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Family Business, Board Dynamics and Firm Value: Evidence from Malaysia

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Most research concentrating on family and non-family businesses with firm performance is conducted overseas with little research actually taking place in Malaysia. Thus, this study focuses on the relationship between family controlled businesses and corporate governance mechanisms with firm value among Malaysian companies. The sample size of this study is 896 companies that were listed on Bursa Malaysia from 2000 to 2003. The findings reveal that corporate governance mechanisms do have an influence on firm value in Malaysia. However, not all elements of governance mechanisms are significant, and the effects differ between family-businesses and non-family businesses. The results indicate as expected that board size and leadership structure affect the firm value for all companies. Further analysis shows that family businesses do practice separate leadership structure whilst board size contributes positively towards better performance in non-family companies. More importantly, family and non-family businesses are different in terms of corporate governance practices. Thus, regulators need to give additional attention to the unique setting of the family companies.

Keywords: *Corporate governance, family business, firm value, Malaysia.*

Introduction

The existence of family controlled firms is evident in Europe, Canada, Australia, US, and East Asian countries including Malaysia (Shleifer & Vishny, 1986; Morck, Shleifer & Vishny, 1988; Zingales, 1994; La Porta, Lopez-de-Silanes, Shleifer & Vishny, 1998; Claessens, Djankov & Lang, 2000; Smith & Amoako-Adu, 1999). In the East Asian countries, the family controlled firms showed a

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unique trend of corporate ownership compared to non-family controlled firms (La Porta et al., 1998). The distinguishing feature of the family controlled firms may, to a certain extent, affect their firm performance as claimed in past studies.

A study found that about 70% of Malaysian companies are family controlled firms (Claessens, Djankov & Lang, 2000). Family firms also form an essential part of the Malaysian economy and contribute more than half of Malaysia's Gross Domestic Product (Ngui, 2002). A survey by Grant Thornton (2002) found that Malaysian family firms evolved from small enterprises and became giant conglomerates. A study by Ibrahim, Samad and Azmi (2008) evidenced that on average, family ownership experiences a higher firm value than non-family ownership.

Studies abroad have documented that family controlled firms were more valuable and enjoyed improvement in firm performance relative to non-family firms (McConaughy, Walker, Henderson & Mishra, 1998). Claessens, Djankov and Lang (2000) further reported that significant corporate wealth in East Asian countries was found to be concentrated among a few families. Such ownership concentration also took place even among the largest American corporations (Morck et al., 1988). In contrast, a study by Lauterbach and Vaninsky (1999) in Israel indicated that family controlled firms had poor performance compared to non-family controlled firms. The inconsistent results concerning family controlled firms and performance, as discussed by previous studies, provides an avenue for researchers to carry out this study in Malaysia. This study is different from previous study (Mishra, Randoy & Jenssen, 2001) in two dimensions. First, this study replicates the study by Mishra et al. (2001), but uses a panel data approach to analyse the Malaysian data. Next, there is no published study in Malaysia that compares family and non-family firms' performance. Thus, these factors motivate the researchers to carry out this study.

The problem statement of this study is that even though family firms contribute greatly to the Malaysian economy, family firms are found to lack independence and internal control. The board of most family firms consists of family members. So, indirectly the composition of family members on the board may affect firm performance. Moreover, family firms' strategies used to be different from non-family firms (Daily & Dollinger, 1991). This factor may also lead to different performance between family and non-family firms. Special attention is needed for family firms as family controlled businesses are very much governed by family traits, which do not exist in other businesses (Mishra et al., 2001).

The objective of this study is to investigate the relationship between family controlled businesses and firm value among Malaysian public listed companies. In addition, the attributes of governance mechanisms in family controlled business are examined.

In terms of the contribution of this study, studies relating to family business and corporate governance are still new and few in the Malaysian setting. Thus, by conducting this study, it is hoped that findings from this study can enhance

the body of knowledge concerning the corporate governance area and Malaysian family controlled firms. This study may also provide useful information to regulators, investors and the public at large on the situation of family controlled firms in Malaysia.

