5 gave positive figure which revealed that sample firms outperform. The reason behind this finding is due to several companies within the sample recovered early from crisis; hence these several companies contributed to increase of mean.

Sub-period analysis for Malaysian state Owned Enterprises showed that nothing special happened. The average means depict positive figure during three sub-periods. As expected before, calculation the average means during crisis declined, possibly because of the decreasing performance of the Malaysian State Owned Enterprises. However, overall performance of Malaysian State Owned Enterprises outperformed their industry.

This result of this study has implication as follows: 1) Family Owned Enterprises should think strategically how to compete with State Owned Enterprises especially if they are competing in similar industry. 2) For each type of ownership which have model that have influenced by changing in their internal company or changing within their industry, they should considering all factors that can impact their performance.

Keywords: Ownership Concentration, Family Ownership, State/ Government Ownership, Family Owned Enterprises, State/ Government Owned Enterprises, Malmquist Productivity Index, Abnormal Operating Performance.

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STRUKTUR KEPEMILIKAN, KINERJA OPERASI, DAN PRODUKTIVITI DI INDONESIA DAN MALAYSIA

By

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OKTOBER 2013

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Perhubungan di antara penumpuan pemilikan dan pencapaian syarikat telah menarik minat dikalangan ahli akademik, pelabur dan pelaksana polisi kerana ia merupakan isu utama dalam memahami keberkesanan kepemilikan keluarga dan kerajaan yang bertindak sebagai mekanisme pengawalan. Kajian ini memfokuskan pada dua analisa jenis kepemilikan daripada Claessens et al (1999), iaitu Syarikat Milik Keluarga dan Syarikat Milik Kerajaan. Oleh kerana demikian, kajian ini adalah untuk mengenalpasti kesan kepemilikan keluarga dan kerajaan terhadap pencapaian syarikat didalam pasaran berkembang yang terpilih. Dengan lebih tepat lagi, kajian ini lebih menekankan persoalan berikut : Apakah perbezaan struktur kepemilikan memandu kepada perbezaan pencapaian syarikat

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Pada masa ini, terdapat beberapa kajian berkaitan ekonomi dan pencapaian kewangan sesebuah syarikat yang dimiliki oleh keluarga dan kerajaan di Indonesia dan Malaysia. Memahami sesebuah pencapaian sesebuah syarikat akan membantu kerajaan dan pemegang saham untuk membangunkan polisi dalam menyelesaikan kelemahan dan memastikan pasaran dan pelaburan pemegang saham dilindungi. Permasalahan agensi cenderung muncul melalui pelbagai cara yang akan memberi kesan kepada kekayaan pemegang saham dan/atau pemegang bon dan ini selanjutnya akan memberikan kesan kepada pencapaian syarikat. Setakat ini, temuan dari pelbagai kajian mengenai syarikat milik keluarga dan kerajaan tidak menunjukkan sebarang kesimpulan bahwa kepemilikan keluarga ataupun kerajaan memberikan kesan positif atau negatif terhadap pencapaian syarikat.

Kajian ini akan menggunakan Indeks Produktiviti Malmquist sebagai pengukur pencapaian ekonomi sementara pencapaian operasi tidak normal digunakan sebagai pencapaian kewangan. Pencapaian operasi tidak normal dipilih kerana, merujuk kepada Barber dan Lyon (1996), ia dikira dengan menggunakan pendapatan operasi berbanding pendapatan untuk setiap saham. Pendapatan operasi mempunyai kelebihan berbanding kepada pendapatan dalam dua (2) aspek. Pertama, memandangkan pencapaian operasi boleh dikaburi melalui perkara tertentu, pertimbangan pajak, atau pengiraan feadah minoriti. Barber dan Lyon berpendapat bahawa pendapatan operasi adalah pengiraan yang jelas berbanding pendapatan melalui produktiviti asset operasi. Kedua, kebiasaan penyelidik mengkaji kejadian korporat yang menyebabkan berlaku perubahan kepada struktur modal. Perubahan tersebut memberi kesan kepada perbelanjaan bunga dan selanjutnya, pendapatan

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perbelanjaan bersih dari perbelanjaan bunga, tetapi tidak berkesan terhadap pendapatan operasi (andaian dimana perubahan struktur modal tidak memberi kesan kepada operasi syarikat).

Manakala untuk produktiviti, menurut Griffel et al (1996), Indeks Malmquist tidak memerlukan andaian keuntungan maksima atau pembelanjaan minimum. Andaian ini lebih relevan kepada syarikat pemilikan kerajaan, dimana kebanyakkan syarikat yang berkaitan kerajaan tidak semesti mencapai objektif keuntungan maksima. Kedua, kaidah tersebut menjadi pilihan apabila maklumat harga input dan output tiada atau diputarbelitkan disebabkan oleh peraturan. Akhir sekali, penggunaan kekuatan bukan parametrik analisa data envelop (DEA), yang mana tidak memerlukan teknologi dari fungsi parametrik, boleh digunakan dengan pelbagai karakter input dan output dari pelbagai industri dimana sampel sampel syarikat berada.

Kajian ini menggunakan sampel yang dikategorikan sebagai syarikat milik keluarga dan syarikat milik kerajaan yang disenaraikan di dalam Bursa Saham Indonesia dan Bursa Malaysia, seterusnya untuk mengenalpasti pencapaian, diperlukan pamadanan sampel seperti SIC Code dan size syarikat. Kajian ini adalah dari tahun 1992 hingga 2007 dan dibahagikan kepada tiga (3) bahagian yang mana sebelum krisis di Asia (1992 – 1996), semasa krisis di Asia (1997 – 2000) dan selepas krisis di Asia (2001 – 2007).

Kajian teknikal keberkesanan di Indonesia menunjukkan bahawa syarikat milik kerajaan adalah lebih baik pencapaiannya berbanding syarikat milik keluarga dimana pencapaian syarikat milik kerajaan meningkat lebih stabil semasa kajian dijalankan.

