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Shareholder Structures and Their Influence on Corporate Financial Strategy

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Abstract: Numerous studies have examined the dynamics of multiple shareholders in firms, primarily focusing on aspects of firm performance and value, as evidenced by seminal works such as Lehmann and Weigand (2000), Gutierrez et al. (2003), Gutierrez et al. (2004), Maury (2004), Laeven and Levine (2008), and Attiq, Ghoul, and Guedhami (2009), among others. Additionally, a subset of literature has delved into the intricate relationship between large shareholders and firm policies, as explored by Cronqvist and Fahlenbrach (2007), Ghachem (2008), and Attiq et al. (2008). However, there remains a notable gap in the literature regarding the nuanced interplay between multiple shareholders, firm performance, and firm policies. This study seeks to address this gap by examining the multifaceted dynamics among multiple shareholders, firm performance metrics, and the formulation and implementation of firm policies. By employing a comprehensive analytical framework, this research aims to shed light on the intricate mechanisms through which multiple shareholders influence both the financial and strategic dimensions of firms.

Keywords: Multiple Shareholders, Firm Performance, Firm Policies, Large Shareholders, Corporate Governance.

1. Introduction

Many studies on multiple shareholders focus on firm performance or firm value such as Lehmann and Weigand (2000), Gutierrez et al. (2003), Gutierrez et al. (2004), Maury (2004), Laeven and Levine (2008), Attiq, Ghoul and Guedhami.(2009), Isakov and Weisskopf (2010).

There are several studies which address the relationship between large shareholder and firm policies such as Cronqvist and Fahlenbrach (2007), Ghachem (2008) and Attiq et al. (2008). However, the previous study which examined the ownership structure and corporate policy has not focus on the presence of multiple shareholders. The studies look only on the identity of the large shareholders by focusing on the outside blockholders and did not consider the other large shareholders. Therefore, there is a gap in the literature of the effect of multiple large shareholders (MLS) on corporate financial policies. This study intends to fill in the gap by examining in greater detail whether the presence of multiple shareholders that considers other large shareholders have significant impact on the corporate financial policies of a firm. According to Gutierrez (2003), investigation into the effect of multiple shareholders structure is important in assessing the role played by internal structure of firm in affecting firm's decision. This is in light of the absence of studies that specifically examine the impact of multiple large shareholders on the various corporate financial policies. 2. Literature Review

2.1 Agency Theory

The original concept of agency problem is initiated by Berle and Means (1932). The authors address the concept of agency theory and applied in the large corporation development. It become popular among researchers during 1960's and early 1970's which address the problem of risk sharing between two parties that have different perception on risk (Eisenhardt, 1988). Agency theory has been widely used in the fields of economics, finance, marketing, political science, organization behavior and sociology.

Most of the earlier researchers' only address the issue of contract between top management and shareholders of the firm. However, many other issues can be developed within the agency cost framework such as those between manager and other stakeholders and between large shareholders and small shareholders. Jensen and Meckling (1976) state that agency problem in Type I agency theory can be minimized with ownership concentration, whereby firm's shares are owned by a small number of shareholders. However, a highly concentrated ownership structure will lead to a new conflict of interest between large shareholders and small shareholders due to expropriation of wealth by large shareholders at the expense of small shareholders.

This is known as Type II agency theory. Large shareholders are only concerned with their own benefit and disregard the interest of other shareholders.

According to Hu and Izumida (2008), the effect of concentrated ownership is in term of monitoring role and the cost of expropriation by large shareholders. This is evidenced in a study by Pagano and Roell (1998) which reported that large shareholder will partially internalize the benefit to pay-off their active monitoring effort.

2.2 Corporate Governance

Corporate governance is defined by Denis and McConnel, (2003) as a set of mechanisms, involved in organization's decision-making with the objectives to maximize the organization's value and to increase shareholders' wealth. Thus, every action and decision taken by the company is intended to provide benefits to shareholders of the company. This is the same as those expressed by Shleifer and Vishny (1997), where "corporate governance deals with the ways in which supplier of finance to corporation assure themselves of getting a return on their investment". This view is more specific in the area of finance in order to avoid expropriation by certain shareholders in a company; for instance to protect other shareholders from expropriation of wealth by controlling shareholders. This is brought up by Claessen (2006) that corporate governance is related the role of multiple shareholders and board of directors at firm level.

Malaysia has taken initiative to strengthen its corporate governance system since 1996. It begins when the Kuala Lumpur Stock Exchange (KLSE) introducing the directors Code of Ethics. This is followed by the establishment of Malaysian Code Corporate Governance (MCCG 2000) meant to restore investor's confident after Asian economic crisis in 1997. In addition, in 2001, Bursa Malaysia Listing Requirement requires all listed companies to include a Corporate Governance Statement in their annual report. This is to ensure that all listed companies comply with all the guidelines as required by the KLSE. Furthermore, Minority Shareholder Watchdog Group (MSWG) was established to further enhance corporate governance, where it serves to protect the interest of minority shareholders relating to their right.