The presentation format of this study is as follows. First, the theoretical framework on family businesses, firm value and corporate governance mechanisms will be deliberated in the literature review section. The research methodology is then explained. Then the research findings and discussion are presented. Finally, research findings are summarized followed by limitations of the study and recommendations for future study is made.

Review of Literature

Family Businesses and Firm Value

Studies have been carried out relating to the performance of the family and non-family firms (Daily & Dollinger, 1991; McConaughy et al., 1998; Anderson & Reeb, 2003; Miller & Breton-Miller, 2006; Villalonga & Amit, 2006). However, there were mixed findings. A study by Daily and Dollinger (1991) reported higher sales growth and a greater improvement in net margins for family firms compared to non-family firms. McConaughy et al. (1998) examined differences in efficiency and value, depending on whether the organization was a founding family controlled firm (FFCF) and had a CEO as the founder or a descendant of the founder, or was a non-FFCF (NFFCF). The findings reveal that FFCFs are more efficient and valuable than NFFCFs with respect to industry, size and managerial ownership. McConaughy, Matthews and Fialko's (2001) findings showed a higher market to book equity ratio for family firms compared to their non-family counterparts. The study also revealed firms that are family controlled by the founding family have greater value, operate more efficiently and carry less debt than other firms.

Next, a study by Anderson and Reeb (2003) evidenced that family firms have a higher Tobin's Q and return on assets. Family ownership creates value only when the founder serves as the CEO of the family firm or as Chairman with a hired CEO (Villalonga & Amit, 2006). Miller and Breton-Miller (2006) noted that family firms performed better than non-family firms when the family firms have the intention to keep the business for the next generation. Research by Maury (2006) found that active family control continues to outperform non-family control in terms of profitability in different legal regimes. Another study conducted in Chile found that public family firms perform better than public non-family firms (Martinez, Stohr & Quiroga, 2007).

In contrast, studies evidenced that performance of family firms is poorer than their non-family counterparts. For example, a study by Lauterbach and

Vanisky (1999) in Israel evidenced that family firms run by their owners perform worse than non-family firms. Barclay and Holderness (1989) note that large ownership stakes also reduce the probability of bidding by other agents, thereby reducing the value of the firm. Another factor that diminishes a firm's performance is where large shareholders remain active in management although they are no longer competent or qualified to run the firm. The implication is that firm performance for older family firms is even worse relative to non-family firms (Shleifer & Vishny, 1997).

The agency theory views that family firms have several incentives to reduce agency costs (Fama & Jensen, 1983; Demsetz & Lehn, 1985; Anderson & Reeb, 2003). First, as family firms have concentrated shareholdings, they have an increased incentive to reduce agency costs because "the more concentrated ownership is, the greater the degree to which the benefits and costs are borne by the same owner" (Demsetz & Lehn, 1985). Specifically, because the family's wealth is so closely linked to the firm's welfare, families may have strong incentives to monitor managers and minimize the free-rider problem inherent with small, atomistic shareholders.

Meanwhile, the stewardship theory claims that managers are essentially trustworthy individuals and good stewards of the resources. Since executive directors spend their working lives in the firm they govern, they understand the firms better than outside directors, so they can make superior decisions (Donaldson & Davis, 1991, 1994). Proponents of the stewardship theory contend that superior corporate performance will be linked to a majority of inside directors as they naturally work to minimise profit for shareholders. The stewardship theory perceives that managers are naturally trustworthy (Donaldson & Davis, 1991). The agency costs will be minimized, as senior executives are unlikely to disadvantage shareholders for fear of jeopardising their reputations. Furthermore, stewardship philosophy has been practised and is common among successful family firms. It has been proposed that the keen involvement encouraged by the stewardship philosophy creates a sense of psychological ownership that motivates the family to behave in the best interests of the firm (Corbetta & Salvato, 2004). Based on the literature discussed, we therefore hypothesize that:

H_1: There is a significant difference in firm value between family controlled businesses and non-family controlled businesses.

Corporate Governance Mechanisms and Firm Value

Corporate governance mechanisms are designed to reduce agency costs associated with the separation of ownership and control (Jensen & Meckling, 1976; Fama & Jensen, 1983). It was evidenced in previous studies that governance mechanisms, to a certain extent, enhance firm value (Weir, Laing & McKnight, 2002). Yet little is known about governance structures when family firms are predominant. In this study, the researchers focus on the internal governance mechanisms.

