

**“The Effects of Foreign Equity Ownership and Foreign
Directors’ Presence on Financial Performance of Malaysian
Listed Manufacturing Companies”**

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**The Effects of Foreign Equity Ownership and Foreign Directors' Presence on
Financial Performance of Malaysian Listed Manufacturing Companies**

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A research project submitted to the Department of Accountancy, Faculty of Accountancy and Management, Universiti Tunku Abdul Rahman, in partial fulfillment of the requirements for the degree of Master of Business Administration.

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DECLARATION

I hereby declare that:

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ABSTRACT

The aim of this research is to test the effect of foreign equity ownership, foreign directors' presence and the appointment of foreign CEO on financial performance of manufacturing public listed companies in Malaysia over the period 2009 to 2013. This research used return on asset (ROA) and total asset turnover ratio as indicators of financial performance. Firm size and firm financial leverage are used as control variables.

Sample of this study consists a total of 182 firms with 910 firm-year observations that were analyzed by using ordinary-least squared (OLS), fixed-effect model (FEM) and random-effect model (REM) regressions in Stat package (STATA). This study revealed that foreign directors' presence, appointment of foreign chief executive officer and firm size have significant positive influence on return on asset while the leverage ratio has negative significant effect on return on asset. Besides, research found that foreign ownership, foreign directors' presence and appointment of foreign chief executive officer are significantly influence positive on asset turnover whereby leverage ratio and firm size are negatively affect asset turnover.

CHAPTER 1

INTRODUCTION

The general aim of the research project is to further shed light on the influences of foreign equity ownership on Malaysia's firm performance. This research able to identify and analyze the effect of a firm's foreign involvement and presence of foreign directors' upon its firm profitability and efficiency for a sample of 182 manufacturing companies listed in Bursa Malaysia from year 2009 to 2013. This chapter will discuss the background of study, problem statement, research objectives that prompted for the study.

1.1 Background of Study

Foreign ownership structure appears to be important mechanism of corporate governance that would affect the firm performance. Due to possible separation of ownership and control, researchers in corporate governance also consider the effect of foreign directors and foreign CEO in order to further determine the additional channel of foreign influence on the firm performance.

Foreign direct investment (FDI) inflows are a significant source of finance for developing countries. Due to the increase in international capital flows over the past three decades, the impact of foreign direct investment may have on the firm performance, and thus attention has been increased on the economic.

Manufacturing considered as a dynamic sector and can central to the economic development of Malaysia. Malaysia's rapid industrialization was mainly the result of the early openness of FDI inflow. Mansur, Mamalakis & Idris (2011) stated that Malaysia government had seen the

importance of FDI since year 1967 as Malaysia Industrial Development Authority (MIDA) had been established to handle the task of promoting industrial and foreign investment in Malaysia. Benefits of easy taxes and regulation terms under “Multimedia Super Corridor” (MSC) Program were also granted to foreign companies. The government encouraged FDI particularly in sectors of export-oriented manufacturing and high-tech industries. Before independence in 1957, FDI activities in Malaysia were mainly in mining, farming, commercial enterprises and utilities. After independence, the pattern of changes in FDI is because of the expansion of activities in existing sectors have diversified into other agricultural crops and into manufacturing. Malaysia's FDI policy focused on the development of import substituting industries (ISIs) in 1960s. Malaysia has then switched to more export-oriented industries (EOIs), especially labour-intensive industries in 1970s as Malaysia has relatively cheap labour, educated and wealth which can meets the needs of foreign companies.

There is an increasing trend of foreign companies investing in Malaysia in the recent year, namely the multinational corporations (MNCs). MNCs had become one of the most powerful forces in international business trading and it expects continue to grow in the future, as greater integration is achieved in world economies. Lasward and Oyelere (1999) stated that the growing influence of MNCs necessitates greater understanding of various aspects of their operations and results.

FDI is usually done by MNCs. Numbers of previous empirical results suggested that FDI will enhance the nation economic environment and the country's wealth. This had been evidenced by the Third Industrial Master Plan (IMP 3) by Malaysia which focused on long term competitiveness in order to sustain in a fast changing global economic environment. It is argued that geographic diversification and operational flexibilities in a multinational structure can reduce the negative impact of adverse events and also foster business development and enhance responsiveness to environmental change (Andersen, 2000).