Original Article

Furthermore, MCCG was revised in 2007 and several amendments related to the board of directors have been made.

Many of the corporate governance weaknesses that have resulted in companies' failure are due to the conflict of interest between manager and shareholders. This conflict, which arise because of separation of ownership and control leads to agency problem (Berle and Means, 1932). As a result the shareholders wealth maximization objective cannot be achieved in the long run. This is further reinforced by Jensen and Meckling (1976), who stressed that agency problem, will exist in a firm when the shares are not fully owned by the manager. However, the agency problem can arise not just between shareholders and managers, but also between controlling and minority shareholders, between shareholders and creditors and between controlling shareholders and other stakeholders (Morck, Nakamura and Shivdasani, 2000; Bebchuk, Kraakman and Triantis , 2000; Fama and Jensen, 1983 ; Shleifer and Vishny, 1997).

Grossman and Hart (1980) observe the monitoring role of large shareholders as a possible solution to agency problems that arises from the separation of ownership and control in public corporation. Gomes and Novaes (2005) and La Porta et al. (1999) highlight the importance of monitoring role played by large shareholders in the company. Interestingly, sharing control among large shareholder was introduced as new a corporate mechanism. According to Mitton (2002), large shareholders use their power and incentive to avoid expropriation by controlling shareholder. In addition, Zhong et al. (2007) reveals that the effectiveness of monitoring by outside blockholders on managers have positive impact on firm's earning.

Based on the above-mentioned arguments, it can be concluded that corporate ownership structure is one of the key determinants in influencing the internal corporate governance in the company. Although numerous studies have been conducted to examine the various issues of ownership structure, hardly any of them focused the impact on the corporate financial policies. Therefore, this study is motivated by the issue of ownership structure focusing on multiple shareholders structure that could have significant impact on corporate financial policies.

2.3 Ownership Structure

2.3.1 Corporate Ownership Structure

Ownership structure is one of the important mechanisms in corporate governance. Corporate governance arises because of the separation of ownership (shareholders) and control (decision maker) in a firm. The composition of ownership structure will determine who control the firm or who the ultimate shareholders are.

La Porta et al (1999) defines ultimate ownership as the sum of shares owned, directly or indirectly by a single owner through cross-shareholdings and pyramids. Meanwhile, cross-shareholding occurs where a company down the chain of control has some shares in another company in her/his chain of control. Controlling shareholders can be defined as a person or a group of persons who together are entitled to exercise or control the exercise of at least 33% of the voting right shares in a company or who in a position to control the composition of a majority of the board of directors of such company (Bursa Malaysia, Equity Guideline August 2009). In addition, according to Bursa Malaysia Main Market Listing (2009) shareholding spread, PLCs should ensure that at least 25% of their outstanding share or a minimum number of 1,000 shareholders must be owned by public shareholders with not less than 100 shares each.

2.3.2 Ownership Concentration

In general, Malaysian PLCs are classified as having concentrated ownership structure (Claessens, Djankov and Lang, 2000).

Original Article

They analyze 2,980 corporations in nine East Asian countries and found that most of the companies are controlled by single owner. This shows that ownership structure in Malaysia is highly concentrated and therefore consistent with the study by Abdul Samad (2002), which has a total sample of 731 companies and found that ownership of Malaysian PLCs controlled by a few shareholders. The study inidicates that 71.4% of all PLCs controlled by five largest shareholders. Zuha, S., Abdul Rahman, R. and Mahenthiram (2009) investigate the ultimate ownership in Islamic financial institution (IFI) in Malaysia.

They used sample of 31 IFIs in Malaysia and reveal that IFIs in Malaysia are highly concentrated. On average, 81% of the shares of IFIs are in the hands of 10 largest shareholders and 69% of the equity is held by several main (ultimate) shareholders.

Abdul Wahab (2009) includes 440 Malaysian PLC's in his study and reveals that there is significant presence of blockholders which hold more than one-third of the shares outstanding. Blockholders is defined as an investor who holds more than 5% of equity and excluded the institutional investors.

Mohd Sehat and Abdul Rahman (2005) use 5% cut-off point in the top one hundred PLC's to study the ownership concentration in terms of direct holding of shares. They conclude that 50% of the companies have 57.11% shares owned by block holders. It is also reported that 55.84% of the shares are owned by the blockholders and the highest and lowest ownership concentration is 89% and 5.9%, respectively. This evidence indicates that ownership structure in Malaysia is highly concentrated and is in line with the study's conducted by Claessens, Djankov and Lang (2000) and Abdul Samad (2002). Ishak and Napier (2004) point out more detailed analysis on the ultimate controlling owner. The study classifies the largest ultimate owner at 5%, 20% and 40% cut-off points. They find that at 5% cut-off point, 97% of the Malaysian PLCs have an ultimate controlling owner, 85% at 20% cut-off point and 66% at 40% cut-off point.