Board Independence

The Malaysian Code of Corporate Governance (2001) suggests that the principle of 'Board Balance' requires that at least one third of the Board members are Non-Executive Independent Directors[1]. The composition of the Board must have at least two independent directors or one third of the Board, whichever is higher. Previous studies (Rosentein & Wyatt, 1990;, Byrd & Hickman, 1992; Cotter, Shivdasani & Zenner, 1997) found that independent non-executive directors improve board performance and firm value. A study by Abdullah (2001) on Malaysian firms evidenced that the board of directors were largely dominated by non-executive directors.

In contrast, Booth and Deli (1996) found a negative relationship between the number of independent non-executive directors and a firm's growth prospects. Subrahmanyam, Rangan and Rosenstein (1997) supported the argument by revealing that firm performance reduced when more independent non-executive directors serve the board. It is therefore posited that:

H_2: Businesses with higher board independence outperform businesses with lower board independence.

Family firms tend to have less independent directors. Hillman and Dalziel (2003) have conducted a study on the board composition in family firms. They evidenced that a board is independent when there is a significant proportion of independent non-executive directors. Boards should comprise a substantial majority of "independent" directors, that is, directors who are free from commercial or personal ties that could impair their ability to probe and challenge management (Felton & Watson, 2002). Furthermore, family companies that participate in Bursa Malaysia have to comply with the listing requirements of Bursa Malaysia in terms of board independence. It is likely that these requirements could lead to better corporate governance in family firms. Hence, it is expected that:

H_{2a}: Family controlled businesses with higher board independence outperform family controlled businesses with lower board independence.

Studies have found that independent non-executive directors improved board performance and firm value (Rosentein & Wyatt, 1990; Byrd & Hickman, 1992; Cotter, Shivdasani & Zenner, 1997; Abdullah, 2001). The Code (2001) also suggests that the principle of 'Board Balance' requires that at least one third of the Board members are Non-Executive Independent Directors[2]. Based on the aforementioned discussion, we hypothesize that:

H_{2b}: Non-family controlled businesses with higher board independence outperform non-family controlled businesses with lower board independence.

Board Size

Yermack (1996) reported that businesses with small board size have higher stock market value. The result confirmed the findings by Jensen (1993) who claimed that small board size could increase firm performance. However, Lipton and Lorsch (1992) evidenced that too many executives on the board could create more problems. Based on this premise, we hypothesize that:

H_3: Businesses with smaller board size outperform businesses with larger board size.

Family firms used to have a smaller board size (Ward, 1991; Cromie, Stephenson & Montieth, 1995). A study by Bennedsen, Kongsted and Nielsen (2008) found that family firms have a negative effect when the size of the boards increases to six or more members. This leads to the following hypothesis:

H_{3a}: Family controlled businesses with smaller board size outperform family controlled businesses with larger board size.

Findings by Jensen (1993) and Yermack (1996) evidenced that small board size could increase firm performance. Usually the board size is between seven to eight executives on the board, in order to ensure firm effectiveness. The following hypothesis is thus stated:

H_{3b}: Non-family controlled businesses with smaller board size outperform non-family controlled businesses with larger board size.

Leadership Structure

Businesses usually practice either separate or duality leadership structure. Separate leadership happens when two different individuals hold the positions of chairman and CEO. Duality leadership takes place when one person holds both positions of chairman and CEO. Separate leadership is claimed to curb agency problems and enhance firm performance (Fama & Jensen, 1983) and consistently outperform businesses with duality leadership structure (Rechner & Dalton, 1991; Fosberg & Nelson, 1999).