The main reason to put effort in attracting more FDI is because FDI had several positive effects, including transfers of new technology, productivity gains, introduction of new processes, management techniques and technical know-how in the local market, employee training, and

international production networks (Azman-Saini, Baharumshah & Law, 2010). In addition, FDI is not as volatile as other forms of capital (e.g., short-term capital), and hence, is less destructive (World Bank, 1999).

There are several challenges faced by the MNCs which engaged in FDI. The negative impacts experienced by the MNCs included information asymmetry, political and regulation, foreign exchange risk, managerial inexperience and so on. Furthermore, multinationality may impose additional coordination costs and irreversible commitments that increase corporate exposures (Andersen, 2000). Hence, the eventual risk and performance outcomes of multinationality are undecided.

In Malaysia, various investment incentives had been offered by the government and specified in Promotion of Investment Act (PIA) 1986 and Industrial Coordination Act 1975. For instances, Pioneer Industries can receive full or partial tax exemption for five to ten years depending on the type of products, foreigners can hold larger percentage of ownership up to 100% in enterprise, investment tax allowance could be claimed up to 60% of capital expenditure incurred during the first five years of project commencement, etc (Mansur, Mamalakis & Idris, 2011). Introduction of Investment Incentives Act 1968 in late 1960s, establishment of free trade zone in the early of 1970s and the provision of export incentives in the 1980s are also the main facilitators resulted in a large inflow of FDI (Karimi & Zulkornain, 2009). These efforts resulted in inflow of FDI grew at an annual average rate of 38.7 percent between 1986 and 1996 in Malaysia.

The business involvement will possess a significant influence upon the Malaysia economic conditions. There are various reasons for MNCs participated in FDI. First of all, the liberalization of nation business involvement will increase their competitive advantage as compared to the other countries and experienced the diversification benefit.

Malaysia is an attractive FDI destination. Based on UNCTAD record shown in Figure 1, the FDI inflows increased from year 1990 to 1995. There was dramatically decreased in FDI inflows in 1997 and 1998 due to the Asian Financial Crisis. Recovery was sharp, if incomplete, however, and FDI rise in 1999 and 2000. However, in 2001 in the context of a worldwide contraction in foreign investment of almost 50%, FDI to Malaysia fell a precipitous 85.4% to \$554 million. The

FDI fluctuated in the subsequent years from 2002 to 2008. There was a decreased of FDI inflows in 2009 due to Global Financial Crisis. It recover speedy and increase again in 2010.

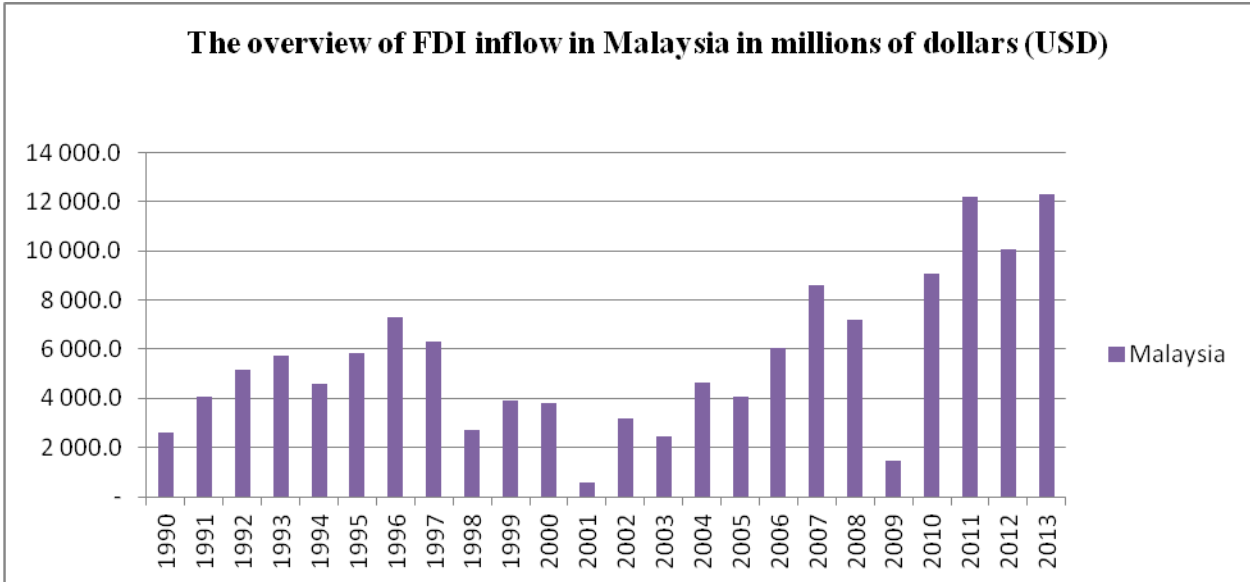
Table 1.1: FDI inflows in East and South-East Asia from year 2008 – 2013