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Keputusan ini selari dengan keputusan indek penyelidikan produktiviti dimana syarikat milik kerajaan Indonesia menunjukkan produktiviti lebih tinggi berbanding syarikat milik keluarga disebabkan indek produktiviti lebih signifikan. Lebih daripada itu, kajian ini juga menunjukkan indeks produktiviti syarikat milik keluarga meningkat apabila teknologi baru diamalkan sementara indeks produktiviti syarikat milik kerajaan menunjukkan peningkatan yang disebabkan perubahan keputusan keberkesanan dari beberapa sampel syarikat milik kerajaan.

Manakala berdasarkan kajian kecekapan teknikal Malaysia, ianya menunjukkan bahawa sampel dari syarikat milik keluarga mempunyai tahap kecekapan yang lebih rendah berbanding syarikat milik kerajaan, dimana ia menunjukkan penambahbaikan yang sedikit. Semasa tempoh krisis, kerajaan menyokong penambahbaikan dengan memberi sedikit keistimewaan kepada syarikat milik kerajaan seperti rendahnya pelaburan dan pembelanjaan kewangan eksport, sama seperti kemudahan bagi mereka ketika transaksi membeli dan menjual. Walau bagaimanapun, peningkatan daripada kedua-dua jenis syarikat menunjukkan tiada signifikan statistik. Merujuk kepada kajian produktiviti di Malaysia, terdapat sampel syarikat milik keluarga semasa tempoh krisis menunjukkan peningkatan produktiviti yang mungkin disebabkan oleh kedua-dua pemulihan awal daripada kesan krisis dan penerapan teknologi yang baru. Sampel syarikat milik kerajaan menunjukkan penambahbaikan yang kosisten merujuk kepada pelaksanaan pengubahsuaian modal dan penambahan inisiatif fizikal kerajaan Malaysia kepada beberapa syarikat milik kerajaan. Oleh itu, berdasarkan kajian ini, kedua-dua syarikat milik keluarga dan syarikat milik kerajaan di Malaysia adalah produktif dan signifikan.

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Syarikat Milik Keluarga di Indonesia menjadi lebih produktif selama tiga sub-tempoh. Daripada pemerhatian menunjukkan bahawa ada terdapat sedikit peningkatan merujuk kepada penambahan sampel syarikat di dalam tempoh krisis. Dengan analisis yang lebih lanjut, kajian ini mendapati bahawa peningkatan adalah kerana bukan sahaja penambahan sampel tetapi ia juga kerana perolehan teknologi baru kepada sesetengah syarikat yang menyumbang kepada peningkatan indeks produktiviti. Apabila dianalisis Syarikat Milik Kerajaan di Indonesia, keputusan menunjukkan bahawa Syarikat Milik Kerajaan telah meningkat secara signifikan dari masa ke masa sepanjang tiga sub-tempoh. Berlainan dengan sampel Syarikat Milik Keluarga, Syarikat Milik Kerajaan menunjukkan bahawa peningkatan indeks produktiviti semasa krisis adalah berpunca daripada peningkatan perubahan kecekapan dari beberapa sampel syarikat, dengan cara peningkatan pangsa pasar dan jualan mereka.

Dengan mengambil kira produktiviti, Syarikat milik keluarga di Malaysia telah meningkat sedikit pada tiga sub-tempoh. Dari keputusan analisis, peningkatan semasa krisis adalah semata-mata kerana beberapa sampel tambahan syarikat telah diambilkira dalam tempoh krisis. Tindakan ini membawa kepada peningkatan indeks produktiviti. Penjelasan lanjut boleh diperolehi dari pemerhatian dari beberapa indeks produktiviti tertinggi, seperti White Horse Berhad dan Latitude Tree Holding Berhad. Kedua-dua mereka mempunyai pemulihan awal sejak kerajaan Malaysia mengeluarkan Pelan Induk Perindustrian Kedua Kerajaan bagi tempoh 1998 sehingga 2006. Pada tahun 1999, kedua-dua syarikat telah meningkatkan penyelidikan dan pembangunan mereka dengan mencipta produk baru dengan reka bentuk yang lebih inovatif. Peningkatan peralihan sempadan menyumbang kepada

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peningkatan dalam indeks produktiviti. Dengan melihat dengan lebih dekat, bagi Syarikat Milik Kerajaan, dapatan menunjukkan bahawa Syarikat Milik Kerajaan telah bertambah baik dari semasa ke semasa dalam tempoh tiga sub-tempoh. Peningkatan produktiviti adalah disebabkan penstrukturan semula modal dan inisiatif fiskal yang dilaksanakan oleh Kerajaan Malaysia untuk syarikat milik kerajaan seperti Tenaga Nasional Berhad dan Time Engineering Berhad.

Dalam jangka prestasi operasi yang tidak normal, hasil gabungan antara R^2 larasan dan Ujian Statistik Wilcoxon bukan parametrik mendedahkan bahawa Syarikat Milik Keluarga di Indonesia mempunyai model 1 (Tahap pencapaian industri dengan dua SIC angka dipadankan) sebagai kuasa yang paling penting menerangkan pengesanan pencapaian operasi tidak normal. Sementara itu, hasil Syarikat Milik Kerajaan Indonesia menunjukkan bahawa model 6 (pencapaian firma dan perubahan dalam pencapaian industri dengan SIC dua digit dan saiz dipadankan) adalah model dengan kuasa yang paling penting menerangkan tentang pencapaian firma dan perubahan dalam pencapaian industri.

