Are Malaysian Government-Linked Companies (GLCs) Creating Value?

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Abstract: Government-linked companies (GLCs) play an important role in the development of the Malaysian economy. However, overall public perception of GLCs in Malaysia has been tainted by the poor performance of key players, namely Malaysia Airline System (MAS) and Proton Holdings Berhad. Results of prior studies on the extent to which government intervention affects a company’s performance are mixed. This study empirically assesses the impact of government intervention on firm value in the context of the Malaysian economy. Results of statistical analysis conducted on 15 GLCs over six years—i.e. 2000 to 2005—reveal a significant positive relationship between the degree of government ownership and firm value. In other words, this study has found that contrary to the adverse public perception of GLCs in Malaysia, government intervention improves firm value. Results of this study provide preliminary evidence on the effectiveness of the ownership and control structure of Malaysian GLCs in creating firm value. Such findings pave the way for future research on the extent to which the ownership and control structure of Malaysian GLCs can serve as a model for developing and third-world countries to emulate.

Keywords: Government-linked companies, firm value, performance, Malaysia, empirical evidence

INTRODUCTION

This study examines the extent to which Malaysian government-linked companies (GLCs) create value. GLCs, which account for 36 percent of the market capitalization of the Malaysian stock market, play a significant role in the development of the country’s economy (Mokhtar, 2005). Despite the importance of GLCs in Malaysia, overall public perception of them has been tainted by the performance of key players. For instance, the Malaysia Airline System’s (MAS) losses ballooned to RM648 million for the half-year ended September 2005 despite restructuring undertaken to put the airline back to financial health. The national carmaker Proton Holdings’ share price in year 2006 fell sharply when Volkswagen dropped plans to invest in the company. The carmaker suffered a pretax loss of RM240.5 million in the third quarter of 2006.

Results of prior studies examining the effects of government intervention on firms’ performance are mixed (Boycko et al., 1996; Shleifer, 1998; Dewenter and Malatesta, 2001; Caves and Christensen, 1980; Kay and Thompson, 1986; Wortzel and Wortzel, 1989; Martin and Parker, 1995; Kole and Mulherin, 1997). Findings of these studies have resulted in the development of two competing schools of thought; one is in favour while the other is against government intervention.

This study assesses which of the two schools of thought prevails in the context of the Malaysian economy. This study tests the effects of the degree of government ownership in GLCs on firm value. Extant literature that examines the effects of government intervention on firms’ performance primarily use private firms’ performance as a benchmark (Caves and Christensen, 1980; Kay and Thompson, 1986; Wortzel and Wortzel, 1989; Martin and Parker, 1995; Kole and Mulherin, 1997; Boycko et al., 1996; Shleifer, 1998; Dewenter and Malatesta, 2001). Results of this study shed new light on this area of research as this study assesses the effects of different degree of government ownership on firm value.

LITERATURE REVIEW

GLCs are controlled by the Malaysian government via the Federal Government-Linked Investment Companies (GLICs)². GLICs are investment arms of the government that allocate government funds to public enterprises.
the GLCs. In addition to having ownership in GLCs, the Malaysian government also has an influence in the appointment of members of the board of directors and senior management positions. The government also has a controlling stake in making major decisions - e.g. contract awards, strategy, restructuring and financing, acquisition and divestments, etc.

To-date, there is a paucity of empirical research on the extent to which Malaysian GLCs create value. The effects of government intervention on companies’ performance have been empirically assessed in prior studies primarily by comparing performance of companies with versus without government intervention. Research findings suggest that there are two competing schools of thoughts.

According to the first school of thought, companies with government intervention are better governed (Caves and Christensen, 1980; Kay and Thompson, 1986; Wortzel and Wortzel, 1989; Martin and Parker, 1995; Kole and Mulherin, 1997; Ramirez and Tan, 2004; Ang and Ding, 2006). More specifically, these companies are not only under the watchful eyes of the public, i.e. namely investors and shareholders, but also the government. As a consequence, management of these companies is more conscious of the importance of maximizing shareholders’ value over self-interests.

In contrast, the second school of thought is of the opinion that companies in private hands are more competitive and have more incentive to innovate and contain costs (Boycko et al., 1996; Boubakri and Cosset, 1998; Shleifer, 1998; Dewenter and Malatesta, 2001; Sun and Tong, 2002; Wei and Varela, 2003). This is because their counterparts with government intervention are not only concerned about ensuring that the goal of wealth maximization is met. These companies—with government intervention—also need to give due consideration to several social goals that contribute towards nation building; the importance of wealth maximization is downplayed due to the division of attention across several goals.

This study ascertains which school of thought prevails in the context of the Malaysian economy by assessing the relationship between the degree of government ownership in GLCs and firm value. Extant literature that examines the effects of government intervention on companies’ performance primarily uses private companies’ performance as a benchmark, which is inappropriate; companies without government intervention are in a position to perform better due to their undivided attention on wealth maximization. Hence, this study contributes towards extant literature by examining performance—i.e. firm value—relative to the degree of government ownership.

