The Effects of Concentrated Ownership on The Performance of The Firm: Do External Shareholdings and Board Structure Matter?

Kesan Pemusatan Milik Terhadap Prestasi Syarikat: Adakah Pemilikan Ekuiti Luar dan Struktur Lembaga Pengarah Memberi Kesan?

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ABSTRACT

The Malaysian corporate governance varies according to the ownership structure of the corporate sector. At one end of the spectrum there are companies in which ownership is dispersed among small shareholders, while control is concentrated in the hands of the large shareholders. This study analyses the role played by concentrated ownerships through the top ten shareholders of the non-financial firms that are listed on the KLSE in determining their performances. A total of 2608 companies are used in this study and various measures of performance and categories of ownerships are used to study the different effect of different ownerships on performance. Ownership roles are observed from two perspectives namely their ownership concentration and the components of this ownership concentration as proxy for corporate governance mechanisms. The finding from this empirical study provides information on the importance of large institutional shareholders in corporate governance. This study also providing evidence that, typically equity owned by the corporations, government, nominees and individuals are directly influencing the financial structures of the firms. This will eventually affect the overall performance of the firms. This indicates that to encourage firm performance, it very much dependent upon the supply of suitable management and directors as well as other stakeholder's information.

ABSTRAK

Tadbir urus korporat di Malaysia berbeza mengikut struktur milik sektor korporat. Pada penghujung perbezaan ini, terdapat syarikat dengan struktur miliknya dianggotai oleh ramai individu sebagai pemilik kecil saham tetapi dikuasai oleh hanya sebilangan kecil pemilik besar saham. Kajian ini mengkaji peranan yang dimainkan oleh sepuluh pemilik terbesar bagi syarikat bukan kewangan yang disenaraikan di Bursa Malaysia mengikut prestasi. Jumlah syarikat yang dikaji adalah 2603 dan pelbagai pengukur prestasi dan kategori pemilikan digunakan bagi mengkaji pelbagai kesan pemilikan terhadap prestasi syarikat. Peranan pemilikan dikaji daripada dua perspektif, iaitu pemusatan pemilikan dan komponen pemusatan pemilikan sebagai proksi kepada mekanisma tadbir urus korporat. Penemuan dari kajian empirikal ini memberi maklumat mengenai kepentingan pemilikan besar dari institusi dalam tadbir urus syarikat. Kajian ini juga membuktikan bahawa ekuiti yang dimiliki oleh syarikat, kerajaan dan individu mempengaruhi secara langsung struktur syarikat. Ini pada akhirnya akan mempengaruhi keseluruhan prestasi syarikat. Ini menunjukkan bahawa bagi menggalakkan prestasi syarikat, ianya bergantung kepada kewujudan pengurusan dan pengarah, selain daripada pihak-pihak yang berkempentingan.

INTRODUCTION

Corporate ownership structures around the world are very diverse but there seem to be two distinct groups (La Porta *et al.* 1999). In the Anglo-Saxon countries, majority of the shares are widely held or diffuse, whereas in continental Europe shares tend to be concentrated in the hands of a few large shareholders. When ownership is diffuse, agency problems stem from conflicts of interest between managers and shareholders (Jensen & Meckling 1976; Roe 1994). As ownership concentration increases to a level where an owner obtains effective control of the firm, the nature of agency problems shifts away from the manager-shareholder conflicts to conflicts between the controlling owner and minority shareholders (Shleifer & Vishny 1997).

Numerous studies have analysed the costs and benefits of the diffuse ownership. Shleifer and

Vishny (1986) assess whether large shareholders can minimise the free-rider problem that is associated with a dispersed ownership structure. When their shareholdings increase, investors can take a more proactive role in monitoring the managers, to the extent that they can even replace the managers by mounting a takeover bid. However, there are also worries that high ownership concentration can work to the other shareholders' disadvantage.

The Malaysian corporate governance varies according to the ownership structure of the corporate sector. At one end of the spectrum there are companies in which ownership is dispersed among small shareholders, while control is concentrated in the hands of the large shareholders. The dispersed ownership situation is observed to be similar to countries with "common law" legal system – USA, UK (La Porta *et al.* 1999) where there are companies with concentrated ownership of large investors (Shleifer and Vishny 1986). In such companies, controlling shareholder or debtor dictate of the actions of managers. The concentrated ownership is common for countries where it is quite costly for small investors to exercise their control and cash flow rights. Large investors enjoy economies of scale and reduced traditional free rider problem. Corporate governance conducted by large investors is experienced in the Continental Europe and Japan (La Porta *et al.* 1999). Experience from German corporations as observed by Gorton and Schmid (1996) suggests that block holders improved company performance. In Japanese corporations, large shareholders replace badly performed managers more often than dispersed ones (Kaplan & Minton 1994).