Dalam proses menganalisa sub-tempoh, Syarikat Milik Keluarga di Indonesia menunjukkan hasil positif semasa sebelum krisis, saat krisis serta selepas krisis. Keadaan positif ini mencerminkan bahawa sampel Syarikat Milik keluarga di Indonesia mengatasi min purata industri mereka. Walau bagaimanapun, min menunjukkan trend menurun yang disebabkan oleh pemulihan perlahan syarikat daripada krisis, terutamanya syarikat-syarikat yang menjalankan industri hartanah. Sementara itu,sampel Syarikat Milik keluarga di Indonesia, model 6 menunjukkan nombor positif bagi tempoh sebelum krisis dan sepanjang tempoh krisis, tetapi

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dalam waktu tempoh selepas krisis , model 6 memberikan nombor negatif. Nombor positif bermakna sampel firma menunjukkan pencapaian operasi yang tidak normal dan mengatasi purata industri mereka. Selain itu, nilai negatif dalam tempoh pasca adalah datangnya dari dua syarikat iaitu PT. Kimia Farma Tbk dan PT. Indo Farma Tbk.

Secara ringkas, untuk prestasi operasi yang tidak normal Malaysia, berdasarkan R^2 larasan dan hasil ujian statistik bukan parametrik Wilcoxon mendedahkan Syarikat Milik Keluarga mempunyai model 5 (pencapaian firma dan perubahan dalam industri SIC pencapaian empat digit dipadankan) sebagai kuasa yang paling menjelaskan dalam mengesan operasi tidak normal. Keputusan dari tempoh sebelum krisis dan selepas krisis menunjukkan nilai negatif. Keputusan ini menunjukkan bahawa walaupun Syarikat Milik Keluarga di Malaysia mempunyai pencapaian operasi yang tidak normal, mereka masih baik jika dibandingkan dengan purata industri, terutamanya industri dengan serupa empat digit kod SIC. Sepertimana Syarikat Milik Kerajaan, hasilnya menunjukkan bahawa model 3 (Tahap pencapaian industri dengan SIC dua digit dan saiz dipadankan) adalah model dengan tahap kuasa yang paling menerangkan pencapaian industri. Hasilnya menunjukkan nilai positif sepanjang tiga sub tempoh. Nilai positif menunjukkan bahawa Syarikat Milik Kerajaan di Malaysia mengatasi purata industri mereka.

Seterusnya pemerhatian dalam sub tempoh, keputusan Syarikat Milik Keluarga di Malaysia menunjukkan model 5 memberikan nombor negatif sebelum dan selepas tempoh krisis. Keputusan ini memberi implikasi dimana disyarikat dimiliki keluarga memberikan pencapaian tidak normal dan pencapaian dibawah sasaran berbanding

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purata industri terutama industri yang sama dengan kod empat digit SIC. Data tersebut menggambarkan kebanyakkan sampel syarikat dari industri hartanah gagal mencapai sasaran.

Sementara itu, semasa krisis model 5 menunjukkan keputusan yang positif yang mana sampel syarikat mencapai keputusan yang baik. Alasan yang diperolehi daripada penemuan tersebut adalah dimana beberapa syarikat didalam sampel tersebut telah pulih pada awal krisis, seterusnya beberapa syarikat ini menyumbangkan peningkatan min.

Analisa sub tempoh untuk syarikat milik kerajaan di Malaysia tidak menunjukkan sebarang keputusan yang istimewa. Purata Min menunjukkan keputusan positif semasa 3 sub masa. Seperti dijangka, pengiraan purata min semasa krisis munurun, ini adalah kerana pencapaian menurun untuk syarikat yang berkaitan kerajaan di Malaysia. Walau bagaimanapun, secara keseluruhan syarikat milik kerajaan di Malaysia menunjukkan pencapaian yang sangat baik.

Keputusan kajian yang dilakukan telah memberikan kesan sebagai berikut: 1) Berdasarkan keputusan umum, syarikat milik kerajaan menunjukkan keputusan yang lebih baik berbanding syarikat milik keluarga di Indonesia dan Malaysia. Oleh kerana demikian, syarikat milik keluarga perlu memikirkan perancangan yang strategik bagaimana untuk bersaing dengan syarikat milik kerajaan terutama persaingan di dalam industry yang sama. 2) Berdasarkan keputusan prestasi operasi tidak normal, untuk setiap jenis kepemilikan syarikat yang dipengaruhi setiap perubahan dalaman syarikat ataupun perubahan di dalam industry, mereka harus

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mempertimbangkan semua factor yang akan memberi kesan kepada prestasi syarikat mereka.

Keywords: Ownership Concentration, Family Ownership, State/ Government Ownership, Family Owned Enterprises, State/ Government Owned Enterprises, Malmquist Productivity Index, Abnormal Operating Performance.

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I certify that a Thesis Examination Committee has met on **29 October 2013** to conduct the final examination of **Citra Sukmadilaga** on his thesis entitled "Ownership Structures, Operating Performance and Productivity in Indonesia and Malaysia" in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

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This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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CHAPTER 1

INTRODUCTION

This chapter introduces the background of this study concerning the impact of ownership concentration on firm performance. This study focuses on analyzing two types of ownership adopted from Claessens (1999), namely family and state owned enterprises. This chapter also details the problem statement, overall objectives and the justifications for the study. Basically, this chapter explains in detail the contribution of this study to the discourse on ownership type and firm performance.

1.1 Ownership Concentration

Starting with Berle and Means's (1932) first study on the relationship between stock ownership distribution and firm performance, the relationship between ownership structure and firm performance has become an academic focus. Over the past thirty years, many scholars have studied the relationship between ownership and firm performance. There has been much interest in the issue and documented evidence related to it. However, the findings are still inconclusive.

Based on the previous studies, two effects are hypothesized to coexist in firms with high ownership concentration: (1) an alignment effect, which is the notion that high ownership stake held by large shareholders provides them strong incentives to engage in firm value-maximization activities; and (2) an entrenchment effect, which postulate that if large shareholders obtain sufficient control rights to entrench

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themselves, they might expropriate firm resources for their private benefits at the expense of minority shareholders.