**METHODOLOGY AND RESULTS**

15 GLCs listed on the main board of the Malaysian stock market from year 2000 to 2005 were included into the sample. Khazanah National, the leading GLIC in Malaysia, had an effective ownership interest of at least 20 percent in each of the 15 GLCs. Data of the 15 GLCs were collected from year 2000 to 2005 to test the relationship between the two variables of interest: (1) government ownership and (2) firm value.

Firm value was measured using Tobin’s Q (Chung and Pruitt, 1994). The proxy for government ownership was the percentage of the Malaysian government ownership—via Khazanah Nasional—in each GLC. Linear regression was used to assess the effects of government ownership on firm value, while controlling for common control variables.

The linear regression results are summarized in Table 1. The positive relationship between Tobin’s Q and Govown was highly significant, p<0.001. Such findings suggest that the higher the degree of government ownership in a GLC, the higher the firm value. None of the effects of the control variables were significant.

**CONCLUSION**

Contrary to the adverse public perception of Malaysian GLCs, results of this study suggest that the school of thought that is in favour of government intervention prevails. Being better governed owing to a higher degree of government ownership ensures that due priority is given to value creation. Results of this study also indicate that although GLCs’ attention is divided between several goals, the several goals are attained not to the detriment of the goal of wealth maximization. Such finding is consistent with the government’s aim of cultivating “national champions” upon whom the country’s economic fate depends on in the years to come. In other words, the Malaysian government’s priority is economic development. In order for GLCs to contribute towards the country’s economic development, GLCs need to place its role in creating firm value foremost. Thus, having several goals does not hinder GLCs’ momentum in creating firm value.

As the government is managing GLCs effectively, as evidenced in this study, future research can consider exploring the extent to which the Malaysian GLCs’ ownership and control structure can serve as a model for developing and third-world countries to emulate.
### Table 1: Linear regression results of the relationship between firm value and government ownership

<table>
<thead>
<tr>
<th>Dependent Variable: Tobin’s Q</th>
<th>Coefficient</th>
<th>t-Statistic</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.686</td>
<td>0.241</td>
<td>0.81</td>
</tr>
<tr>
<td>Govown</td>
<td>0.439</td>
<td>4.002***</td>
<td>0.00016</td>
</tr>
<tr>
<td>Non-duality</td>
<td>-0.068</td>
<td>-0.613</td>
<td>0.542</td>
</tr>
<tr>
<td>Foreign ownership</td>
<td>-0.133</td>
<td>-1.186</td>
<td>0.24</td>
</tr>
<tr>
<td>Size</td>
<td>0.005</td>
<td>0.037</td>
<td>0.97</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.104</td>
<td>-0.869</td>
<td>0.388</td>
</tr>
<tr>
<td>Profit</td>
<td>0.015</td>
<td>0.133</td>
<td>0.894</td>
</tr>
<tr>
<td>Year 2000</td>
<td>-0.142</td>
<td>-1.080</td>
<td>0.284</td>
</tr>
<tr>
<td>Year 2001</td>
<td>-0.148</td>
<td>-1.115</td>
<td>0.269</td>
</tr>
<tr>
<td>Year 2002</td>
<td>-0.079</td>
<td>-0.611</td>
<td>0.543</td>
</tr>
<tr>
<td>Year 2003</td>
<td>-0.043</td>
<td>-0.328</td>
<td>0.744</td>
</tr>
<tr>
<td>Year 2004</td>
<td>0.000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Year 2005</td>
<td>-0.018</td>
<td>-0.131</td>
<td>0.897</td>
</tr>
<tr>
<td>Adj R²</td>
<td></td>
<td>0.157</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td></td>
<td>2.322**</td>
<td>0.018</td>
</tr>
</tbody>
</table>

**Key:**
- *** significant at 1 percent level
- **  significant at 5 percent level
- *    significant at 10 percent level

Govown - percentage of government ownership
Non-duality - governance structure, a dummy variable that takes on a value of one when the firm’s CEO is separate from the chairman, and zero otherwise
Foreign ownership - alternative control mechanism, a dummy variable that is assigned a value of one when there is at least 5% foreign ownership of the firm’s issued share capital, and a zero value otherwise
Size - total assets
Leverage - total liabilities to total assets
Profit - return on equity
Year 2000-2005 - series of 6 years of analysis period, that controls for the possibility of temporal differences from 2000 to 2005.

Tobin’s Q = \( \frac{MV(CS) + BV(PS) + BV(LTD) + BV(CL) - BV(CA)}{BV(TA)} \)

MV(CS) - market value of common shares
BV(PS) - book value of preferred shares
BV(LTD) - book value of long term debt
BV(CL) - book value of current liabilities
BV(CA) - book value of current assets
BV(TA) - book value of total assets

**REFERENCES**