This study analyses the role played by concentrated ownerships through the top ten shareholders of the non-financial firms that are listed on the KLSE in determining their performances. Their ownership roles are observed from two perspectives namely their ownership concentration and the components of this ownership concentration as proxy for corporate governance mechanisms. The component of these top ten largest shareholders are further classified into four ownership categories or types. They are the institutional ownership, ownership owned by the government, the nominees (both the finance and public nominees) as well as the individuals who owned the companies. Collectively these ownership types are represented as ownership mix (OM). Besides the board size, management holdings includes shares owned by the corporate

board, the CEOs and top managements are also included in the study.

LITERATURE REVIEW

Ownership concentration is a direct corporate governance mechanism. Shleifer and Vishny (1997) note that, along with legal protection, ownership concentration is one of two common approaches to corporate governance. La Porta, Lopez-de-Silanes, and Shleifer (1999) find high degrees of ownership concentration in many firms throughout the world, particularly in countries with relatively poor shareholder protection.

The primary benefit of ownership concentration by outsiders is that the large shareholder gains the power and incentive to monitor the actions of the manager (Shleifer & Vishny 1997). An offsetting cost is that, at some point, the outside shareholder himself gains enough power to pursue personal objectives that may not coincide with the objectives of minority shareholders. Hence, there is an offsetting cost if outsiders are large shareholders.

External shareholdings as those held by corporate or institutions, government and individuals outside the company. As externally-held shareholdings increase, the incentive to increase the monitoring effort also increases. However, the evidence tends to support the hypothesis of increased institutional shareholdings being associated with better performance. For example, for the US and the UK data, Schleifer and Vishny (1986) find a positive relationship between external shareholdings and performance.

Various aspects of potential conflict of interest between corporate managers and dispersed shareholders when managers do not have an ownership interest in the firm have been emphasised by Jensen (1986). Jensen and Meckling (1976) argued that there is an incentive for the manager to adopt investment and financing policies that benefit him, but reduce the payoff to outside stockholders. An offsetting cost, discussed by Morck, Shleifer, and Vishny (1988), is that with larger shareholdings the manager may become entrenched, and immune to other forms of discipline. A particular form of entrenchment that might be important in emerging markets is that the manager could become resistant to monitoring by a large outside shareholder.

Fauzias, Rasidah and Hendon (1994), evaluate the relationship between board ownership and financial performance as measured by Tobin Q, EPS

and PE ratios of Malaysian public listed company. They find that in a cross-section of 79 companies, Tobin Q, EPS and PE ratios rise for board ownership range of 0%-5%, fall as ownership rises between 5%-25 (statistically significant for Tobin Q and PE ratios), and continue to rise except for PE ratio as board ownership rises beyond 25%. The entrenchment effect dominates the convergence-of-interest for firm with ownership range of 5%-25%.

Jensen (1993) argues that boards with more than about 7 to 8 members are unlikely to be effective. According to him, large boards result in less effective coordination, communication and decision-making, and are more likely to be controlled by the CEO. Empirical findings by Yermack (1996), based on U.S. companies provides another strand of literature that investigates the different corporate governance mechanisms, such as the structure of the board. Wu (2000) also find that the presence of active institutional investors, in particular CalPERS, is associated with a tendency of firms to reduce board sizes, generally through the removal of inside directors.

The corporate governance environment in East Asian countries such as Singapore and Malaysia is much different from that in the more developed markets. The USA has a much more developed shareholder-centered corporate governance system whereas and the Scandinavian countries such as Finland has a much more stakeholder-oriented corporate governance system. Studies provide evidence of negative relationship between board size and firm value appears to be generalisable to environments with widely different corporate governance systems.

When Boards of Directors are passive they have the tendency to be friendly to management. As a result, they do not perform as expected in terms of their responsibilities in disciplining and monitoring the managers. This motivates the need to employ outsiders into the board. Outside directors are those who do not have a family or business relationship with the managers of the firm. Similar to the issue of blockholder ownerships, the studies on the effect of outside directors on the agency problem yield mixed findings. While some studies find that outside directors align the interests of managers and shareholders, there are also studies that advise against having more outside directors.