Continuing concern on these issues has resulted in numerous empirical studies using various specifications of performance measurements. Studies in developed markets revealed that ownership concentration has positive impact on firm performance (e.g Gorton and Schmid, 2000; Mitton, 2002; and Claessens and Djankov, 1999). Fazlzadeh and Hendi (2011) have shed some light on the role of ownership structure in corporate performance and it has offered insights to policy makers interested in improving corporate governance system. In contrast, Demsetz and Villalonga, (2000) and Kocenda, (2002) did not find any significant relationship between ownership concentration and performance. Sanchez and Garcia (2007), using meta-analysis technique based on 33 studies, found no substantive relationship between ownership structure and firm performance. The findings showed that governance system, measurement of performance, and control for endogeneity moderate the effect of ownership on firm performance.

Mc Conaughy (1994) explained that ownership structure (concentration) describes who owns and how much of corporations, therefore it refers to the composition of the shareholders. Ownership structure becomes very important when discussing corporate performance and efficiency. Corporate performance is a broad concept that closely relates to efficiency, or the efficiency of corporate activity. Typical performance measures used are Tobin's, excess returns over those predicted by the CAPM, profit margin, portfolio returns, and accounting rate of return. Efficiency measures, on the other hand, are narrower in scope and focus more clearly on

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operational activity: asset turnover, sales per employee, net operating margin or working capital to sales. This categorization may not be accepted nor is it rigorous, but it is helpful in looking at the literature.

Claessens, Djankov and Lang (1999) classified ownership concentration in East Asian region into two broad groups: widely held corporations and corporations with ultimate controlling owners. In widely held corporations none of the owners has a significant control right. Corporations with ultimate owners were those in which certain shareholders – those controlling some percentage of voting right – could be traced in the chain of ownership. Claessens et al (1999) further divided ultimate owners into families, widely held corporations, widely held financial institutions and the state ownership of firms. However, there is little evidence on the relationship between ownership concentration and performance in less developed South East Asian countries, despite the fact that many economies in this region are characterized by considerable family and state ownership of listed corporations (see table 1.1.). Hence, this study focuses on the performance of family and state owned enterprises, prominent feature of firm ownership in the Asian region, and contributes further to the discourse on the research area of interest.

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Table 1.1 Control of Publicly traded companies in East Asia within 20% cutoff Ownerships

Country	Number of Corporations	Widely Held	Family	State	Widely Held Financial	Widely Held Corporations
Hong Kong	330	7.0	66.7	1.4	5.2	19.8
Indonesia	**178**	**5.1**	**71.5**	**8.2**	**2.0**	**13.2**
Japan	1,240	79.8	9.7	0.8	6.5	3.2
Korea	345	43.2	48.4	1.6	0.7	6.1
Malaysia	**238**	**10.3**	**67.2**	**13.4**	**2.3**	**6.7**
Philippines	120	19.2	44.6	2.1	7.5	26.7
Singapore	221	5.4	55.4	23.5	4.1	11.5
Taiwan	141	26.2	48.2	2.8	5.3	17.4
Thailand	167	6.6	61.6	8.0	8.6	15.3

Source: Claessens (1999)

Table 1.2. Family and State Owned Enterprises in Indonesia and Malaysia based on preliminary research.

Country	Number of Family Owned Enterprises	Number of State Owned Enterprises
Indonesia	**56**	**8**
Malaysia	**180**	**23**

Source: Data Colection

Family owned enterprise has been defined differently by different authors (Chua, Chrisman and Sharma, 1999). A review of the literature suggests that there is no single consensus on the definition of a family-owned business (for a more detailed review, see, for example, Lansberg et al., 1988; Handler, 1989, 1994; Daily and Dollinger, 1993; Westhead and Cowling, 1998; Chaudhry and Crick, 2004). Westhead and Cowling (1998) highlighted several issues that are fairly consistent in the definitions of family-owned businesses. First, a company can be defined as a family-owned business if the senior executive (Chairman, Managing Director etc.) regards their company as family business (Ram and Holliday, 1993). Second, if the majority of ordinary voting shares in the firms are owned by members of the largest family group, which are related by blood or marriage (Cromie et al., 1995). Third, if the management

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team of the firm is comprised mainly of members drawn from the single dominant family group who owns the business (Daily and Dollinger, 1992). Fourth, if the firm has experienced an inter-generational ownership transition to a second or later generation of family members drawn from the single dominant family group owning the business (Churchill and Hatten, 1987). In this study, "family business" is defined as firms that are managed by majority shareholders or/ and by one family.

State owned Company in this study is defined as a company that has more than half or whole parts under the control of the state. This definition is adopted from Jones (1975) that defines State owned Enterprises or State Controlled Enterprises as business entities that produce goods and services being sold in the general market place, either wholly or partly owned by state, or the state is the majority shareholder. Other terms that are frequently used to refer to such enterprises are public enterprises, crown corporations (Commonwealth Countries), and Government linked companies. Many of these terms are interchangeable. Meanwhile, some countries use the term "state" as a part of federal government, but in this study the definition incorporates both state and federal government ownership.

As mentioned above, Family and State Owned Enterprises become control variables from ownership concentration variables. In this study the impact of ownership concentration on the firm performance is examined. The firm performance improves when ownership and managerial interest are merged through concentration of ownership (Agrawal and Mandaike, 1987). The reason is that when major shareholdings are acquired, control cannot be disputed and resulting concentration of ownership might lower or completely eliminate agency costs. This study also focuses on the impact of

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ownership concentration and performance of firms in emerging economies. Nearly all documented evidence on ownership-performance relationship is based on developed economies and its inconclusive regarding the alignment and entrenchment hypothesis. Since it is a widely accepted fact that institutional conditions in developing countries, particularly those with respect to markets and organizations, are significantly different from those in developed countries, the findings of this study will contribute to the literature in the context of evidence from emerging markets.