Region/economy	2008 (USD mil)	2009 (USD mil)	2010 (USD mil)	2011 (USD mil)	2012 (USD mil)	2013 (USD mil)
East and South-East Asia	245,786	209,371	313,115	333,036	334,206	346,513
<i>East Asia</i>	<i>195,446</i>	<i>162,578</i>	<i>213,991</i>	<i>233,423</i>	<i>216,679</i>	<i>221,058</i>
-China	108,312	95,000	114,734	123,985	121,080	123,911
-Hong Kong	67,035	54,274	82,708	96,125	74,888	76,633
-Korea	11,232	9,024	9,535	9,829	9,616	22,064
-Macao, China	2,591	852	2,831	726	3,437	2,331
-Mongolia	845	624	1,691	4,715	4,452	2,047
-Taiwan	5,432	2,805	2,492	1,957	3,207	3,688
<i>South-East Asia</i>	<i>50,340</i>	<i>46,793</i>	<i>99,124</i>	<i>99,613</i>	<i>117,527</i>	<i>125,455</i>
-Brunei	330	371	626	1,208	865	895
-Cambodia	815	539	783	815	1,447	1,396
-Indonesia	9,318	4,877	13,771	19,241	19,138	18,444
-Laos	228	190	279	301	294	296
-Malaysia	7,172	1,453	9,060	12,198	10,074	12,306
-Myanmar	863	973	1,285	2,200	2,243	2,621
-Philippines	1,340	2,065	1,070	2,007	3,215	3,860
-Singapore	12,201	23,821	55,076	50,368	61,159	63,772
-Thailand	8,455	4,854	9,147	3,710	10,705	12,946
-Timor-Leste	40	50	29	47	18	20
-Vietnam	9,579	7,600	8,000	7,519	8,368	8,900

Source: UNCTAD Annex Table 1 (2014)

According to UNCTAD Report, Malaysia was among the top five host economies for FDI inflows in East and Southeast Asia, receiving around US\$ 12.2 billion worth of FDI inflows during year 2011 was a record high as shown in Figure 1.1, During year 2012, the country’s net inflow saw a decrease of 17.4% in investment to US\$10.1 billion compared to US\$12.2 billion in year 2011. Nonetheless, Malaysia maintained its ranking as the third largest recipient of FDI in ASEAN, with the bulk of its FDI receipts were in the manufacturing sector. UNCTAD noted in Report that that the decline of FDI inflows into Malaysia is in line with the global drop in manufacturing, where UNCTAD attributes it mainly to the decline in the value of Greenfield projects. However, FDI inflows have increased to US\$12.3 billion in 2013.

Figure 1.1: FDI inflows in Malaysia from year 1990 – 2013



Source: UNCTAD (2014)

Wong (2005) stated that one of the reasons that Malaysia became a largest recipient of FDI is the availability of a pool of relatively cheap, disciplined and well-trained labour, particularly in labour –intensive sectors such as electrical and electronic products. The other factors that attract foreigner to invest FDI into Malaysia are well-developed infrastructures, a strategic location linked to the proximity of the main Asian Markets, availability of enormous natural resources (palm oil, rubber, etc.) and growing spending power.

FDI Inflow in Malaysia is led by manufacturing, oil and gas and finance services industries. According to 2013 Investment Climate Statement declared by Bureau of Economic and Business Affairs, Malaysia has attracted significant investment from large market player such as ExxonMobil, Caltex, ConocoPhillips, Murphy Oil, Hess Oil, Halliburton, Dow Chemical and Eastman Chemicals in petroleum and petrochemical sectors. Major electronics manufacturers including Western Digital, Komag, Agilent, Motorola, Sony, Fuji, Panasonic, Matsushita and Hitachi as do major semiconductor manufacturers such as Freescale, Texas Instruments, Intel, and others also have substantial operations in Malaysia. In recent years, U.S. firms have been attracted by Malaysia and have significant investment in the production of solar panels. Table 1.2 reports approved foreign manufacturing investment in Malaysia as opposed to actual investment, and do not include the upstream oil and gas industry or services.