Therefore, Malaysia provides an interesting background to examine the issue of ownership structure especially pertaining to the Multiple Large Shareholders (MLS) because the ownership structure of its PLCs is highly concentrated and large shareholders have significant control.

2.3.3 Multiple Shareholder Structure (MSS)

MSS has arisen due to the concentrated ownership structure, a common feature in firms' worldwide (Mallin, 2007 and La Porta et al., 1999). Concentrated ownership exists when a company is owned by several large shareholders who control the company. Therefore, the presence of several large shareholders results in MSS ownership structure.

In general, a company is controlled by a single large shareholder and accompanied by other large shareholders or multiple large shareholders.

According to Gutieerez et al (2003), MSS exists when a company is controlled by single controlling shareholders (SCS) who owned more than 50% of the shares and is accompanied by several large shareholders or multiple large shareholders (MLS). However, according to Gomes A. et al (2000) and Isakov et al (2010), it exists when the largest shareholders owned more than 20% of shares accompanied by others large shareholders at least owned 10% of shares.

Prior researches reveal that Malaysian PLCs seems to be highly concentrated and seems to have MLS. Claessens, Djankov and Lang (2000) reveal that one-third of East Asian corporations are in the hand of one ultimate shareholder. Meanwhile, Attig et al (2009) indicate that most (one third) of the firms in East Asia has MLS.

Thillainathan (1999) argues that Malaysia ownership structure can generally be classified in the category of MLS as having a highly concentrated ownership.

MSS ownership structure with highly concentrated ownership will affect the corporate governance as highlighted by Schleifer and Vishny (1997) who state that concentrated ownership structure is the key determinant of corporate governance. According to Jensen and Meckling (1976), concentrated ownership structure can minimize agency problem that arise because of separation of ownership and control.

2.4 Corporate Financial Policies

The goal of corporate finance is to maximize the value of the firm. Wang (2010) argues that the trilogy of financial decision (investment, financing and dividend policies) could have influence on the firm's performance. Cohen and Yagil (2007); Tu, Lai and Chou (2007) and Pindado and Torre (2006) employ investment policies, financing policies and dividends policies in their research as corporate financial policies as viewed by finance theory. Cohen and Yagil (2007) examine the importance of corporate financial policies through international survey on five countries including U.S., U.K., Germany, Canada and Japan. Based on their survey, they find that investment policy is the most important policy due to business operation and growth of the company which was closely related to this policy.

2.4.1 Investment Policy

Investment decisions must be made with caution because it requires estimating the value of the project which is comprised of size, timing and predictability of future cash flows. This process is known as capital budgeting process used to select an appropriate investment project that can maximize shareholders wealth.

Wang (2010) measures investment policies by the value of capital and R&D expenditures deflated by total asset. They reveal that investment policy had significant impact on firm performance. Naser (2010) and Cronqvist and Fahlenbrach also use similar investment policy measurement in their study.

2.4.2 Financing Policy

Corporate investment should be financed appropriately in order to achieve the goal of the corporation. The financing policy is one of the important policies that will influence the company's value. Company must determine their financing mix which will have impact on the valuation of companies. The preference source of financing for the company is based on pecking-order theory. According to this theory, company will utilize internal sources of financing and rather than employing external financing (debt and equity) because it is the cheapest way to raise fund.

Company has two sources of financing namely internal financing (equity) and external financing (debt). Financing investment project through equity is less risky with respect to cash flow commitment. When debt is used as a source of funding the company is obliged to service its debt. A company with more debt than equity is considered to be highly leveraged company. Company that is highly leveraged may be at risk of bankruptcy if it is unable to service its debt appropriately. From the perspective of shareholders, financial leverage is not always bad but it can increase the shareholders return on their investment because of tax advantage associated with debt. Therefore, it is very important to know the amount of leverage being used by a company. Debt ratio is commonly used to determine whether the company is highly leverage or otherwise. It indicates how company finance its asset whether to use debt or common equity.

Recent study conducted by Pindado and Torre (2006), L. Mancinelli et al. (2006), Tu, Lai and Chou (2007), Cronqvist and Fahlenbrach (2007) Sulaeman (2008) and Nasser (2010) consider debt ratio as their measurement for financing decision. They use market value of the long term debt divided by market value of long term debt plus equity.

2.4.3 Dividend Policy

If the company pays dividends, how large these dividends should be, how frequently and in what form dividends should be distributed. In agency theory, dividend payments will reduce agency cost between managers and shareholders whereby excess profits generated by the company be used to pay dividend. Dividend policy was used as align mechanism in equity agency problem.

This would avoid manager from using the excess fund for investment or project that was not profitable (Jensen, 1986). In the financial literature, much had been debated about the dividend policy that could affect the value of the company.