Outside directors may be appointed because of declining firm performance (Hermalin and Weisbach 1988). Kaplan and Minton (1994) find this to be more common in Japan, and future firm performance improves after the appointment of bank directors and corporate directors into the board. Their results show the importance of relationship-oriented governance systems in Japan. Weishbach (1988) finds higher incidence of CEO turnover for outsider-dominated firms with declining performance. Outsiders are more likely to fire poor performing CEOs to preserve their reputation and maintain their value in the managerial labor market. On the other hand, Baysinger and Hoskisson (1990) and Hermalin and Weisbach (1991) find no relationship between board composition and performance. Evidence that the existence of a time lag may be present, is suggested by Baysinger and Butler (1985) who report a ten-year lagged relationship.

Mak and Li (2001) examine the relationship between corporate ownership and board structure in Singapore. Managerial ownership and size of the board are negatively related to the proportion of outside directors. Since government has substantial involvement in the private sectors in Singapore (Mak & Chang 2000), they also examine the relationship between government ownership and board structure. They find that the companies with significant government ownership typically have boards with fewer outside directors.

The effect of the structure and composition of the board of directors on firm performance is the subject of extensive research that does not reach a consensus. The degree of alignment between board and shareholder incentives varies with the composition of the board. Some evidence supports a view that outside directors act in the interests of the shareholders and serve to monitor the managers (Weisbach 1988; Rosenstein & Wyatt 1990; Hermalin & Weisbach 1988; Mayers *et al.* 1997; Fama & Jensen 1983). Outside directors are appointed in the interests of the shareholders and are more likely to remove CEOs following poor performance.

The size of the board is also a device used to align interests of managers and board members. Small boards serve to control managers whereas a larger board may not function effectively as a controlling body and leave management free. However, a larger board may be more valuable for the breadth of its services.

DATA SOURCE AND MEASUREMENTS

There are two sources of data for this study. The data (2608 companies) on ownership from the year

1990 through to 2001 were obtained from annual company handbook published by The Kuala Lumpur Stock Exchange (KLSE). The study also excludes companies from the financial sectors that comprised banking and insurance companies. These years are chosen because the capital markets study requires ample number of years so as to provide reasonable duration for ownership and debt adjustments. This period is also assumed to be long enough to handle short-term irregularities and can provide a reliable estimate of company performance.

The sectors that are of interest to this study are the construction, the consumer products, hotels, industrial products, infrastructure companies, mining, plantation, property, technology as well as trading and services.

MEASUREMENT OF DEPENDENT VARIABLES – PERFORMANCE MEASURES

Three types of data sets are utilised for analysis; data that proxy the performance criteria, data that described ownership and board structure of the firms and the control variables.

There are six performance measures that are utilised as dependent variables in this analysis. The use of these six measures of performance is based on two reasons. Firstly, it is possible to compare them and their values because they measure different concepts of performance. Secondly, the extent to which measures to use whethers market or accounting measures of performance is related to the amount of "noise" inherent in their signals, and their sensitivity to board actions.

Nevertheless, the selection of variables is also guided by the results of previous studies that have been mostly conducted on the developed capital markets stocks. This is aimed at examining the influence of these variables, rather than to identify new variables on company performance of the KLSE.

For the purpose of this study, six measures of dependent variables considered as performance indicators are evaluated. These performance indicators are commonly used in studies on corporate governance. The six performance mesures are the Return on Assets (ROA) (Mehran 1995; Core *et al.* 1999; Denis & Denis 1994), Return on Equity (ROE) (Abowd 1990; Core *et al.* 1999), Tobin Q (TQ) (Mehran 1995; Chung & Pruitt 1994; Rathinasamy *et al.* 2000), Economic Value Added (EVA) (Dodd & John 1999; O'Byrne 1996), Market Value Added (MVA) (Dodd & John 1999; O'Byrne 1996) and Market Book Value Ratio (MBR) (Denis & Denis 1994).

MEASUREMENT OF INDEPENDENT VARIABLES – OWNERSHIP MEASURES

Equity represents ownership. The equity holdings by various investors that described ownership of the non-financial firms listed on the main board of the KLSE that are understudied are classified into categories. These categories are the ownership concentration and the ownership mix as well as the size of board and the equity held by the BOD. The following describes the proxy variables that represent the ownership measurements.