Table 1.2 FDI Inflows % by Industry in Malaysia

Main invested sector	2008	2009	2010	2011	2012	2013
Manufacturing	51.70	-34.02	56.69	44.75	42.11	37.58
Mining and Quarrying, oil and gas	-9.60	63.84	10.65	20.84	30.94	28.75
Finance and insurance	48.88	82.92	21.36	14.24	12.69	9.42
IT	2.67	-40.19	1.20	-1.03	1.97	6.19
Agriculture, forestry and fishing	1.11	-1.73	-0.16	0.22	1.02	2.59
Construction	0.48	-2.02	-0.76	0.26	0.67	2.30
Wholesale and retail trade	0.16	52.51	8.90	8.92	6.70	0.24
Other services	4.60	-21.33	2.12	11.80	3.88	12.93

Source : Bank Negara Malaysia and Department of Statistics, Malaysia (2014)

FDI has been increased from year to year and this causes the number of expatriate working in Malaysia to grow in recent years. In general, there is larger cultural difference between parent company and oversea company. It is believed that when parent companies need to maintain their identity, they rely on expatriate or so called foreign director (Edstrom 1977, Gupta 1991, cited in Tan & Mahoney, 2006) for control and communication purpose. According to Lee and Crocker (2006), expatriate plays a crucial role in managing, coordinating and sending information in between parent company and overseas business. This will promote a clear understanding of international business and avoid unwise decision is made.

It is costly for hiring a director who domiciles in foreign country and require him to transfer and serve in another country under contracts for a specified time. They may demand higher compensation for the cross-cultural adjustment and inconvenience of serving on boards outside their own country of residence. (Miletkov et. al. 2011) However, previous studies contended that foreign directors have played significant role in contributing the performance of company.

1.2 Problem Statements

Some of the past researchers found that foreign owned companies were performed better than domestic owned companies due to technology transfer, knowledge know-how transfer, linkage opportunities to sell goods to foreign firms and huge capital granted from parent company to host country for development. (Hooi, 2008). Geothal and Ooghe (1997) noticed that foreign ownership would performed better than domestic owned companies as foreign owned companies are more productive since they have better technology and more capital to operate their companies. This results was consistent with the finding of Branstetter (2006), Kneller and Pisu (2007), proving there are positive effect between foreign direct investment and companies productivity growth. In addition, Alan and Steve (2005) revealed that there was significant positive return on the firm performance for the corporations acquired by foreigners.

However, some other researchers found that there was adverse relationship between foreign ownership and firm performance. Kim and Lyn (1990) stated that foreign firms operating in the U.S. were less performing than domestic firm, this might due to they spend more in research and development, less in advertising, and higher debt levels combined with higher liquidity. Lack of understanding of countries culture as well as social live experiences also might be one of the reason lead them to failure. Konings (2011) conducted a research on the effect of foreign direct investment in firm productivity performance, the results shows that foreign owned companies are not perform better than domestic owned companies.

There were also numerous studies by researchers on the relationship between board composition of foreign director and firm performance. Study of Masulis et. al. (2012) stated that there was a

positive relationship between foreign director and financial performance. Foreign directors able to enhance advisory capability of boards with their international experiences and network that allow them to provide valuable insights and assistance in project of foreign acquisitions and foreign market expansion.

On the other hand, in Masulis et. al. (2011) study, they found that foreign directorship was associated with poor performance company. According to their studies, foreign directors showed poor board meeting attendance records as most of them lived outside the country of corporate headquarters and this made them more difficult and time-consuming to attend meeting on-site. Thus, they might not be updated with parent company's decision making and information which in line with latest market trend. Other than that, poorer performance of foreign director also associated with unfamiliar with the accounting standards, laws and regulations of foreign owned country.

With those contradicting findings, past researchers have yet to come out with a definite conclusion on the effect of foreign ownership and composition of directors on financial performance of Malaysia manufacturing listed companies. Hence, this research focuses on examine whether the FDI inflow is influential on financial performance of Malaysia manufacturing listed companies. As a country that only rank 4 out of 10 in good corporate governance index, it is worth to further analyse on whether foreign directors' presence and foreign CEO influence firm performance, besides looking at influence from foreign equity ownership only. (Asian Corporate Governance Association, 2014)

1.3 Research Objectives

The objectives of this research including examine on the relationship between foreign ownership structure and manufacturing company financial performance in the form of profitability and efficiency, which are measured by Return on Asset (ROA) and Asset Turnover respectively. Sample companies are selected from Consumer Product and Industrial Product which are listed in Bursa Malaysia main market from 2009 to 2013.