Tu, Lai and Chou (2007), Claessen et al (2000) and Jensen et al. (1992) define dividend policy as dividend payout ratio (DPR) that consist of cash dividend payout ratio plus stock dividend payout ratio. However, in the other study conducted by Mancinelli (2006), the author introduces an alternative measure of dividend payout. Dividend over market capitalization is used to overcome the accounting practice problem as well as dividend over net income. In addition, Wang (2010) measures dividend policies by the value of the cash dividend per share over earnings per share. Meanwhile, Pindado and Torre (2006) measure dividend as total dividend including share repurchases that derived from total amount of dividend based on net income plus share repurchases.

2.5 Multiple Shareholders Structure and Corporate Financial Policies

The board of director is the highest governing body in the company that determines the objective, strategic plan and corporate policies.

As stipulated in MCCG (2007), the company business objectives, corporate strategic plan and corporate policies should be reviewed and approved by the board of directors before they are implemented. Theoretically, ownership structure has a strong influence in determining members of the board through their rights to elect the board of directors. Therefore ownership structure of the company can influence the corporate financial policies through the board of director that represent them in running the company.

According to Hui (1981), ownership is defined as share ownership and control that refers to the power over the company owned by shareholders. Hence, ownership refers to the person who owns the stock and who controls the company depending on how large they own the company's shares. As an owner of the company, shareholders are granted the right to elect the board of directors to represent them in running the business in the best interest of the shareholders. If the individual or organization or institution owns a large amount of stock, they will become the largest shareholders and this will enable them to control the company. Therefore, they will have a greater influence on appointment of the board of directors. In other words, large shareholders have a significant influence in determining who the directors they want due to the right as a large shareholder in the company.

According to Cronqvist and Fahlenbrach (2007), shareholders can influence corporate policies, whether directly or indirectly. As discussed above, direct influence is through the appointment board of directors while indirect influence is through informal negotiations with management who are managing the company at that particular time.

Therefore, it is clearly indicated that, ownership has a direct influence on the decision made by the boards who are elected by shareholders. This is consistent with Syriopoulos et al. (2007) who argued that financial decisions made by the company are affected by the structure of corporate ownership.

An empirical study was conducted by Holderness and Sheehan (1988) on the role of large block ownership in publicly held corporations involving 114 corporations with majority shareholders (individual or entities owning at least half but less than all of the common stock).

They find that when the firm had a major shareholder, the corporate policies were different and majority shareholder were the party who were directly involved in the management and would lead the firm.

Different group of shareholders will have different views toward corporate financial policies. As mentioned earlier, large shareholders have the advantages in determining the policies of the company since they control the company due to the rights that they own. This is evidenced by Cronqvist and Fahlenbrach (2007).

They argue that every particular group of shareholders had their own way to monitor the management and they also had a set of specific corporate policies that enabled them to obtain a worthwhile on the investment made. Using data of large U.S. public corporation for a period of 1996-2001, they examine the effect of large shareholders on corporate policies. The findings reveal that the presence of certain large shareholders showed different patterns in corporate policies. Chachem (2008) find that the presence of large shareholders had a strong relationship with the investment policies and financial policies.

Bennedsen and Wolfenson (2000) discover that corporate policies in concentrated ownership structure are determined by the interaction among the several large shareholders. Therefore large shareholder will compete among each other to form a coalition in order to win control of the firm. However the controlling group who wins the control does not necessarily include all large shareholders. Eventually, a group of large shareholders who win the control will use their control power to determine the corporate policies of the company. A study conducted by Lehmann and Weigand (2000) find that the role plays by subsequent large shareholders increase performance. They found that profitability of the German listed companies improved with emergence of the second large shareholders. They conclude that the role played by internal structure of a firm's controlling group affects the firm's decision. This indicated that the presence of MSS in controlling group would improve firm performance.

Bethel, Liebeskind and Opler (1998) argued that investors were more likely to purchase large block of stock when they could influence the firm's policies and improved performance. By using the sample of 425 firms from Fortune 500 list, they examined the determinant of block share repurchase between 1980 and 1989.

They find that activist investor is able to influence firm policies and improves profitability. These result shows that activists block holders used their voting power to influence operational decision and governance.

The operating performance measured by ROA was used to address the issue of whether operational and governance changes were accompanied by improvement in performance.

They reveal that the ROA experienced upward trend after the block purchase. Moreover block share purchased by activists would reduce mergers and acquisitions (M&A) activity.

3. Significance of Study

This study would be providing a better understanding on the corporate governance mechanism especially on ownership structure by focusing on multiple shareholders structure that served as the important internal mechanisms in corporate governance. This study would offer insights on how multiple shareholders plays important role in influencing the corporate financial policies of the firm. Ownership structure is crucial in providing guideline and information to potential investors, researchers, regulators as well as policy makers such as Bursa Malaysia and Securities Commission.

