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EXPLORING THE EFFECT OF OWNERSHIP STRUCTURE ON DEBT COST OF MALAYSIAN LISTED FIRMS: A PANEL DATA ANALYSIS

This study investigates the relationship between ownership structure and the cost of debt of 101 companies listed at Malaysian Bourse between 2003 and 2007. Ownership structure is defined along 4 dimensions: concentrated, family, insiders and government ownerships. Concentrated and government ownerships are found to have significant effects on firms' cost of debt. Debt issuers appear to regard concentrated ownership as an organisational attribute that better protects their interest. Government-owned firms suffer from high cost of debt; thus, appear to be less efficient than other firms. The result is robust with respect to controls for company size and performance, default and financial risks, economic growth, industry and time effects.

Keywords: ownership structure, concentrated ownership, family ownership, insider ownership, government ownership, agency theory, cost of debt, corporate governance, Malaysia.

Зулкуфлі Рамлі

ВПЛИВ СТРУКТУРИ ВЛАСНОСТІ НА ВАРТІСТЬ ПОЗИКОВОГО КАПІТАЛУ: АНАЛІЗ ПАНЕЛЬНИХ ДАНИХ ПО ПІДПРИЄМСТВАХ МАЛАЙЗІЇ, ЯКІ КОТИРУЮТЬСЯ

У статті вивчено взаємозв'язок між структурою власності і вартістю позикового капіталу на основі даних 101 компанії, що котируються на біржі Малайзії в період 2003–2007 років. Структуру власності визначено по 4 вимірах: концентрована, родинна, інсайдерська і державна. Істотний вплив на вартість позикового капіталу встановлено для концентрованої і державної структур власності. Компанії-емітенти розглядають концентровану власність як організаційний атрибут, який найкраще захищає їх інтереси. Державні фірми характеризуються високою вартістю позикового капіталу і виявляються менш ефективними, ніж інші. Результати стійкі в разі контролю по таких параметрах, як розмір і продуктивність компанії, кризові і фінансові ризики, економічне зростання, промислові і часові ефекти.

Ключові слова: структура власності, концентрована власність, родинна власність, інсайдерська власність, державна власність, агентська теорія, вартість позикового капіталу, корпоративне управління, Малайзія.

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Зулкуфлі Рамлі

ВЛИЯНИЕ СТРУКТУРЫ СОБСТВЕННОСТИ НА СТОИМОСТЬ ЗАЕМНОГО КАПИТАЛА: АНАЛИЗ ПАНЕЛЬНЫХ ДАННЫХ ПО КОТИРУЮЩИМСЯ ПРЕДПРИЯТИЯМ МАЛАЙЗИИ

В статье изучена взаимосвязь между структурой собственности и стоимостью заемного капитала на основе данных 101 компании, котирующихся на бирже Малайзии в период 2003–2007 годов. Структура собственности определена по 4 измерениям: концентрированная, семейная, инсайдерская и государственная. Существенное влияние на стоимость заемного капитала установлено для концентрированной и государственной структур собственности. Компании-эмитенты рассматривают концентрированную собственность как организационный атрибут, который лучше защищает их интересы. Государственные фирмы характеризуются высокой стоимостью заемного капитала и оказываются менее эффективными, чем другие фирмы. Результаты устойчивы в случае

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контроля по таким параметрам, как размер и производительность компании, кризисные и финансовые риски, экономический рост, промышленные и временные эффекты.

Ключевые слова: структура собственности, концентрированная собственность, семейная собственность, инсайдерская собственность, государственная собственность, агентская теория, стоимость заемного капитала, корпоративное управление, Малайзия.

Introduction. Numerous studies have investigated the value creation role of firm corporate governance. Prior research is mainly driven by the proposition that corporate governance should be able to improve firm value for it to be useful, but the results are inconsistent. Further, there is a dearth of empirical research on the effect of corporate governance on the debt claimants despite the fact that debt issuers are also important contributors of firm capital. Anderson et al. (2003) pioneered the field to investigate the link between founding family ownership and the cost of debt in the US firms. They find that debt issuers regard founding family ownership as a desirable form of oversight mechanism that provides better protection to their interests. Hence, they are willing to impose lower cost of debt. The outcome of this study is consistent with the argument of Denis and Sarin (2001) that shareholder monitoring mechanism is an integral part of a firm's corporate governance structure.