1) Ownership Concentration (OC) (La Porta *et al.* 1998; Koke 2001; Claessens *et al.* 2000; Admati *et al.* 1994)
2) Ownership Mix/Type (OM)
   a) Equity holdings of the corporate shareholders (CORP) (Karpoff 1998; Del Guerico & Hawkins 1999; Porter 1992),
   b) Equity holdings of the government owned companies (G) (Shleifer & Vishny 1997).
   c) Equity holdings of individual investors (INDI). Individual shareholders are direct ownership that hold shares in his own name.
   d) Equity holdings of the nominees, both finance and public company (NF_NP).
   e) Board of Director Equity Holding (DIR_HOL) (Agrawal & Knoebar 1996; Agrawal & Mandelker 1990; Mehran 1995).
3) Board Size (BOD) (Yermack 1996; Jensen 1993; & Eisenberg *et al.* 1998)

MEASUREMENT OF CONTROL VARIABLES

These factors are considered as control variables and are listed as below:

1) Total Sale (TOTSALE) (Short & Keasey 1999; Jensen 1989)
2) Debt Asset Ratio (DAR) (Rajan & Zingales; 1995)
3) Percentage Change in Income (Growth) (Mehran 1995).

METHODOLOGY

MODEL 1

Use to determine the effect of ownership concentration and board structure on firms' performance. It is as follows:

$$Y_i = a_i + b_{1i}OC + b_{2i}BOD + b_{3i}DIR\_HOL + b_{4i}TOTSALE + b_{5i}GROWTH + b_{6i}DAR + e_i.$$

where,

$i = 1$ to 6, $Y_1 = $ ROA, $Y_2 = $ ROE, $Y_3 = $ EVA, $Y_4 = $ MVA, $Y_5 = $ MBR, $Y_6 = $ TQ.

MODEL 2

Use to determine the effect of ownership mix/types of the concentration and board structure on firms' performance. It is as follows;

$$Y_i = a_i + b_{1i}CORP + b_{2i}G + b_{3i}NF\_NP + b_{4i}INDI + b_{5i}BOD + b_{6i}DIR\_HOL + b_{7i}TOTSALE + b_{8i}GROWTH + b_{9i}DAR + e_i.$$

The log of measures of performance are used in this study. Models 1 and 2 are tested on all the industries. Test for heteroskadesticity is done on the data and the insignificance characteristics as indicated by the White tests denote that there is no heteroskadesticity problem with the data for the industries in this study.

FINDINGS

Pool estimates of Model 1 indicate significant effects of ownership concentration for performance measure of ROA, EVA, MVA, MBR and TQ. This is observed in Table 1a. The analysis also shows that the model that uses EVA is the best model in term of the values of R^2. We caution readers in interpreting the results for other models as the R^2 are relatively low. Individual industry estimates (Table 1b) show that ownership concentration is significant to construction, hotel and industrial product sectors only as measured by ROA. Ownership concentration as measured by the top ten shareholders is also significant for consumer product and hotel industry as measured by ROE and it is significant for trading and services industry as measured by MVA. The regression of MBR dictates that ownership concentration shows significant contribution to the consumer product, industrial product and trading and services industries. The performance measure of TQ also stresses that ownership concentration is significantly important to construction, consumer product, and industrial product as well as trading and services sectors of the KLSE main board. This observation indicates that among all the performance measures, TQ regression depicts that ownership of top ten shareholders play significant role as governance mechanism in aligning the managers to 57% of listed firms. This is followed by MBR that is measured by 43% of top ten shareholders of the firms.

The board size is found to be insignificant for all sectors for performance measures ROS and ROE, but it is significant to industrial product and property industries as measured by MVA and only significant to Trading and Services industry as measured by MBR and TQ (Table 1c).

The director's holding is important in monitoring the hotel sector activities as measured by ROA and ROE regressions. The MVA regression illustrates that director's holding inverse relationship that helps significantly in improving the performance of the industrial product as well as the trading and services sectors. The regressions of MBR and TQ also illustrate significant contribution of director's equity holding in ensuring the value-maximising interest of the shareholders for the consumer product, hotel and the plantation industries. Their effects are positive on both performance measures for plantation industry and negative for hotel industry.

As depicted in Table 2a, the ownership concentration that is significant in the regression of ROA and ROE is actually the institutional shareholders that are controlling the whole industries. A different outlook is observed in the regression of MVA, MBR and TQ. The ownership concentration represented by institutional shareholders, the government ownership and the nominees dominate significantly in the regression of MVA regression. As for MBR and TQ regression, the institutional shareholders, the government and the individuals are the components that represent significant contribution to ownership concentrations in general. As in Table 1, we also observed the high value of R^2 for EVA compared to other performance measures. This shows that for both model, EVA is the better measure for performance.