Many large firms such as Lehman Brothers collapsed due to weaknesses of corporate governance especially regarding the internal mechanisms. Therefore, this study focuses on the investigation of the impact of multiple large shareholders on corporate financial policies of the firm. It will analyze the role and the existence of multiple shareholders and in influencing the decision made by the company. The finding of this study will contribute to the greater understanding of the role played by controlling shareholder and other large shareholders.

This study can enrich the literature on the role played by different groups of shareholders in highly concentrated ownership structure from the perspective of multiple shareholders structure in Malaysia. Furthermore, it can further enrich the literature on agency theory, specifically when the ownership structure is highly concentrated. From the theoretical perspective, the findings of this study are expected to provide further explanations on the agency problems between controlling shareholders and other large shareholders.

Moreover, this study will also provide additional evidence on agency problems based on multiple shareholders structure which includes firm with controlling shareholders, firm without controlling shareholders and firm with minority shareholders. Therefore the findings of this study can be an added value to Bursa Malaysia and Securities Commission as a guideline in designing a proper governance mechanism.

4. Proposed Methodology

4.1 Hypotheses

Based on previous studies, the issue in MSS was referring to misalignment of interest between the large shareholders and the minority shareholders or between the controlling shareholders and the other large shareholders (Morck et. al, 2000; Bebchuk, Kraakman and Triantis, 2000; La Porta et al., 2000; Shleifer and Vishny 1997). As discussed earlier, the impact of ownership structure which focuses on MSS on various corporate financial policies can be divided into two broad categories: (1) Firm with controlling shareholder, with or without large shareholder; (2) firm without controlling shareholders, but has large shareholder. The ownership structure category basically derived based on the ownership structure employed by Zwiebel (1995).

4.1.1 Single Controlling Shareholder (SCS) and Corporate Financial Policies

The controlling shareholders are able to influence the firm policies (Bethel et al., 1998; Agrawal and Nasser, 2011) and approaches toward corporate policies are said to be different with the presence of them in the firm (Holderness and Sheehan, 1988; Cronqvist and Fahlenbranch, 2007). The discussions on controlling shareholders have been discussed extensively in the literature. Maury and Pajustee (2002) argued the firm with multiple large shareholders and single controlling shareholder will have problem in terms of profit diversion, where their presence will lead to a lower dividend payment by the firm. Attig, Guedhami and Mishra (2008) argue for the cost of financing in the firm with MLS and SCS. It shows that financing cost for firms with the presence of SCS is higher compared to the firm with MLS. In addition, Harada and Nguyen (2006) pointed out that a lower dividend in firms with dominant shareholders due to the rent extraction on minority shareholders.

Controlling shareholders that has greater power on management are partially internalizing private benefit to pay-off their monitoring efforts in the firm (Pagano and Roell, 1998; Maury and Pajustee, 2005; Attig, Guedhami and Mishra (2008); Agrawal and Nasser, 2011).

Firm with controlling shareholders who control the firm will ensure that every decision taken by the management will benefit them. In this respect, the controlling shareholders will ensure that they are the only person who will lead the firm and no coalition of large shareholders exists (Pagano and Roell, 1998). Profitability can be associated with the capital structure where a profitable firm will rely on internal fund rather than debt. In this regard, the firm will rely on debt to finance their investment due to lower profit caused by expropriation and profit diversion. In addition debt financing is preferred rather than equity to retain their controlling in the firm (Berger et al., 1997; Tu, Lai and Chou, 2007). However the cost of financing is higher with the presence of SCS (Attiq, Guedhami and Mishra, 2008). If this is the case, the investment of these firms will be expected to be lower due to low availability of internal fund and high financing cost. Therefore, it can be argued that firms with SCS will pay a lower dividend due to the private benefit extraction and the profit diversion hence the firm will experience lower future investment.In the absence of large shareholder and with a single controlling shareholder, the following hypotheses are developed:

H1a: There is a negative relationship between the presence of SCS and dividend policy.

H1b: There is a positive relationship between the presence of SCS and financing policy.

H1c: There is a negative relationship between the presence of SCS and investment policy.

4.1.2 Controlling Shareholder (CS) and Large Shareholders (LS); and Corporate Financial Policies

The role played by large shareholder is very important in order to minimize the Type II agency problem. The monitoring role played by large shareholder will ensure that the decision made by the management will benefit all shareholders.

Large shareholders use their power and incentive to avoid expropriation by controlling shareholder that benefit to other shareholders (Mitton, 2002; Attiq et al., 2009; Gomes and Noveas, 2000).

The presence of more than one large shareholder is to enhance value of the firm (Pagano and Roell, 1998; Bennedsen and Wolfenzon, 2000; Maury and Pajuste, 2005; Laeven and Levine, 2008), it lead to reduce expropriation of wealth (Giterrez and Tribo, 2003; Maury and Pajustee, 2002 & 2005; Attig Guedhami and Mishra, 2008) and it will significantly reduce agency cost (Isakov and Weisskopf, 2009).