The pioneering study of Anderson et al. (2003) motivates the current research, which primary aim is to provide preliminary empirical evidence on the link between ownership structure and the cost of debt in Malaysia. Malaysia as one of the emerging markets and presents a unique opportunity for empirical research on ownership structure because ownership of listed corporations is commonly characterised into concentrated, family, insiders and government shareholdings (Shim, 2006). The existing corporate ownership structure in Malaysia is favourable if this study shows that it creates value for firms by lowering cost of debt.

Corporate ownership structure in Malaysian listed firms is seen either as a potent governance mechanism or the source of corporate governance problems (Ibrahim et al., 2008). Family and government-owned firms are commonly perceived as having weak corporate governance structure (Abdul Samad, 2004). Family firms may give rise to crony capitalism that generates economic rents, which leads to inefficient allocation of resources and impeding wealth generation (Enderwick, 2005). Meanwhile, government-owned listed firms are less profitable than other firms due to their rent-seekers mentality (Gomez and Sundram, 2002). However, empirically, there seems to be lack of conclusive support for this negative presumption, which is mainly due to limited empirical investigations and inconsistent results.

This study examines the value creation effect of shareholder monitoring mechanism from two perspectives. First, firm value may be potentially enhanced when firms enjoy lower cost of debt as a result of an effective shareholder monitoring mechanism. Debt issuers may be willing to accept a lower risk premium when they have confidence on the ability of shareholders to exercise oversight role on the opportunistic managers. Second, debt issuers suffer from the agency conflicts with well-diversified equity shareholders in which the latter have the tendency to expropriate wealth from the former. The extent to which debt issuers are willing to accept lower risk premium depends on the effectiveness of the firm oversight mechanism that protects their welfare.

The paper is structured as follows: Section 2 provides an overview of the ownership structure in Malaysian corporations, Section 3 develops the hypotheses of the

study, Section 4 describes the data and the methodology, Section 5 discusses the findings and the final section concludes by highlighting the policy implications of the research.

Ownership Structure in Malaysian Corporations. Corporate ownership is highly concentrated with most concentrated firms is dominated by family founders and their descendents (Claessens et al., 2000; Haniffa and Hudaib, 2006). Malaysian government's ownership in listed firms is a distinctive feature too. It is used as a strategy to manage the economy and the society. In fact, the development of the country's economy is greatly influenced by the performance of the government-linked companies. The government participation in businesses can be attributed to the country's historical and political developments.

Prior to 1970s businesses in Malaysia were largely dominated by foreigners and ethnic Chinese. The government established the National Economy Policy (NEP) in 1971 in order to increase corporate ownership and management for Bumiputera² to 30% by 1990. Under the NEP the ownership and control of companies in as plantations, mining and banking industries shifted from the foreigners to the government (Mohd Ali, 2002). The NEP has created the building blocks for the present day corporate environment in Malaysia where the boundaries between business, politics and government have become increasingly blurred (Gomez and Sundram, 1997). In the 1980s, the government privatised many key state companies, but at the same time remains a major shareholder in those privatised firms (Mohd Ali, 2002). This privatisation exercise coupled with the NEP have entrenched the government involvement in the corporate sector and a more intimate relationship was forged between business and politics in Malaysia.

Hypothesis Development. Debt issuers suffer from rampant managerial opportunism and information asymmetry that arise from the separation of ownership and control in listed firms (Jensen and Meckling, 1976). Agency conflicts increase the probability of default in debt obligation. Opportunistic managers may divert the funds provided by debt issuers from their intended purposes and withhold value-relevant information, which makes it difficult for debt issuers to assess the extent of default risk.

Ownership Concentration and Cost of Debt. As Malaysian corporations are highly concentrated debt issuers may be exposed to debt agency cost too. However, theoretically, the link between concentrated ownership and debt issuers' welfare is ambiguous (Aslan and Kumar, 2009). The concentrated owners may engage in risky investment to support their "empire building" tendency (Jensen, 1986), engage in tunnelling activities (Gilson, 2006), issue additional debt of higher priority that dilutes debt issuers' claim (Aslan and Kumar, 2009) and acquire other firms that increase leverage and affect debt seniority (Warga and Welch, 1993). On the other hand, concentrated owners may serve as a potent oversight mechanism. Given their entrenched and undiversified ownership they have little incentive to exit the firm or engage in activities that could impair their own wealth (Anderson et al. 2003). They can be effective monitors by exercising their voting power to curb the management's value destroying activities (Shleifer and Vishny, 1997). They might strive to reduce the

² According to Torii (1997), Bumiputera means "sons of the soil" in Bahasa Malaysia, the national language of Malaysia. The term Bumiputera is meant to distinguish Malays and the indigenous people from other ethnicities such as Chinese, Indians and other immigrant population.

agency cost of risk against debt issuers in order to enjoy lower cost of debt in the future.