Table 2b indicates that the positive effect on performance by concentrated ownership comes from the institutional shareholders and nominees for construction sector, while the individuals equity holders dominates the consumer product industry

TABLE 1a. Overall results for model 1

Variables[@]	ROA	ROE	MVA	EVA	MBR	TQ
Intercepts	1.810	1.743***	19.468***	6.691***	0.465**	6.972***
	(10.460)	(7.790)	(84.960	(8.750)	(2.470)	(86.520)
OC	0.004***	0.003	0.006***	0.027***	0.007***	0.007***
	(2.740)	(1.400)	(3.300)	(3.600)	(4.070)	(4.140)
BOD	0.014	0.008	0.015	0.264***	0.035**	-0.027
	(0.850)	(0.400)	(0.650)	(4.310)	(1.980)	(-1.450)
DIR_HOL	0.001	-0.001	-0.012***	0.083**	-0.007**	-0.004
	(0.220)	(-0.260)	(-2.790)	(2.290)	(-2.000)	(-1.150)
TOTSALE	0.000	0.000	0.000***	0.000	0.000	-0.000***
	(0.930)	(0.200)	(12.710)	(0.840)	(0.160)	(-3.860)
GROWTH	0.0004***	-0.000**	0.000**	0.000	0.000*	0.000**
	(4.190)	(-1.960)	(2.550)	(0.750)	(1.600)	(2.080)
DAR	-2.240***	0.624***	-0.783***	4.292***	0.212	-0.852***
	(-9.33)	(2.960)	(-2.660)	(3.900)	(0.830)	(-4.590)
R^2	0.218	0.043	0.374	0.942	0.060	0.145
WT (ρ)	0.014	0.283	0.013	0.525	0.510	0.036
DW	1.907	1.978	1.354	2.426	1.273	1.114
N	1570	1570	1570	1570	1570	1570

*** Indicates the coefficient is significant
@ OC=Ownership Concentration, BOD=Board Size, DIR_HOL=Board of Director Equity Holding, TOTSALE=Total Sale, GROWTH=Percentage Change in Income, and DAR=Debt Asset Ratio.

TABLE 1b. Significance of ownership concentration to performance measures (by sector)

Sector	Performance Measures					
	ROA	ROE	EVA	MVA	MBR	TOBIN Q
Construction	***					***
Consumer Product		***			***	***
Hotel Industry	***	***				
Industrial Products	***				***	***
Infrastructure companies						
Mining						
Plantation						
Property						
Technology						
Trading and Services				***	***	***

*** Indicates the coefficient is significant (all significant coefficients are positive).

TABLE 1c: Significance of board size to performance measures (by sector)

Sector	Performance Measures					
	ROA	ROE	EVA	MVA	MBR	TOBIN Q
Construction						
Consumer Product						
Hotel Industry						
Industrial Products				***		
Infrastructure companies						
Mining						
Plantation						
Property				***		
Technology						
Trading and Services					***	***

*** Indicates the coefficient is significant (all significant coefficients are positive).

TABLE 1d. Significance of director's holding to performance measures (by sector)

Sector	Performance Measures					
	ROA	ROE	EVA	MVA	MBR	TOBIN Q
Construction						
Consumer Product					***(+)	***(+)
Hotel Industry	***(+)	***(+)			***(-)	***(-)
Industrial Products				***(-)		
Infrastructure companies						
Mining						
Plantation					***(+)	***(+)
Property						
Technology						
Trading and Services				***(-)		

*** Indicates the coefficient is significant.

whereas institutional shareholders are dominant shareholders for industrial product sector. These effects are measured by ROA regression. For the plantation industry, the effect is mainly concentrated from the government shareholdings. This is as observed in the ROE regression. The government as legal institution monitors the performance of this plantation industry. The director equity holding too acts as important ownership determinant in ensuring the success of plantation industry as measured by MVA, MBR and TQ. The regression of TQ indicates that ownership concentration is dominated by the institutional shareholders in construction, industrial product and property industries. It is dominated by the nominees, individuals and the directors holding in the consumer product industry. For the same regression, ownership concentration is made up by the government and nominees as major shareholders. These shareholders monitor firm activities and align them toward attaining higher firm performance in the trading and services industry.