1.2 Ownership Concentration in Asia

Claessens and Fan (2002) have explained that corporate ownership is highly concentrated in Asia. They argue that both individual owners and the state can enforce property rights. In economies where the state does not effectively enforce property right, enforcement by individual owners will be the most important. The structure of share ownership itself will then affect the degree to which corporate contracts can and will be enforced since it affects owners' abilities and incentives to enforce their rights. One prediction from this framework is that more concentrated ownership will be observed in economies where property rights are not well enforced by the state. Without relying on the state, controlling owners obtain the power (through high voting rights) and the incentives (through high cash flow rights) to negotiate and enforce corporate contracts with various stakeholders, including minority shareholders, managers, labors, material suppliers, customers, debt holders and governments. All parties involved in the corporation prefer this outcome, as they share, although to different degrees, in the benefits of this concentrated ownership through better firm performance.

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Using this framework, Schleifer and Vishny (1997) suggested that the benefits from concentrated ownership are relatively larger in countries that are generally less developed, where property rights are not well defined and/or not well protected by judicial systems. La Porta et al (1999) confirmed this proposition empirically, showing that the ownership stakes of the top three shareholders of the largest listed corporations in a broad sample of emerging countries around the world are associated with weak legal and institutional environments.

The weak state enforcement of property rights is the most probable cause of the concentrated ownership of Asian corporations as well, as they often confront weak legal systems, poor law enforcement and corruption. Likewise, the weak property right systems in Asia may also explain why family-run business groups have institutional arrangements that facilitate transaction: the transaction costs among family members and closely affiliated corporations face a lower degree of information asymmetry and fewer hold-up problems, which may otherwise prevail in transactions among unaffiliated parties. Another related reason for the prevalence of groups in Asia may be poorly developed external markets- financial, managerial and other factor market – which tends to favor internal markets for the allocations of resources.

1.3 Ownership Concentration in Indonesia and Malaysia

Claessens et al (1999) reported in the Asian region that Indonesia has the highest percentage of firms with family ownership, followed by Malaysia. Meanwhile, Malaysia has the second highest percentage of firms with state ownership, followed by Indonesia. This is consistent with Lassere and Schutte's (1999) claimed that beside the

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family business, in most parts of Asia (with exception of Hong Kong and Japan), state participation in the business sector has been an integral part of the industrialization process.

Claessens et al (1999) also revealed that in Indonesia, from 178 samples firms that publicly listed in 1996, 71.5% categorized as family-owned enterprises and 8.2% as State owned enterprises. In the context of Malaysia, Claessens study mentioned that from 238 sample firms, which are publicly listed in 1996, 67.2% and 13.4% are categorized as family and state owned enterprises respectively.

Meanwhile, Yuri Sato (2004) reported that there has been a reduction in the number of family ownership and a rise in state ownership in context of Indonesia. However, concentrated ownership remains dominant and family ownership is still a major pattern in groups with concentrated ownership in Indonesia between 1996 and 2000. They classified the ownership broadly similar with Claessens et. al. (1999) but differs in some important aspect, for example (1) They dropped the financial institution classification, because in Indonesia there are very few companies that are widely held by financial institution. (2) They didn't use the ultimate owner approach of Claessens et al, because it is difficult to trace the complete chain of shareholdings of all listed enterprises in Indonesia to find who has the highest level of voting rights and (3) They used classification based on a shareholding ratio (shares owned by a shareholder as a percentage of total shares in the company).

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1.4 Ownership Concentrations and Performance

Concentrated ownership structure has offsetting effects on firm performance, namely, a positive effect due to efficiency enhancement versus a negative effect due to excessive expropriation. Claessens, Djankov, Fan, and Lang (2002) argued that the concentrated ownership structure of East Asian firms is associated with severe agency conflict between the controlling owner and minority shareholders, manifested in the form of lower valuation. They found that high cash flow rights held by the controlling owners are positively related to firm value (the alignment effect) and the divergence between their control and cash flow rights is negatively related to firm value (the entrenchment effect). Morck, Shleifer, and Vishny (1988) documented a no monotonic relationship between board ownership and firm value (Tobin's Q) using a sample of 371 Fortune 500 firms. La Porta, Lopez-de-Silanes, Shleifer and Vishny (2002) found that cash flow rights held by controlling owners are positively related to firm value using a sample 539 large firms from 27 economies.

Sun (2006) showed that the percentage of shareholding between stockholders has an obvious positive relation with the technical efficiency; otherwise ownership concentration and firm performance are nonlinear relatives. Sun and Huang (1999) found the percentage of the biggest shareholder has a U shaped curve relationship with firm performance; Du and Liu (2002) found stock ownership concentration (sum of the first five biggest shareholders) and firm performance have an inverse, U-shaped relationship. Zhang Tao, Li and Fang (2006), showed that stock ownership concentration (sum of percentage of shareholdings by the first five biggest shareholders) of China-invested Hong Kong companies has reversed U-shaped relationships with firm

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performance, while the percentage of the shareholders has a normal U-shaped relationship with firm performance.

Song, Zhang, and Li (2004) found that the percentage of the biggest shareholder's shareholding has a U-shaped relationship with firm performance. Xie (2007) reported that for A-Share public companies in the Shanghai Stock Exchange in 2003 and 2004, the biggest shareholding has a cubic function relationship with the firm value, which varies in a trend of decrease-increase-decrease, with the increase of the percentage of the first biggest shareholdings.

When examining the effect of ownership concentration on firm performance, extant literature often uses two performance measures, namely: (1) operating efficiency, measured by return on total assets, and (2) the market-to-book ratio of assets. The first measure is used to test the hypothesis that concentrated ownership improves firm performance. The second measure is used to examine the market assessment of firm value, given existing policy combinations and operating efficiency.

The literature suggest that concentrated ownership affects operating efficiency in two ways: (1) the presence of a large shareholder mitigates managerial agency problem and improves operating efficiency (see Grossman and Hart (1980), Shleifer and Vishny (1986)); and (2) large shareholders may behave opportunistically for their private benefits which may lead to inefficient resource allocation such as buying or selling assets of firms under their control at prices unfair to minority shareholders. A study of Korean firms by Joh (2003) found that the controlling shareholders' cash flow rights are positively related to firm efficiency measured by return of total assets (ROA) whereas

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the divergence between control and cash flow rights of the controlling owner is negatively related to ROA.