Empirically, a systematic pattern of relationship between ownership concentration and cost of debt is not clear due to limited study and inconsistent results. Cremers et al. (2007) observed that concentrated ownership is associated with higher (lower) yields if a firm is exposed to (protected from) takeovers. Pham et al. (2008), Piot and Missonier-Piera (2007) and Wang and Zhang (2008) observed that higher institutional block-holders ownership percentage lowers firm's cost of capital. In contrast, Bhojraj and Sengupta (2003) and Boubakri and Ghouma (2010) found that firms with concentrated institutional shareholders suffer from higher costs of debt. Lin et al. (2010) noted cost of debt is significantly higher in firms that have wider divergence between the largest ultimate owner's control rights and cash flow rights. The empirical evidence discussed above suggests that concentrated ownership has some bearing on the cost of debt and provides support for the hypothesis below:

H₁: Cost of debt is positively related to concentrated ownership.

Family Ownership and Cost of Debt. Family owners tend to exert control on the firm because they have longer investment horizons, ensure that business can be handed to future generations of the family (Ellul et al., 2006) and to protect family's wealth (Stein, 1989). The powerful motives of family owners to manage a particular firm suggest that they can alleviate agency conflicts between equity and debt issuers, thus reducing the cost of debt. Private benefits hypothesis, on the other hand, posits that there could be a conflict of interest between family controlling shareholder and debt issuers (Anderson et al., 2003). Debt issuers' interest may be jeopardized when family owners invest in riskier projects. Shareholders usually benefit from most of the gains when the riskier projects payoff but the debt issuers bear most of the cost (Jensen and Meckling, 1976).

Empirical evidence on the link between family ownership and the cost of debt is lacking. Anderson et al. (2003) found that founding family ownership lowers cost of debt because debt issuers consider them as a potent monitoring mechanism. Ellul et al. (2006) observed that family firms originating from low investor protection environments suffer from high debt costs whilst firms originating from high-legality countries benefit from lower debt costs compared to non-family firms. In contrast, Lin et al. (2010) revealed that family firms with concentrated ownership have significantly higher cost of debt, particularly when a member of a controlling family is also the CEO and when they have poor financial transparency, a lower credit rating and a higher credit risk. Collateral and loan covenants together with strong legal rights and efficient debt enforcement minimise the impact of excess controls on cost of debt. Similarly, Boubakri and Ghouma (2010) found strong evidence that family control is perceived as a potential risk of expropriation by both bondholders and rating agencies in both East Asian and Western European countries. Their findings are in line with La Porta et al. (1999) in which family owners in countries with weak investor protection regime are likely to harm other debt issuers. The theoretical argument and findings of the empirical studies discussed above lead to the following hypothesis:

H₂: Cost of debt is positively related to family ownership.

Insider Ownership and Cost of Debt. The convergence-of-interest hypothesis suggests that giving an equity stake in a firm to insiders (executive directors) could miti-

gate the extent of managerial opportunism and shift their attitude from managerial mentality to ownership mentality (McKnight and Weir, 2009). Insider owners have greater incentive to monitor management because owners themselves are directly involved in controlling and allocating firms' resources (Jensen and Meckling, 1976). In contrast, the entrenchment hypothesis posits that insiders may be entrenched in a firm when they own higher ownership. They are likely to engage in value destroying behaviours (Morck et al., 1988) such as unfair related-party transactions, borrowing from the firm with minimal interest, embarking on wealth-decreasing diversification and disposing significant and valuable asset to the persons related to them, at below market value.

Empirically, studies examining the effect of insider ownership on cost of debt show contradicting results. Pham et al. (2008) observe that the insiders' tendency to protect firms' investment reduced the perceived risk of a firm, leading to lower costs of debt. Anderson et al. (2004) and Fields et al. (2010), on the other hand, show that insider ownership is not related to the cost of debt. In the view of the limited empirical evidence and inconclusive findings, we propose the following hypothesis:

H₃: Cost of debt is related to insider ownership.