Furthermore, the presence of large shareholders will affect the corporate financial policies where their presence lowers the cost of financing, will pay a higher dividend and increase in leverage. In addition, monitoring role played by large shareholders serve as an alternative mechanism in corporate governance and sharing control by large shareholders become a new corporate mechanism (La Porta et al., 1999). It is due to the efficient monitoring role played by large shareholder to monitor controlling shareholders.

Moreover, large shareholders will form a coalition in order to control the firm to avoid expropriation by the controlling shareholder (Pagano and Roell, 1998; Bennedsen and Wolfenzon, 2000; Gomes and Noveas, 2001: Maury and Pajuste, 2005). Therefore, the presence of large shareholder in MLS is important due to the role played by them to ensure that controlling shareholders will not dominate the decision made by the management. This view is highlighted by Bennedsen and Wolfenzon (2000) where the presence of other large shareholders in the firm is to avoid the action or decision taken being influenced by controlling shareholders.

In this regard, it seems that the presence of large shareholder will benefit all shareholders in terms of policies formulated. This is due to the monitoring role played by them in monitoring the controlling shareholder that determines the corporate financial policies. Therefore, the presence of large shareholder will give them more power to pressure the controlling shareholders. Based on this argument, firms with controlling shareholders and accompanied by large shareholders may demand for high dividend payment to avoid expropriation of wealth by the controlling shareholders.

Original Article

Furthermore, they also demand for high investment in order to generate more profit that can be distributed as dividend to them. Moreover, the level of debt will be high due to high dividend payment and presence of major shareholder is associated with a higher level of leverage (Berger, Ofek and Yermack, 1997).
In addition, Tu, Lai and Chou (2007) revealed that firm used high debt in order to finance their new investment.
Therefore, based on the above argument, the hypotheses are formed as follows:
H2a: There is a positive relationship between the presence of CS and LS and dividend policy.
H2b: There is a positive relationship between the presence of CS and LS and financing policy.
H2c: There is a positive relationship between the presence of CS and LS and investment policy.

4.1.3 Large Shareholders (LS) and Corporate Financial Policies

Firm without controlling shareholders will be controlled by large shareholders who hold at least 10% or more but less than 33% of the firm's outstanding share. Large shareholders may use their power to influence decision made in the company and use insider information for their own interest (Agrawal and Nasser, 2011; La Porta et al. 2000; Holderness 2001; Morck et al.; Shleifer and Vishny 1997). A study conducted by Hu and Izumida (2008) concluded that the effect of concentrated ownership was in terms of monitoring role and the cost of expropriation by large shareholders.
Firms with large shareholder and accompanied by minority shareholders will depend on that large shareholder to perform the monitoring role. Misalignment of interest between large shareholders and minority shareholders will lead to possible expropriation of wealth by large shareholders (Shleifer and Vishny 1997; La Porta et al., 2000). In this respect, large shareholder will exploit the private benefit at the expense of minority interest (Shleifer and Vishny 1997, La Porta et al., 1999). According to Pagano and Roell (1995), the expropriation of wealth by large shareholders occurs due to pay-off their monitoring role played by them in the firm.
They will divert the company's profit into their own private benefit such as increase their salary if they are involved in management. Thus, it leads to a lower dividend payment to the shareholders (Harada and Nguyen, 2006). Furthermore, coalition of large shareholders may occur in order to control the firm as pointed out by Pagano and Roell (1998), Bennedsen and Wolfenzo (2000), Gomes and Noveas (2001), and Bloch and Hege (2001)
Therefore, firm with large shareholders and without controlling shareholder is expected to pay lower dividends due to the expropriation of wealth by large shareholders in the firm (Shleifer and Vishny 1997; La Porta et al., 2000). Hence, firms will experience low investment due to profit diversion (Pagano and Roell , 1995) and thus rely on debt financing to finance the investment (Tu, Lai and Chou, 2007). Based on the above discussion, the following hypotheses are formed as follows:
H3a: There is a negative relationship between the presence of LS and dividend policy.
H3b: There is a positive relationship between the presence of LS and financing policy. H3c: There is a negative relationship between the presence of LS and investment policy.

4.2 Research Design

4.2.1 Sample Selection

This study will involve the testing of hypotheses by utilizing the desired statistical procedures. Relationship between the independent variable (multiple shareholder structure), and dependent variable (corporate financial policies) will be analyzed using correlation and regression analysis to determine the relationship between the variables.

The population of this study is all companies listed on Bursa Malaysia. The starting point of this study is 2007 due to the revision of MCCG in 2007 as it has a significant impact on the existing structure of corporate governance. Therefore, the analysis of this study is proposed to cover the period from 2007 to 2013.