A study by Abdullah (2001) found that 78.6% of Malaysian firms have a separate leadership structure. A survey conducted by Price Waterhouse Coopers (1999) showed that the majority of Malaysian public listed companies separate the roles of board chairman and CEO. About 89% of the firms exercise separate leadership (Ayoib, Nor Aziah & Zuaini, 2003). Abdul Rahman and Mohd Haniffa (2005) evidenced that there is an increasing trend of CEO-duality in Malaysia, from 8.8% in 1996 to about 17.9% in 1999. The results also show that firms with CEO-duality appear not to perform as well as their counter parts with a separate board. Next, a research conducted on the top 150 public listed companies in Malaysia found that governance practices such as adopting concentrated

ownership and CEO-duality affect firm performance of Malaysian companies (Tam & Tan, 2007). Based on the literature, we hypothesize that:

H_4: Businesses with separate leadership outperform businesses that practice duality leadership.

Donaldson and Davis (1991) argued that, for CEOs who are stewards, their pro-organizational actions are best facilitated when the corporate governance structures give them high authority and discretion (Felton & Watson, 2002). Structurally, this situation is attained if the CEO chairs the board of directors. Thus, this leads to the following hypothesis:

H_{4a}: Family controlled businesses with separate leadership outperform family controlled businesses that practice duality leadership.

There are a lot of studies conducted in Malaysia in relation to leadership structure. A study by researchers (Abdullah, 2001; Ayoib et al., 2003; Abdul Rahman & Mohd Haniffa, 2005; Tam & Tan, 2007) found that companies that practice separate leadership structure may have better firm performance. Therefore, based on the arguments above, it is hypothesized that:

H_{4b}: Non-family controlled businesses with separate leadership outperform non-family controlled businesses that practice duality leadership.

CEO Tenure

If monitoring requires knowledge of business' technology, families potentially provide superior oversight because their lengthy tenure permits them to move further along the business' learning curve. Anderson and Reeb (2003) suggested that businesses with continued founding-family presence exhibit significantly better accounting and market performance than non-family businesses. Anderson, Mansi and Reeb (2003) further supported that the family's sustained presence in the business also creates powerful reputation effects that provide incentives for family managers to improve business performance.

Johnson, Magee, Nagarajan and Newman (1985) and Morck et al. (1988), however, suggested that founder CEOs are associated with strong performance only at the early stage of their careers, but poorer performance in later years, and that family member CEOs are more entrenched in their positions. A study by Schulze, Dino, Lubatkin and Buchholtz (1999) noted that placing family members as CEO could lead to resentment on the part of senior non-family executives because tenure, merit, and talent are not necessarily requisite skills for top management positions. Based on the literature, we therefore hypothesize that:

H_5: Businesses with longer CEO tenure outperform businesses with shorter CEO tenure.

Research Method

The data, research model and discussion on variables are discussed in this section.

Data

This study uses panel data for companies listed on Bursa Malaysia over the period 2000 to 2003. Previously, studies (Abdullah, 2001; Ayoib et al., 2003; Abdul Rahman & Haniffa, 2005) look at the data before the implementation of The Code (2001). However, this study relooks at The Code (2001) and used data before and after the implementation of The Code (2001), so that comparison can be made with past studies. Panel data is more informative compared to cross-sectional based regression as this may avoid certain assumptions promulgated by regression analysis (Greene, 2008). Given the population size of 906 businesses listed on Bursa Malaysia, as at 31 March 2004, the suggested sample size was 380 businesses (Sekaran, 2004). Data was hand collected by referring to the annual reports and the KLSE annual handbook.

Research Model

The model used in this study replicates the previous study by Mishra et al. (2001). Several statistical methods were used to analyse the data. First, we used descriptive analysis to examine the nature of family businesses. Second, the correlation matrix was carried out to evidence the relationship between the independent variables. Third, the t-test was adopted to reveal the differences between family controlled businesses and non-family controlled businesses. Fourth, a regression analysis was conducted to observe the factors influencing the firm value of family controlled businesses based on the following model (Mishra et al., 2001):

$$Q_{it} = \alpha + \beta_{1it}FC + \beta_{2it}BI + \beta_{3it}BS + \beta_{4it}LS + \beta_{5it}CEOTen + \beta_{6it}FS + \beta_{7it}FA + \beta_{8it}SG + \beta_{9it}LV + \beta_{10it}ROA + \beta_{11it}AT + v_i + \varepsilon_{it}$$

Where:

Q_{it}	=	Natural log of the firm value
FC	=	Family controlled firm
BI	=	Board independence
BS	=	Board size
LS	=	Leadership structure
CEOTen	=	CEO tenure
FS	=	Firm size
FA	=	Firm age

SG	=	Sales growth
LV	=	Leverage
ROA	=	Return on assets
AT	=	Asset tangibility
$\beta_1.\beta_{11}$	=	Regression coefficients
v_i	=	Specific error
e_{it}	=	Idiosyncratic error

Variable Measurement

Following the previous research (Mishra et al., 2001), this study explains the measurement used for the dependent and independent variables.