Government Ownership and Cost of Debt. Government that typically owns higher proportion of ownership interest in public firms may perform an effective stewardship role (Ang and Ding, 2005). The government represents a wider interest of the society, which may give confidence to debt issuers that their interest will be better protected, thus, leading to a reduced cost of debt. Government owners, on the other hand, need to juggle between conflicting priorities of social welfare maximisation and profit maximisation objectives (Gomez and Sundram, 2002). Government-owned firms also face "free rider problem" in monitoring firms' performance (Short and Keasey, 1997). As such, a higher proportion of government ownership in listed firms will not be an effective form of control leading to higher cost of debt.

Empirical evidence on the link between government ownership and the cost of debt is lacking. Vining and Boardman (1992) and Megginson et al. (1994) observe that government-owned firms have higher cost of debt. In Malaysia, government-owned firms are generally less profitable than other listed firms due to the existence of political patronage and rent-seekers' mentality (Gomez and Sundram, 2002), which may potentially lead to higher cost of debt. The theoretical arguments and limited empirical findings, discussed above, lead to the hypothesis below:

H₄: Cost of debt is positively related to government ownership.

Data and methodology. Data. We obtain the ownership data from the firms annual reports. Malaysian legislation requires complete information on company ownership including the identification of family relationship to be disclosed in the annual reports. This study focuses on non-financial public listed firms in 9 industry sectors of the Main Board³ of the Malaysian Bourse. We collect the total of 505 firm-year observations over the five-year period between 2003 and 2007.

Financial Variables. Consistent with Pittman and Fortin (2004) and Piot and Missonier-Piera (2007), we use interest rate (IntRate) as a proxy for firm cost of debt.

³ These are construction, consumer products, hotels, industrial products, plantation, properties, technology, infrastructure project, and trading/services, which is the base industry.

IntRate is calculated by dividing a firm's interest expenses by its average short-term and long-term debt for a given year. The control variables are total assets (TA), leverage (LEV), return on assets (ROA), market-to-book ratio (MTB), interest coverage (INTCOV), gross domestic product rate (GDP Rate), industry (INDDummy) and year (YRDummy) dummies.

Shareholder Monitoring Variables. The shareholder monitoring variables consist of ownership concentration (OWNCON) and the 3 ownership identities: family (FAM), insider (INS) and government (GOV) shareholdings. We define OWNCON as the sum of ownership percentage of top 5 non-family shareholders who hold a minimum 5% of the total equity of the firm. We measure FAM as the cumulative percentage of family members' equity holding. We define INS as the sum of executive directors' ownership. We exclude the shares held by independent non-executive directors because they are expected to play a monitoring role and minimize self-interested behaviour of the executive management. We measure GOV as the sum of ownership percentage held by government institutions and government-controlled bodies.

Empirical Model. We employ the panel data regression technique to analyze the effect of ownership concentration and the ownership identities on the cost of debt. We specify the regression equation below.

$$\begin{aligned} \text{IntRate}_{it} = & \beta_0 + \beta_1 \text{OWNCON}_{it} + \beta_2 \text{FAM}_{it} + \beta_3 \text{INS}_{it} + \beta_4 \text{GOV}_{it} + \\ & + \beta_5 \text{LNNTA}_{it} + \beta_6 \text{LNLEV}_{it} + \beta_7 \text{LNROA}_{it} + \beta_8 \text{LNMTB}_{it} + \beta_9 \text{LNINTCOV}_{it} + \\ & + \beta_{10} \text{GDP}_{it} + \beta_{11} \text{INDDummy}_{it} + \beta_{12} \text{YRDummy}_{it} + \mu, \end{aligned} \quad (1)$$

where the financial and shareholder monitoring variables are as previously defined. β_0 ... β_{12} represent regression coefficients and μ represents the error term.

Results. Table 1 presents the descriptive statistics of the financial variables and shareholder monitoring variables. Focusing on the ownership variables, for the full sample, concentrated ownership varies from 11.23% to 87.64%. The mean of 56.65%, indicates that on average, large companies are highly concentrated in the hands of the 5 largest shareholders. The mean of insiders' ownership of 20.76% also suggests that executive directors generally have sizeable ownership stakes in the listed firms in Malaysia. Government ownership has an average and maximum percentage of 11.98 and 83.01 respectively. Further, as evidenced from Panel D the ownership is quite stable except for the government ownership, which shows a declining trend.