Family Ownership versus State Ownership Enterprises

Family Owned Enterprises are totally different in ownership nature from these "partially-privatized" SOEs, which, despite being truly partially privatized in the sense that their floated shares are held by individual or institutional investors, are still firmly controlled by the state, which hold an absolute majority of voting rights. Given the very weak legal framework for investor protection, minority shareholders have almost no say in the strategic decisions of such state-owned enterprises. In contrast, in listed enterprises where the largest shareholder is a family (our sample of family-owned listed enterprises), the state has withdrawn or never held any interest. We can thus validly separate family-owned listed enterprises from listed SOEs, and the two groups provide a good tool for comparison of performance by private and state ownership.

Family Ownership and firm performance

Family ownership does affect firm's performance. For instance, family owned enterprises that have long term presence of founding families within firms can also engender competitive advantages. First, the family's lengthy tenure can extend the firm's learning curve in monitoring employee performance. Second, as James (1999) and Stein (1989) indicated, families tend to maintain longer investment horizons than other shareholders, who may make myopic investment decisions that boost current or short-term earnings. Family firms may also attempt to invest more efficiently because

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they may view their firms as an asset to pass on to succeeding generations. The family's longer outlook also implies a more vital role of firm survival among family firms.

Davis (1983) emphasized altruism and trust as the primary factors that provide family firms with a competitive edge. In addition, parenting is often extended to non-family employees, promoting a sense of a stability and commitment to the firm among all employees. Along this line, it has been shown theoretically how trust mitigates the moral hazard problem between the parents (principals) and the children (agents), raises the children's efforts and productivity, and thus enhances firm performance. Since trust induces the children to internalize the cost of their actions on the parents' welfare, it obviates the need for parents to monitor their children's work effort or to rely on incentive-based compensation. Fama and Jensen (1983) and De Angelo and De Angelo (1985) also pointed out that family business is likely to fail if trust becomes low or altruism is one sided, and thus the principal-agent problem is exacerbated.

Arguably, family owned business could also generate competitive advantages. Many studies have highlighted the complexity of running a family business. For instance, Davis (1983) and Lansberg (1983) found that the fact that the business is not free from family influences creates many unique challenges. Such challenges include the balance between equity and efficiency and the problem of succession. Other studies highlight the power of incentives of founding families to act in their own interest at the expense of firm performance. Shleifer and Summers (1988) and Shleifer and Vishny (1997) posited that firms with large undiversified owners, such as founding family members, might forego maximum profits when they are unable to separate their own financial preferences from those of other owners outside the family. Demsetz (1983)

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argued that family business owners may also choose no pecuniary benefits and thus draw resources away from profitable projects.

The result of study that gives the new insight about family owned enterprises is provided by Lee (2006), who examined the performance of U.S. family firms over a number of years during which these organizations faced an economic downturn. Lee concluded that during an economic downturn, entrepreneurial family firms are likely to grow faster and become more profitable than non-entrepreneurial family businesses.

Moreover, the family is likely to limit top management positions to family members rather than hire more qualified or competent outsiders. Family members are capable of redistributing benefits from the firm through excessive compensation or special dividends that may adversely affect employee morale and productivity. For public firms, founding families may have interest of their own, such as stability and capital preservation, which may not be consistent with the interest of other investors.

State Ownership and firm performance

Wong (2004) discussed how state ownership affect on firm performance and he claimed that unlike private enterprises, which focus exclusively on profit maximization, most SOEs pursue multiple-and conflicting- objectives. Multiple objectives arise either because they are mandated by legislation or because different government ministries are in position to exert influence on SOEs. The latter situation becomes especially problematic if the ministries have different aims for an SOE and do not reconcile their divergent views. Although taxpayers are the ultimate owners of SOEs, they rely on

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politicians and bureaucrats to be their agents – in other words, to look after their interests. Politicians and bureaucrats, however, are typically poor overseers of SOEs. Like other people, they are self-interested individuals who seek to attain, exploit, and maintain power. Politicians and bureaucrats are also poor agents because they do not benefit financially. Otherwise, if an SOE is highly profitable, they may be blamed when an SOE acts “too commercially” or other things go wrong.

In fact, SOEs often operate without sufficient external scrutiny. In many countries, there is a paucity of publicly available information about SOEs, or the information disclosed is unreliable. Further, governments often do not elaborate their objectives for public sector firms to public as well as to the SOEs- and do not explain how they plan to monitor and influence these enterprises. While this lack of transparency might suit those politicians and bureaucrats who are self interested just fine, it does little to ensure effective accountability.

Despite of its negative performance, following are the types of advantages that state-owned businesses can have and have frequently got from privately-owned businesses:

1. Less or no requirement to earn profits or pay dividends for wholly state-owned enterprises, but for publicly listed firm the dividend still need to be paid.
2. Lower investment and export financing costs.
3. Lower or no domestic taxes.
4. Purchasing and sales preferences from state.
5. International information reporting, trade, and burden of proof regulations that favor state-owned businesses.

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1.5 Problem Statements

In view of the many types of ownership pattern of publicly listed firms, this study focuses on family and state-owned firms. Family and state-owned enterprises as ownership concentration firms are under great pressure to perform well in the era of economic globalization. Even though both common publicly listed firm and ownership concentration firm have similar goal, both have different characteristics. Minimizing cash outflows and maximizing cash inflows are the two general aims of firms, which also ensure the efficiency of firms contribution to the overall economic growth. As discussed earlier, so many studies have attempted to resolve this issue but the results are inconclusive. This study provides empirical evidence on the financial and production efficiency of family and state-owned enterprises in Indonesia and Malaysia.

In recent years, studies on the efficiency of family and state owned enterprises seems to focus on the comparison between family owned business and non family business, meanwhile in context of state-owned enterprises, many studies investigate the efficiency of these firms before and after privatization. Previous studies predominantly used Tobin Q and Return on Assets (ROA) as a proxy to measure firm performance; others used Malmquist Productivity Index to measure productivity. Indeed, the review of family and state-owned enterprises shows that, to date, there is no documented evidence on the comparison between financial and productivity efficiencies of both type of enterprises utilizing frontier analysis (Data Envelopment Analysis) and non-frontier analysis (Abnormal Operating Performance) approaches.