This study will cover non-financial firms of Bursa Malaysia whose annual reports are available for the above-mentioned years. The exclusion is mainly due to the differences in regulatory requirements, financial reporting standards and compliances (Trojanowski and Renneboog 2005: Yatim, Kent and Clarkson, 2006;). Moreover, companies that are listed under distressed companies (PN4 Companies) are also excluded from the sample.

4.2.2 Data Collection

The data of this study which consist of data for ownership structure are obtained from company annual report. The website of Bursa Malaysia and OSIRIS financial database will become the main source for the data related to this study. The individual company annual report will be downloaded from the Bursa Malaysia website, while financial data will be acquired from OSIRIS financial database.

4.3 Measurement of Variables

This section is mainly divided into two subsections which include dependent variables and independent variables. The first section discusses the measurement of corporate financial policies as dependent variables which include investment policy, financing policy and dividend policy. The second section discusses the measurement of multiple shareholder structure as independent variables. To complement category of variables discussion on central variable is also presented.

4.3.1 Dependent Variables

This study is intended to determine the impact of multiple shareholder structure on the corporate financial policies which will be measured by investment policy, financing policy and dividend policy. The corporate financial decision is an important policy to ensure that the firm will enhance value from its financial decision pertaining to the investment policy. Besides that, in order to generate profit, the firm needs to raise fund to invest in profitable investment that involves the financial policy. Furthermore, investors who invest their funds in the firm should be compensated accordingly that involves the dividend policy.

Investment Policy

Investment policy is a very important policy where the profitability of the firm will be determined by this policy (Cohen and Yagil, 2007). It is typically associated with the capital expenditure. Capital expenditure is incurred when a company invests and will create future return for the company for the benefit of shareholders.

A number of previous studies have used capital expenditure (CAPEX) to measure the investment policies (Naser, 2010; Ghachem, 2008; Wang, 2010; Sulaeman, 2008; Tu, Lai and Chou, 2007). This study will follow them to measure the investment policy. Hence, investment is defined as capital expenditures over lagged net property, plant and equipment.

Financing Policy

Financing policy of the company must be managed wisely because it will affect the valuation of the company. The financing mix used by the company will affect their cost of capital. Therefore, company should carefully choose their mode of financing either to use equity or debt financing. Graham and Harvey (2001) conducted a surveyed on manager of American firms regarding the investment and capital structure policies which found that tax benefits of debt are important factors for the financing policies of company.

Debt ratio will determine either a company is highly leverage or under leverage. The debt ratio is defined as long term debt plus current liabilities divided by long term debt plus current liabilities plus the book value of common equity. This measurement is extensively used to measure the financing policy in prior studies such as Pindado et al. (2006), Mancinelli et al. (2006), Naser (2010), Ghachem (2008) and Tu, Lai and Chou (2007).

Dividend Policy

The dividend payout (DP) is used to view from the perspective of insider expropriation where dividend considered is a tool to transfer of wealth at the discretion of the controlling shareholders and is paid on pro rata basis to all shareholders (Facio et al., 2001). There are several past studies that have employed dividend payout as a measure of dividend policy such as Pindado et al. (2006), Mancinelli et al. (2006), Thomsen (2005), Cronqvist and Fahlenbrach (2007) and Ghachem (2008). The dividend payout ratio is generally the total of preferred and common stock dividend over earnings before depreciation, interest and tax.

4.3.2 Independent Variables

This section discusses the classification and definition of independent variables that will be used in this study. It includes the categories, definition and measurement of various ownership structure and board governance variables.

Multiple Shareholder Structure

The ownership structure is categorized based on the presence of controlling shareholder in the companies. Basically, the ownership structure of the firm will be divided into two broad categories, namely firm with the presence of controlling shareholders and firm that without controlling shareholders. Then both categories will be divided into other categories based on the presence of other large shareholders in the firm.

The cut-off point in determining controlling shareholders in this study is based on the definition of Bursa Malaysia Main Market Listing Requirements which states that "a person or a group of persons who are together entitled to control at least 33% of company's voting shares will be classified as the controlling shareholders of a firm". Therefore, shareholders who hold 33% and above will be considered as controlling shareholders and they could have significant impact towards corporate decisions. The controlling shareholders could hold a maximum of up to 75% shareholding due to shareholding spread requirement issued by Bursa Malaysia (2009) which states that 25% of the listed share of a listed company must be in the hand of public. In other words, 25% of the outstanding share of listed company must be sold to the public.

Large shareholders in this study can be defined as a person or group of persons who owned at least 10% and greater but less than the controlling shareholders. The 10% cut off point is considered as large shareholders according to most of the previous studies that related to MLS considered this cut-off point such as Gutierrez and Tribo (2003), Maury and Pajustel (2005) and Attig et al. (2009). Meanwhile, the minority shareholders refer to shareholders who owned less than 10%.

The basis for measuring ownership structure variable is through direct shareholding by each category of ownership structure (Sulong, 2008).