The results of correlation analysis of the independent variables indicate there is no multicollinearity problem because the correlations are relatively low⁴. Skewness-kurtosis test show that the data are not normally distributed especially the control variables, which violates the assumption of the ordinary least square (OLS) model. We use log transformation to rectify this problem. Breusch-Pagan and Wooldridge tests indicate that the data suffer from both heteroskedasticity and autocorrelation. Hence, the use of pooled OLS regression may lead to misleading inferences and inefficient coefficient estimates. We analyse the data using a panel data estimation procedure of cross-sectional time series generalized least squares (GLS) regression model, which provides reliable estimates in the presence of heteroskedasticity and autocorrelation (Gujarati, 2003). Table 2 reports the results of GLS regressions of the cost of

⁴ Multicollinearity may be a problem when the correlation exceeds .80 (Gujarati, 2003).

debt on the ownership concentration and the 3 ownership identities after controlling for the effects of a set of common control variables. Regression models 1 to 4 show the individual effects of each ownership type. Model 5 is the full model utilising all the ownership types.

Table 1. Descriptive Statistics

	Mean	Median	Std. Dev.	Min.	Max.
Panel A – Financial Variables (full sample)					
IntRate	.094	.097	.041	.011	.214
TA	2226.870	545.570	7137.000	43.410	67724.600
LEV	2.370	1.880	1.740	1.030	20.550
ROA	.064	.046	.078	.046	.844
MTB	1.490	.910	2.720	.100	34.050
INTCOV	15.170	3.830	36.420	.000	278.700
GDP Rate	5.520	5.200	.960	4.200	7.100
Panel B – Shareholder Monitoring Variables (full sample – in %)					
OWNCON	56.650	59.290	15.720	11.230	87.640
FAM	20.760	16.850	22.190	0.000	70.170
INS	25.280	25.720	21.570	0.000	72.670
GOV	11.980	5.580	17.240	0.000	83.010
Panel C – Financial Variables (Mean – yearly)					
Year	2003	2004	2005	2006	2007
IntRate	.097	.089	.086	.096	.101
TA	1892.700	2048.260	2136.650	2394.97	2661.780
LEV	.630	.580	.550	.550	.530
ROA	.064	.063	.062	.063	.070
MTB	1.640	1.430	1.160	1.400	1.830
INTCOV	17.600	15.240	12.100	14.120	16.790
GDP Rate	4.200	5.200	7.100	5.200	5.900
Panel D – Shareholder Monitoring Variables (Mean – yearly in %)					
OWNCON	56.940	57.130	56.240	56.190	56.740
FAM	20.970	20.790	20.520	20.610	20.830
INS	25.880	25.510	24.840	24.740	25.400
GOV	12.920	12.770	12.290	11.480	10.440

Discussions. Based on Model 1, OWNCON together with the control variables explained 20% variation in the cost of debt. OWNCON has a significant negative relationship with the cost of debt at the 1% significance level; thus, we reject our hypothesis 1. In contrary to our prediction, we find that concentrated ownership lowers cost of debt. The result supports the theoretical proposition that concentrated owners can intensify monitoring of managerial activities, thus mitigating the debt issuers' exposure to managerial opportunism. This result is consistent with Piot and Missonier-Piera (2007) and Wang and Zhang (2008), which subsequently imply that concentrated ownership is a significant disciplining mechanism.

Contrary to the findings of Anderson et al. (2003) and Ellul et al. (2006) we find that family ownership does not have a significant link with the cost of debt. We document a similar result for insider ownership, which is in contrast to the finding of Pham et al. (2008). Hence, we reject both hypotheses 2 and 3. Nevertheless, it is interesting to note that the coefficients of both family and insider ownerships are negative, which are in line with the theoretical model. Government ownership is significant at the 1% level in explaining the cost of debt. Overall, government ownership together with the control variables explains 18% of variation in the cost of debt. However, the cost of debt is likely to increase when firms have government owners;

thus, we accept our hypothesis 4. The result reinforces the argument that government owners are not an effective monitor for the suppliers of finance. The research finding is in line with the results of Vining and Boardman (1992) and Megginson et al. (1994).