Dependent Variable

The dependent variable is the firm value (measured by the q-value and is defined as the ratio of market value of the firm to the book value of total assets). The q-value is an approximation of Tobin's Q (Morck et al., 1988; McConnell & Servaes, 1990; Chung & Pruitt, 1994; Perfect & Wiles, 1994; Yermack, 1996; Yeh, Lee & Woidtke, 2001; Mishra et al., 2001 & Weir et al., 2002). Tobin's Q measurement is accepted as a better measure of firm performance (Mayer, 2003) as it reflects the market performance measure rather than the accounting performance measure.

Hypothesis Variables

A family controlled firm is defined as where one of the following three criteria is met: (1) if the CEO is the founder/successor or a relative of the founder, (2) if there is a presence of founding family members on the board, or (3) if the family control at least 10% of all shares, in which case it is coded as 1, otherwise 0 (Mishra et al., 2001). Board independence is measured by the proportion of independent non-executive directors to total board composition (Barnhart & Rosenstein, 1998). Then, board independence is split into high board independence (> 0.33) and coded as 1, low board independence (< 0.33) is coded as 0. The value 0.33 (is equivalent to required 1/3 of the non-executive directors being independent) is in line with the The Code (2001). Board size refers to the number of directors on the board (Mishra et al., 2001). The board is divided into high board size (> 8, which is coded as 1 and low board size (< = 8), which is coded as 0 (Jensen, 1993; Yermack, 1996). Leadership structure is measured using a binary variable with businesses having separate leadership coded as 1, otherwise 0 (Zajac & Westphal, 1996). CEO tenure is measured as

the number of years the current CEO has held the post (Anderson & Reeb, 2003).

Control Variables

In this study, control variables are included and are kept constant to minimize their effects on the outcome. Variables that are included in this study are:

a. Firm size is measured as a logarithm to the base of 10 of total assets (McConaughy et al., 1998; Mishra et al., 2001).
b. Firm age is the logarithm difference between the end of year 2003 and the firm's founding year (McConaughy et al., 1998; Mishra et al., 2001).
c. Sales growth is measured by taking the difference of turnover between the current year and the preceding year and divided by the turnover in the preceding year base. The total amounts were converted into logarithms (McConaughy et al., 1998; Mishra et al., 2001).
d. Leverage is measured as the proportion of total liabilities to total assets (Murphy, 1968; Robichek & Myres, 1965).
e. Return on assets is the profit (before interest and tax) to total assets (James, 1999).
f. Asset tangibility is measured as proportion of tangible assets to total assets (Casson, 1999).
g. CEO tenure is measured as the number of years the current CEO held the post (Anderson & Reeb, 2003).

Results and Discussion

Descriptive Analysis

The final sample consists of 896 businesses from year 2000 until 2003 after excluding businesses with incomplete data and PN4 (suspended from operation) businesses.

Table 1: Sample Selection Process

Number of companies listed from 2000 to 2003	1520
Less: Incomplete data	540
Less: PN4 companies	84
Final sample	896

Pearson correlation coefficients were computed and are exhibited in Table 2. It appears that there is no significant correlation between family controlled businesses with firm value. Results show that Malaysian family

firms have a lower firm value than non-family firms. However, it is reported that family controlled businesses have a significant positive correlation with leadership structure and CEO tenure. This is consistent with study by Anderson and Reeb (2003). It indicates that a CEO with a powerful reputation has a longer tenureship, which indirectly helps family firms improve performance. Also firms with founding family present exhibit better firm value.