The category is basically derived from the ownership structure highlighted by Zwiebel (1995). The categories of ownership structure are as follows:

i. SCS - Firm with controlling shareholders (at least≥33%) with no large shareholders (at least ≥10% but less than 33%)

ii. CSLS - Firm with controlling shareholders (at least ≥33%) with large shareholders (at least & greater than 10% but less than 33%) iii. LS - Firm without controlling shareholders with many large shareholders (at least ≥10% but less than 33%)

To test the impact of sharing control among large shareholders on corporate financial policies, the ratio of the share concentration of the coalition of large shareholders against the largest or controlling shareholder will be computed.

4.3.3 Control Variables

Control variables are the variables that have significant effects on dependent variables in the study. By using the control variable, we wish to balance its effect across subjects of the study and allow us to just study the relationship between the independent and dependent variables.

Firm Size

In this study, firm size is employed to control the size effect. It is because of the possibility that the size of the firm will affect the corporate financial policies. Sulong (2009) argued that larger companies have better growth opportunities and access to financing opportunities, less information asymmetry due to availability of information, wider share spread and ownership profile. According to Chu (2007), ownership structure formation is affected by the size of the firm. The author argued that a large size firm with many shareholders in dispersed ownership structure was better in its risk sharing. Moreover, a large firm enjoyed economies of scale and scope, and incurred a larger scale of debt capital.

Pandey (2002) reported that firm size had a positive relationship with debt ratio in Malaysia due to the fact that large firms had lower bankruptcy risk and transaction cost. Moreover, a number of previous studies also supported a similar argument by Pandey (2002) in that larger firm had lower risk of bankruptcy and higher level of debt (Friend and Lang, 1988; Agrawal and Nagarajan, 1990).

In addition, Frank and Goyal (2003) pointed out that large firm increased its debt in order to finance dividend payment. Logarithm of corporation’s total assets is employed to proxy the firm’s size effect.

Firm Growth

The firm’s growth can be considered as one of the important factors that may influence corporate financial policies. Brailsford, Oliver and Pua (2002) pointed out that growth is one of the indicators of the firm’s success and profitability. In this regard, firm with higher growth will generate higher internal fund and thus sufficient internal fund to finance its investment. Therefore, firm with higher growth is expected to demand less debt due to sufficient internal fund available for investment. This is evidenced by Kim and Sorensen (1986) that reported high growth firm would use less debt and high operating risk firm would use more debt.

In addition, firm with high growth is expected to invest more compare to a low growth firm due to the availability of internal fund. Firms have taken into consideration of the pecking order theory in determining their choice of financing.

Since firms have sufficient internal fund with least cost method, therefore internal fund is preferred. If this is the case, firm with high growth will invest more due to lower financing compared to low growth firm that needs external financing which is a higher cost of financing.

As highlighted by Brailsford, Oliver and Pua (2002) growth was an indicator of the firm's success and profitability, thus high growth firm will be expected to pay high dividend to its shareholders due to better earning profit. According to Pandey (2001), firm's earning was an important determinant in dividend payout in Malaysia. In addition, Aivazian et al. (2003) found that profitability had a significant effect on dividend payout. Therefore, it is important to control the different growth prospect of the firm. In this study, the annual percentage change in total asset is employed as a proxy for the firm growth.

Profitability

The level of the firm's profitability can be considered as one of the important factors that may influence the firm's corporate financial policies. Brailsford, Oliver and Pua (2002) argued that firms with high level of profit had more earning available for retention and hence firm preferred internal financing to debt. According to Sulong (2009) dividend would be paid based on the ability of the firm's level of profitability.

Therefore, the level of profitability seems to have an effect on the financing, dividend and investment policies. According to pecking order theory internal financing will be the first choice followed by debt and equity in financing project or investment. A number of previous study have examined the effect of profitability on the firm's corporate financial policies such as Friend and Lang (1998), Moh'd et al (1998), and Sulong (2009). This study employs the operating income to total asset as a proxy for profitability as used by Moh'd et al (1998).

Industry sector

The final variable in this study is the industry. For each firm, the industry's dummy variables are equal to one and zero based on the industry sectors. It was argued that different industry sector would differ with respect to dividend payout (Moh'd et al. 1995).

According to the Ronnengberg and Trojanowski (2005), the reliability of the result could be assured by controlling the industry-specific effect since the study sample included firms operating in a variety of sectors.

Brailsford, Oliver and Pua (2002) argued that industry as determinant of capital structure in which firms in the same industry could have similar risk characteristics due to similar demand and supply conditions. Sulong (2009) used industry categorization provided by Bursa Malaysia to control the industry differences.

5. Conclusion

The objective of this paper is to establish a research framework linking multiple shareholder structure and corporate financial policy.

The relationships between the variables will be analyzed based on the agency theory, where, the investigation is conducted on the effectiveness of multiple shareholders in influencing corporate financial performance. The literature has provided strong evidence to support the proposed framework.

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