Collectively, ownership concentration, family, insiders and government ownerships explain 23% of the variation in the cost of debt. Concentrated and government owners are the significant predictors of the cost of debt. The result suggests that the concentrated owners play a potent monitoring role in protecting the interests of debt issuers. Government ownership, on the contrary, is not a desirable form of ownership from the perspective of debt issuers. In all regression models, the controlling variables of firm size, leverage and market-to-book ratio have a significant impact on the cost of debt at least at the 5% significant level. Firm size, market-to-book, interest coverage ratio are found to have a negative effect on the cost of debt. As expected, leverage has a positive link with the cost of debt.

Conclusions and policy implications. We have investigated the effect of ownership structure on the cost of debt of 101 firms listed at Malaysian Bourse between 2003 and 2007. Our research is premised on the arguments that robust shareholder monitoring constraints managerial opportunism tendency and mitigates the agency conflicts between equity holders and debt issuers; thus, better protects the latter's interest. As such, debt issuers are willing to accept a lower risk premium effectively lowering the cost of debt. In addition, debt issuers suffer from the potential expropriation of firms' wealth by well-diversified shareholders. Hence, they may take comfort on less diversified shareholders such as the concentrated owners to better protect their interest.

Table 2. GLS Regressions of Firm Cost of Debt and Ownership Structure (n = 505)

Variable	IntRate				
	Model 1	Model 2	Model 3	Model 4	Model 5
OWNCON	-.0002** (-1.90)				-.0003** (-2.62)
FAM		-.0001 (-1.39)			-.0001 (.84)
INS			-.0001 (-1.39)		-.0001 (-.29)
GOV				.0003** (2.80)	.0003** (4.03)
LNTA	-.0030** (-3.52)	-.0027** (-2.98)	-.0030** (-2.85)	-.0027** (-3.63)	-.0030** (-3.95)
LNLEV	.0026* (2.44)	.0028** (3.02)	.0035** (3.08)	.0042** (3.53)	.0039* (2.70)
LNROA	-.0011 (-.60)	-.0021 (-1.41)	-.0016 (-1.16)	-.0017 (1.18)	-.0004 (.25)
LNMTB	-.0029** (-4.53)	-.0028* (-4.15)	-.0029** (-4.51)	-.0033** (-5.71)	-.0032** (-4.95)
LNINTCOV	-.0015** (-4.10)	-.0011* (-2.62)	-.0001 (-.92)	-.0005 (-.62)	-.0008 (-1.35)
GDP Rate	.0029* (9.96)	.0253* (14.74)	.0260** (12.98)	.0244** (16.36)	.028** (8.33)
INDDummy	Yes	Yes	Yes	Yes	Yes
YRDummy	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	.20	.18	.18	.18	.23

Notes: *t*-values are shown in parentheses; ** and * denote the significance levels of $\leq 1\%$ and $\leq 5\%$ respectively.

Our results show that concentrated and government owners have significant influence on the cost of debt. The negative relationship between concentrated ownership and the cost of debt implies that debt issuers value concentrated owners in Malaysian listed firms. Our results are consistent with Claessens et al. (2000), Abdul Samad (2004) and Haniffa and Hudaib (2006) in terms of the value creation effect of concentrated owners in Malaysia. Family and insider ownerships are not statistically significant in explaining the cost of debt.

We, however, observe that firms having government owners have higher cost of debt. Our results support the common perception that government ownership is a less attractive organisational form for Malaysian firms. Firms with government as substantial owners are associated with the free rider problem in monitoring firms' performance (Short and Keasey, 1997) and rent-seekers mentality (Gomez and Sundram, 2002). The government also has to juggle between achieving the demands of the society and addressing political concerns and fulfilling the objective of value shareholders wealth maximisation.

Finally, there is a number of policy implications related to this study. First, the findings help to establish a starting point for understanding the influence of ownership structure on the cost of debt in Malaysia, an area that has received little attention to date. Although corporate finance and accounting literature have highlighted the important of ownership structure in influencing firm value, very little focus has been given to examine it from the perspective of debt issuers. Typically, the effort to strengthen corporate governance is mainly driven by the notion that the board of directors should play the most crucial governance role. Likewise, the regulators have been emphasising the need to enhance board's accountability. We highlight that shareholder monitoring mechanism in particular the concentrated owners are also a potent oversight mechanism. Hence, policy makers should examine firms' ownership structure when they consider decisions on corporate governance in Malaysia. Although the results are not significant for family and insider ownerships, it is pertinent that these types of ownership are not ignored, because the coefficients of both ownerships are negative. Future studies should examine these as well.

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