Table 2: Correlation Matrix

	Q	FCB	BI	BS	LS	CEO TEN	FS	FA	SG	LEV	ROA	AT
Q	1											
FCB	-.004	1										
BI	-.001	-.226***	1									
BS	.077	-.011	.116***	1								
LS	.034	.261***	-.076**	-.178***	1							
CEOTEN	-.003	.258***	-.114***	.028	.141***	1						
FS	-.092***	-.131***	.155***	.386***	-.122***	.052	1					
FA	.021	-.185***	.201***	.012	-.066***	.214***	.306***	1				
SG	.012	.054	.014	.073**	.002	.033	.104**	.005	1			
LEV	.096***	-.026	.006	.119***	-.015	.008	-.064	.003	-.008	1		
ROA	.113***	-.028	.006	.123***	-.019	.005	-.078**	-.006	-.002	.997***	1	
AT	.086***	-.007	.005	.110***	.001	.016	-.039	.002	.016	.845***	.843***	1

*** Significant at 1% level (two-tailed)
** Significant at 5% level (two-tailed)
* Significant at 10% level (two-tailed)

Q = Firm Value
FCB = Family Controlled Business
BI = Board Independence
BS = Board Size
LS = Leadership Structure
CEOTEN = CEO Tenure
FS = Firm Size
FA = Firm Age
SG = Sales Growth
LEV = Leverage
ROA = Return on Assets
AT = Asset Tangibility

In contrast, family controlled businesses are found to have a negative relationship with firm size, firm age and board independence. The justification for such a relationship could be supported by Chami (1997) who claimed family controlled businesses tend to be smaller than public corporations. In terms of board independence, the result is in line with studies by Booth and Deli (1996)

and Subrahmanyam, Rangan and Rosenstein (1997) who claimed that firm performance reduced when more independent non executive directors serve on the board. It means that the executive directors are more active in playing their roles in managing the board. Results also revealed that leverage, ROA and asset tangibility are highly correlated. Thus, each variable (LV, AT and ROA) was tested one at a time. However, the results are identical in terms of statistical significance signs. Thus, it shows that the correlations do not affect the analysis. This indicates that assets and leverage are highly used in managing the business.

Univariate Test Analysis

Based on the t-test results in Table 3, there is a difference in the mean of Q between family controlled businesses and non-family controlled businesses, but not significant. The results of family controlled businesses and non-family controlled businesses, which use the alternative definitions (i.e. dummy variables), are similar in terms of the significant levels of the hypotheses variables. Hence, the results are robust.

In terms of corporate governance attributes, the family controlled businesses have higher means of leadership structure and CEO tenure but a lower mean for board independence. The possible explanation for such effects is that family firms also favour adopting separate leadership as recommended by The Code (2001). Thus by practicing good governance, firm value may be enhanced. Similarly, the positive effects of CEO tenure on family controlled businesses have also been documented by previous studies (Morck et al.,1988; Anderson et al., 2003; Anderson & Reeb, 2003). They unanimously agreed that a lengthy CEO tenure would enhance the businesses' value. The CEOs powerful reputation may increase firm performance. However, board independence is negatively related with performance. A higher number of independent non-executive directors do not enhance firm value. This result contradicts The Code (2001), but supported other studies (Booth & Deli, 1996; Subrahmanyam, Rangan & Rosenstein, 1997).

Family businesses appear to have a negative relationship with firm size and firm age. This result is in line with a study by Kang (1998), who documented that early generation family owners are associated with higher performance than their descendants. Also as the firms get larger, it is more complex to manage, so firm value decreases.

In terms of sector, results reveal that family firms that involved in consumer products, constructions and infrastructure projects do enhance firm value, but trading services sector has a decreasing firm value. While other sectors such as hotels, properties and plantations do not show any effect with firm value.