CONCLUSION

The findings from this empirical study provides information on the importance of large institutional shareholders in corporate governance This study also providing evidence that, typically equity owned by the corporations, government, nominees and individuals are directly influencing the financial structures of the firms. This will eventually affect the overall performance of the firms. The equity holding

TABLE 2a. Overall results for model 2

Variables[@]	ROA	ROE	EVA	MVA	MBR	TQ
Intercepts	1.818***	1.75***	6.345***	19.501***	0.488***	7.020***
	(10.650)	(7.950)	(6.420)	(85.880)	(2.580)	(37.100)
CORP	0.007***	0.006***	0.032*	0.005**	0.007***	0.008***
	(0.210)	(2.540)	(2.270)	(2.210)	(3.680)	(3.990)
G	0.001	0.000	-0.027	0.01291***	0.006***	0.010***
	(0.210)	(0.010)	(-0.460)	(4.070)	(2.370)	(3.630)
NF_NP	0.002	-0.001	0.012	0.007***	0.003	0.003
	(0.960)	(-0.410)	(0.740)	(2.650)	(1.550)	(1.130)
INDI	0.007	0.010*	0.028*	-0.009	0.01199**	0.010**
	(1.570)	(1.770)	(2.170)	(-1.280)	(2.250)	(2.080)
BOD	0.011	0.007	0.337**	0.011	(-0.035**	-0.029
	(0.700)	(0.350)	(4.110)	(0.510)	(-1.940)	(-1.580)
DIR_HOL	0.000	-0.004	0.118**	-0.008*	-0.009**	-0.005
	(0.090)	(-0.770)	(2.690)	(-1.660)	(-2.230)	(-1.260)
TOTSALE	0.000	0.000	0.000	0.000***	0.000	-0.000***
	(1.540)	(0.720)	(0.330)	(11.860)	(0.000)	(-3.860)
GROWTH	0.000***	-0.000**	0.000	0.000***	0.000	0.000**
	(4.310)	(-1.910)	(0.460)	(2.580)	(1.510)	(1.960)
DAR	-2.198***	0.675***	4.933*		0.306	0.781***
	-9.140	3.230	2.000		1.180	4.210
R^2	0.240	0.066	0.961	0.405	0.063	0.157
WT (ρ)	0.000	0.772	0.559	0.080	0.532	0.231
DW	1.925	1.982	2.367	1.364	1.288	1.144
N	1570	1570	1570	1570	1570	1570

*** Indicates the coefficient is significant

@ CORP=Equity holdings of the corporate shareholders, G=Equity holdings of the government owned companies, INDI=Equity holdings of individual investors, NF_NP=Equity holdings of the nominees, both finance and public company, BOD=Board Size, DIR_HOL=Board of Director Equity Holding, TOTSALE=Total Sale, GROWTH=Percentage Change in Income, and DAR=Debt Asset Ratio.

by the directors also illustrates ample evidence that it affect firm performance in some sectors. This indicates that to encourage firm performance, the supply of suitable management and directors as well as other stakeholder's information is important. Jensen (1993) suggest that larger board size is associated with greater risks (Jensen 1993), and decision making by larger groups is less effective as compared to smaller groups. In this study, generally we see that a contrasting result, except when MBR is used as the performance measure.

Finally it is suggested that investors either as concentrated or diffuse ownership must participate actively in monitoring and aligning management and pushing them to change to better ways in achieving higher standard of firm performance thus maximising wealth. They must start thinking that they are actually owners of the firms and should maximise and exercise their rights in pushing the management to perform better. This will result in the formation of dynamic board and the building of strong management structure to enable them to control company risks at any levels in the organisation. Implementing this will result in aligning the investor's interest with that of the managers.

TABLE 2b. Significance of director's holding to performance measures (by sector)

Sector	Performance Measures					
	ROA	ROE	EVA	MVA	MBR	TOBIN Q
Construction	institutional shareholders and nominees					institutional shareholders
Consumer Product	individuals equity holders					nominees, individuals and the directors holding
Hotel Industry						
Industrial Products	institutional shareholders					institutional shareholders
Infrastructure companies						
Mining						
Plantation		government shareholdings		director equity holding	director equity holding	director equity holding
Property						institutional shareholders
Technology						
Trading and Services						government and nominees

*** Indicates the coefficient is significant

Since ownership structures and the company board of directors are considered as the corporate governance mechanisms, its research at any parts of the world is generally observed to describe as the system of rules and procedures employed in the conduct and control of listed company. It does not seek to impose rigid and uniform models, but to contribute to the optimisation of company performances and to favour all those people whose interests are involved in the work of the company – investors, creditors and workers.

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