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Previous studies found that family-owned enterprises outperform non-family owned (Beehr, Drexler, and Faulkner, 1997; Tsai, Hung, Kuo, Kuo, 2006; Maury, 2006). State-owned enterprises are more efficient after privatization than before privatization (Megginson, Nash and Van Randenborgh, 1994; Boubakri and Cosset, 1998; D'Souza and Megginson, 1999; Bortolotti, D'Souza, Fantini, Megginson, 2001; Dewenter and Malatesta, 2001; and Harper, 2002). However, since family and state-owned enterprises have ownership concentration, state owned enterprises are supposed to be run like family-owned enterprises. An interesting issue: Is the performance of state owned enterprises similar to that family owned enterprises?

The result of existing studies on ownership concentration are inconclusive as to whether the ownership concentration significantly affects firm performance. In context of family-owned enterprises, Fama and Jensen (1983) claimed that family businesses could reduce the classical agency problem between owners and managers. By reducing agency problem, it will lead to low agency cost and increasing performance. These results fit rather well with recent evidence that family ownership in listed firms operating in well-regulated and transparent markets reduces agency cost (e.g. Anderson and Reeb, 2003). But there is also evidence that shows negative result in which family-owned businesses give rise to conflicts of interest between minority shareholders and the controlling family when the family control is tight (e.g., Shleifer and Vishny, 1997). Faccio et al (2001) claimed that politically powerful families in control of public firms have been able to expropriate minority shareholders in East Asia where the transparency is low.

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Lassere et al., (1999) posited that in addition to family business, state-owned enterprises (SOEs) are the major players in Asian region. The World Bank indicates that SOEs are often associated with politicization, corruption, inefficiency, and waste of resource. They are the causes of weak fiscal discipline, lack of transparency, extra-budgetary financing, implicit subsidies, and protection from competition (World Bank, 1988). Vernon (1981) has given another reason why SOEs may have a low performance compared to family business as private enterprises, because SOEs must respond to a set of signals from the state to which other enterprises' managers are less alert. The signals are politically rather than economically motivated, and it is conflicted with the commercial objectives of the enterprise. In contrast, Caves and Christensen (1980), Kay and Thompson (1986), Wortzel and Wortzel (1989), Martin and Parker (1995) and Kole and Mulherin (1997) suggested that government ownership is not necessarily less efficient than private ownership.

The previous studies show inconclusive evidence and focus on either comparative study between family and non-family owned business or performance of state-owned enterprises before and after privatization. This study fills this gap in the literature by investigating the performance of both family and state-owned enterprises. In order to do this, the study uses two selected countries (Indonesia and Malaysia) over the period of 1992-2007 and employs the latest methodology to analysis the data. To measure firm performance, this study will be measuring from economic and financial aspects. Economic performance measures are those measures that concern things other than accounting and financial features, in other words, those measures using economic data, for example, number of employees. Meanwhile, financial performance is measured using financial and accounting data such as total asset or financial ratios.

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1.6 Objectives of the Study

General objective of this study is to analyze the performance of family and state-owned enterprises in Indonesia and Malaysia. This research will be done separately for each country, as comparative analysis is not possible since both countries have significant political, characteristic, economic and institutional policies differences. However, since both have some resemblance in terms of economic development and socio-cultural status, inferences could be made from the result on the performance of both samples in both countries.

This study addresses the following specific objectives:

- To ascertain the economic performance of family-owned and State-owned enterprises that listed in Bursa Malaysia and Indonesia Stock Exchange.
- To ascertain financial performance of family-owned and state-owned enterprises that listed in Bursa Malaysia and Indonesia Stock Exchange.

Further details of the above objectives are as follows:

- The first objective of this study is to analyze economic performances (measured by technical efficiency and Malmquist Productivity Index) of family-owned and state-owned enterprises listed in Bursa Malaysia and Indonesia Stock Exchange respectively.
- The second objective of this study is to analyze financial performances (measured by abnormal operating performance) of family-owned and state-

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owned enterprises listed in Bursa Malaysia and Indonesia Stock Exchange respectively.

In examining financial performance that measured by abnormal operating performance, it is necessary to select a benchmark against which the sample performance must be evaluated. Barber and Lyon (1996) found that the results are influenced by the benchmark being selected. This study selects sample firms, which belonged to the same industry or were similar to asset size. If a matching company could not be found in the same industry, this study will select a company closest to the issuing company's industry with similar size.

1.7 Justifications of the study

The theory and empirical research on the relationship between ownership and performance of the firm was initiated with the book published by Berle and Means in 1932 on the subject of ownership and control among large American Corporations. The theoretical and empirical literature on the subject of the relationship between ownership and performance is derived from developed market. Besides the large body of theoretical and empirical literature on the subject of ownership and firm performance, there is an opportunity for further research to better understand how and why ownership patterns affect performance in different economy setting and the implications of evidence.

Early research focused on two main issues relating to firm's wealth when examining relation between firm performance and ownership concentration (Demsetz

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and Lehn, 1985). For example, Jensen and Meckling (1976) suggested the alignment of interest hypothesis. Due to a reduction of agency costs, this hypothesis predicts that firm value and operating performance increase as management ownership rises. Meanwhile, Demsetz (1983);Fama and Jensen (1983) pointed out offsetting costs of significant management ownership and explain the entrenchment hypothesis. At certain levels of equity ownership, a managers' consumption of perquisite may outweigh the loss they suffer from a reduced value of the firm. A high level of managerial ownership in an environment with high information asymmetry allows managers to indulge preferences for non-value maximizing behavior. Therefore, this entrenchment hypothesis predicts a negative relation between operating performance and managerial ownership.