Table 3: Descriptive Statistics of Family Controlled Businesses (FCBs) and Non-Family Controlled Businesses (NFCBs)

	FULL SAMPLE (n = 896)		FCB (n = 335)	NFCB (n = 561)	
Variables	Mean	SD	Mean	Mean	t-value
Q	.646	.688	.642	.649	-.135
FCB	.37	.484	n.a.	n.a.	n.a.
BI	.548	.256	.474	.593	-6.944***
BS	.885	.117	.883	.886	-.344
LS	.15	.358	.27	.08	8.095***
CEOTEN	8.03	7.497	10.53	6.53	7.997***
FS	8.635	.588	8.535	8.694	-3.95***
FA	3.800	.327	3.722	3.846	-5.615***
SG	.081	.392	.108	.065	1.607
LEV	1.478	30.08	.452	2.089	-.788
ROA	.918	7.706	.641	1.083	-.831
AT	.394	.548	.383	.397	-.231
ALL	4.04	2.701	3.64	4.28	-3.432***
CP	.156	.363	.197	.132	2.604***
IP	.255	.436	.275	.242	1.07
CON	.098	.298	.146	.007	3.76***
TS	.223	.417	.149	.267	-4.143***
INFRA	.009	.094	.024	.000	3.701***
HOTEL	.013	.115	.012	.014	-.292
PROP	.17	.376	.14	.187	-1.81
PLANT	.076	.265	.057	.087	-1.676

*** Significant at 1% level (two-tailed)
** Significant at 5% level (two-tailed)
* Significant at 10% level (two-tailed)

n.a. = not applicable
Q = Firm Value
FCB = Family Controlled Business
BI = Board Independence
BS = Board Size
LS = Leadership Structure
CEOTen = CEO Tenure
FS = Firm Size
FA = Firm Age
SG = Sales Growth
LEV = Leverage
ROA = Return on Assets
AT = Asset Tangibility
ALL = All Industries
CP = Consumer Product
IP = Industrial Product
CON = Construction
TS = Trading Services
INFRA = Infra Structure Project
HOTEL = Hotel
PROP = Property
PLANT = Plantation

Panel Data Regression Analysis

To further test the relationship between firm value and family controlled businesses, the regression analysis was employed using the regression model

as discussed in the Research Model section. In each regression, this study controls three sets of variables consisting of six financial characteristics (firm size, sales growth, financial leverage, return on assets, asset tangibility and firm age), four corporate governance characteristics (board size, board independence, leadership structure and CEO tenure) and eight dummy variables representing the eight industry groups.

In this study, the panel data approach has been applied because this method is able to control the impact of omitted variables. By using panel data, the information on both the intertemporal dynamics and the individuality of the entities may allow one to control the effects of missing or unobserved variables (Hsiao, 2003). The Hausman test was carried out to determine whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) is more appropriate in this study (Greene, 2008). As the p value of the Hausman test was significant, from the F-statistic, we concluded that the FEM is more suitable for this study.

Table 4 reveals the findings for the hypotheses H_1 to H_5. The results supported H_3 and H_4 for both models OLS and FEM. Board size and leadership structure variables are significant, and support the theories of the study. The findings on the board size indicate that smaller board size is preferred, which is in line with a study carried out by Jensen (1993) and Yermack (1996) that claimed small board size could enhance firm value. For leadership structure, firms that practised separate leadership structure are better off than firms that practiced duality leadership. This finding supported previous studies (Fama & Jensen, 1983; Abdullah, 2001; Ayoib et al., 2003; Abdul Rahman & Mohd Haniffa, 2005). Furthermore, variables INFRA and HOTEL have been dropped from the OLS and FEM models due to small observations. The control variables (firm size and leverage) are negatively related with firm performance, while ROA shows a positive relationship with firm performance for OLS and FEM models.

Table 5 reports the findings for the sub-hypotheses H_{2a} to H_{4b}, which have been discussed earlier in the literature review section (FCB and NFCB). The results only supported H_{3b} and $H_{4a.}$ The results supported H_{3b} where non-family controlled businesses with smaller board size outperform non-family controlled businesses with larger board size. This result supported previous studies (Yermack, 1996; Lipton & Lorsch, 1992), which evidenced that small board size may increase firm performance as they are easier to administer and more effective in controlling the ideas of board members, but in contrast with studies by Chami (1997) and Daily and Dollinger (1991). The test also supports H_{4a} where family controlled businesses that practise separate leadership outperform family controlled businesses with duality leadership. This result is consistent with previous studies (Fama & Jensen, 1983; Morck et al., 1988; Rechner & Dalton, 1991; Fosberg & Nelson, 1999; Abdullah, 2001, Ayoib et. al., 2003; Abdul Rahman & Mohd Haniffa, 2005) that claimed separate leadership could enhance firm performance.

Table 4: Panel Data Regression Results for H_1 to H_5 (n = 896)

	OLS		Fixed-effect	
	Coef.	t	Coef.	t
FCB (H_1)	-.006	-.17	.073	.15
BI (H_2)	-.067	-.60	.237	1.64
BS (H_3)	.674	3.17***	.679	2.91***
LS (H_4)	.116	1.87*	.162	2.38***
CEOTEN (H_5)	-.001	-.31	.002	.42
FS	-.114	-2.46***	-.292	-4.91***
FA	.162	1.83*	.161	1.52
SG	.004	.06	.001	.02
LEV	-.067	-4.2***	-.058	-4.52***
ROA	.274	4.4***	.230	4.6***
AT	-.047	-.56	.069	.95
CP	.057	.64	-.478	-2.26**
IP	-.019	-.25	-.290	-1.42
CON	-.051	-.57	-.330	-1.52
TS	.054	.66	-.128	-.62
PROP	-.045	-.56	-.279	-1.37
PLANT	.191	2.03**	-.097	-.43
CONSTANT	.302	.58	1.872	3.16***
Adj.R^2	.093		.1709	

*** Significant at 1% level (two-tailed)
** Significant at 5% level (two-tailed)
* Significant at 10% level (two-tailed)

FCB = Family Controlled Business
BI = Board Independence
BS = Board Size
LS = Leadership Structure
CEOTen = CEO Tenure
FS = Firm Size
FA = Firm Age
SG = Sales Growth
LV = Leverage
ROA = Return on Assets
AT = Asset Tangibility
ALL = All Industries
CP = Consumer Product
IP = Industrial Product
CON = Construction
TS = Trading Services
PROP = Property
PLANT = Plantation

Conclusion

Overall, this study aims to investigate the relationship of family controlled businesses and corporate governance mechanisms with firm value. The results provide empirical evidence that small board size is better than large board size. Moreover, a separate leadership structure is better than duality leadership, for all samples. When firms are split into family and non-family firms, results show that non-family businesses with smaller board size outperform non-family

Table 5: Regression Results Sub-Hypotheses H_{2a}-H_{4b} for FCB and NFCB (n = 896)

Variables	Coef.	t
Family controlled businesses with higher and lower board independence (H_{2a}).	-0.051	-0.178
Non-family controlled businesses with higher and lower board independence (H_{2b}).	0.219	1.053
Family controlled businesses with smaller and larger board size (H_{3a}).	0.360	0.813
Non-family controlled firm with smaller and larger board size (H_{3b}).	0.473	1.176*
Family controlled businesses that practice duality and unitary leadership (H_{4a}).	-0.277	-1.777*
Non-family controlled businesses that practice duality and unitary leadership (H_{4b}).	-0.047	-0.245

*** Significant at 1% level (two-tailed)
** Significant at 5% level (two-tailed)
* Significant at 10% level (two-tailed)

businesses with larger board size. The results also reveal that family controlled businesses that practice separate leadership perform better than family controlled businesses with duality leadership. In other words, based on the results, we can conclude that family and non-family businesses are different in terms of corporate governance practices. This study has shown that family businesses need to be treated differently from non-family businesses due to the different nature of the firms, which rely on an internal control system and have a high sense of familiness. Therefore, regulators also need to pay more attention to the unique setting of family companies.

Limitations of the Study

The limitations of the study are that the sample focused on the companies listed on Bursa Malaysia. Therefore, the results must be interpreted with care since they cannot be generalized to the whole population. This is because non-listed companies do have a smaller firm size compared to listed companies. Perhaps, future research may include the second board and the time period may be extended to five years. In terms of the model, future research should reconsider whether to include the variables leverage, asset tangibility and ROA, since these variables are highly correlated.

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Endnotes

[1] Directors that are not officers of the company; who are neither related to its officers nor represent concentrated or family holdings of its shares.

[2] Directors that are not officers of the company; who are neither related to its officers nor represent concentrated or family holdings of its shares.

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