Morck et., al (1988) accounts for both the alignment and entrenchment hypotheses by considering a nonlinear relationship between managerial ownership and firm performance. It was documented that the alignment hypothesis effects are dominant within the 0-5 percent range and above the 25 percent level of ownership range. The entrenchment effects are dominant within the 5-25 percent ownership range.

This study, however, concerns on two types of ownership, family and state-owned enterprises. Comparison perspectives of firms subjected to family and state-owned enterprises is important for several reasons. First, family and state-owned enterprises are a major ownership concentration pattern in firms in both countries, so they deserve an in-depth analysis. Claessen's (1999) study indicated that in Indonesia and Malaysia, family and state-owned enterprises are noteworthy to economic development since their economic contribution to the economies is significant.

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Second, there is a lack of studies on both types of ownership concentrations in this region, so this study can fill this research gap and provide a useful reference to policy makers and users. Although general discussions of family and state-owned and country specific analyses of efficiency and performance have been done, there is a scarcity of evidence on performance of family and state-owned enterprises in the Asia region. This fact is striking because the performance of family and state-owned enterprises in industrial countries and other developing countries have been intensively studied.

Third, Indonesia and Malaysia have similar political and economic development and characteristics in term of cultural and ethnic diversity. Indonesia has population around 200 million peoples. This population divides into multiple ethnicities. In Indonesia, ethnicity can be divided into indigenous (Pribumi) and non-indigenous (Chinese). Similarly, Malaysia has indigenous (Bumiputera) and non-indigenous (Chinese and India) populations. Hence, based on Gomez and Hsiao's approached (2005) Indonesia and Malaysia have a list number of public family owned enterprises whereby the majority of enterprises belong to Chinese families (Far Eastern Economic Reviews, 1990). This is in line with the research done by Gatfield and Youseff (2001) which revealed that in Indonesia and Malaysia, ethnic Chinese represent only a minority of the population, but control a majority economic share of the countries. The Fujitsu Research of Tokyo suggests that the ethnic Chinese control an overwhelming share of publicly listed enterprises in Southeast Asia, including Indonesia and Malaysia (Amaral, 2007). Thus both countries have unique setting to ascertain the impact of ownership concentration pattern on the performance of firms.

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The fourth reason for concern into these two types are motivated by statement from Lassere and Probert (1994) that in countries like Indonesia and Malaysia, the state view may well favor the national interest over shareholder interest, but there are sufficient family-owned firms to negate the issue. In Indonesia this statement is supported by the data from Indonesia Capital Market Directory (ICMD). The data show that from 1993 until 1997 two thirds of publicly listed enterprises were owned by corporations that were directly or indirectly controlled by families. Yuri Sato's (2004) research supports the result from Lasserre and Probert (1994) in the specific context of Indonesia. Based on an assessment of the top 100 non-financial public firms, Sato confirms that ownerships were still highly concentrated in Indonesia in 2000.

Another reason is that both Indonesia and Malaysia have similarity in their political development. President Suharto governed Indonesia for 32 years, from 1965 until 1998. Meanwhile Prime Minister Mahathir Mohamad governed Malaysia for 22 years, from period 1981 until 2003. Its means that one leader governed Indonesia and Malaysia for a long period of time. This fact implies the stability and consistency of political and economic regulations. This continuous stability in economy and policy affects the development of family business and SOEs.

1.8 Significance of the Study

This study seeks to contribute further to the debate surrounding the impact of ownership concentration (Families and State Owned Enterprises) on the firm performance in Indonesia and Malaysia. The ownership concentration – firm performance relationship analyzed will provide better insights to stakeholders (for

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example, the investors, management, policymakers and researchers) in order to make objective decisions (e.g. operational, investment, standard-setting decisions). However, documented evidence of performance of family and state-owned enterprises from developed countries is mixed. This study intends to provide evidence of both the alignment and entrenchment hypothesis in developing markets, and also to ascertain the performance determinants of family and state-owned enterprises.

The family-owned enterprises in Indonesia and Malaysia are rather unique since ownership of enterprises listed on the stock exchange is predominantly owned by Chinese families, although there is also ownership by Indonesian and Malay families. Meanwhile, state-owned enterprises in both countries have common characteristics of SOEs around the world. But in Malaysia, state policies were introduced to protect local industry and ensure fair distribution of corporate wealth among the ethnic groups.

To date, there are a few studies on the economic and financial performance of firms associated with family owned and state owned enterprises in Indonesia and Malaysia. Understanding the firms' performance will help the state and stockholders to draft policies to overcome weaknesses and to ensure that the market and stockholders investments are protected. Agency problems tend to arise in many ways that can be a cause in wealth of shareholders and/or bondholders and this affect firm performance.

1.9 Organization of the Thesis

This study will be organized into seven chapters. Chapter 1 provides the research background as overview of ownership concentration issues; the identification

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of the research problems, the objectives and significance of this research, and the research framework. Chapter 2 discusses the overview of family owned and state-owned enterprises in Indonesia and Malaysia. Chapter 3 discusses the theoretical framework and the review of recent literature, and empirical evidence that study influence of ownership concentration on firm performance.

Based on the overview and literature review in chapter 2 and chapter 3, chapter 4 outlines the research methodology that employed to test the hypotheses. This chapter describes the models that employed, including the forms of the research hypotheses for statistical testing. The data collection procedures are documented briefly in this chapter, followed by the explanation of how the empirical construct and research methods will be worked.

Chapter 5 focuses on the test of hypotheses followed by data analyses and interpretation. The procedure of statistical test, a hypothesis testing and data analysis are outlined in this chapter. The conclusion and empirical result drawn from the tests of the hypotheses then summarized for Technical efficiency and Productivity. Chapter 6 provides the test of hypotheses followed by data analyses and description. The conclusion and empirical result drawn from the tests of the hypotheses then summarized for abnormal operating performance. Finally, chapter 7 summarized the empirical result, limitation of the study; present the inferences, discussions on the relevant literature and suggestion for future research.

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