Also, this research will study on the relationship between the appointment of foreign directors and Chief Executive Officer (CEO) and company financial performance. It is believed that presence of foreign directors and CEO add to board diversity that will play an important role to drive the success of the companies.

This study use firm size and leverage as control variables for the relationship between foreign ownership and firm financial performance. When a company making financing decisions, it should keep its optimal capital structure in mind to make sure any increase in debt and preferred equity increase the value of the company. This paper also further investigate whether the firm size affect the company performance in Malaysia manufacturing companies.

1.4 Significant of Study

This study will be strongly concerned by equity investors in companies since the results of this study enable them to make a more efficient investment and shareholdings decision. Besides, this study will also be interested by the government policy makers. As the activities of foreign direct investment will affect the nation's economy, government seeks to determine the level of involvement by foreign investors and foreign directors in return of better financial performances of Malaysian listed manufacturing companies. In the long run, if Malaysian companies can perform better with foreign equity ownership and presence of foreign directors, it might also indirectly reduce outward FDI and helps the country to achieve net inflow in FDI, positive overall BOP balance and hence strengthening the Ringgit exchange rates.

1.5 Outline of the Reports

This report consists of five chapters with chapter one is introduction, chapter two is literature review, chapter three is methodology, chapter four is discussion of the results, chapter five is conclusion.

Chapter one introduce overall idea of this research, specify the scope that will be covered and determine the objectives that will be tested in this project.

Chapter two is literature review chapter. This chapter discusses on the effect of foreign direct investment toward the financial performance of Malaysia firms. Numerous historical results and data can be found in this chapter. The theoretical on investment also will be discussed in this chapter.

Chapter three is methodology or methods that will be used to test the objectives of research. Research design regarding data sampling and methodology will be described in this chapter.

In addition, Chapter four presents and discusses the statistical regression outputs with validated model implementation.

Lastly, Chapter five concludes by summarizing major findings of study in verifying the hypotheses. The practical implication, limitations as well as recommendations are further discussed in this chapter.

CHAPTER 2

LITERATURE REVIEW

This chapter attempts to review previous researches that relevant to this research topic which is the effect of foreign equity ownership and presence of foreign directors on financial performance of Malaysian listed manufacturing companies. A theoretical framework is formulated to examine this effect on Malaysian listed manufacturing companies from year 2009 to 2013. In this chapter, a number of empirical researches have been reviewed in order to determine the relevant variables. In addition, it also further strengthens the reliability of this theoretical model.

2.1. Overview of Foreign Direct Investment (FDI)

In the recent decades, foreign direct investment (FDI) had been expanding rapidly in developing countries. FDI had long been issue of interest by academics and policy makers. In fact, many policy makers believed that attracting FDI is one of the important mechanism and crucial factor to accelerate the country's economic development. FDI was considered as one of the major contributors of sustainable economic growth in a transitioning economy.

The International Monetary Fund (IMF) defines FDI as a category of international investment where a resident in one economy obtains a lasting interest in an enterprise resident in another economy (IMF, 1993). As a general structure, the FDI normally consists of a parent company and a foreign affiliates company so called sister company which integrated form a multinational corporations (MNCs). FDI is the ownership and control of assets in a foreign country which take several different forms including the setting up of a green field operation or acquiring an existing business either totally owned or in partnership with local entrepreneurs as a joint venture (Chadee & Schlichting, 2007).

2.1.1 Overview of Foreign Direct Investment (FDI) in Malaysia

Generally, the FDI played an important role in the development of the manufacturing industry. Firms view overseas expansion as an essential step to achieve a more successful access in the markets where they presently have low representation. Investment will lead to improve trade flows indicating that trade flows and investments are complementary (Tyler and Miranda, 2007). Malaysia has the most excellent expansion among the newly industrializing countries in Southeast Asia due to the intra-regional investment where well developed countries disperse production technology to less developed countries with low labor cost (Michael, 1995). In the early 1970s, Malaysian industry committed significantly in the export activities followed by the government policy that focuses on export-push strategy.

Realizing FDI as an important source for Malaysia's industrial development, the government has developed various investment incentives by offer foreign investors than some of its neighbors in terms of excellent infrastructure, efficient administration, disciplined workforce, etc. Malaysia investment incentives also look better, for example, Malaysia gives among other things, 5 to 10 years of investment allowance which is totally absent in other countries like Indonesia, Philippines, Thailand and liberal policies to promote foreign investment in the manufacturing sector. These include the enactments of investment incentive Act and Free Trade Zone Act, liberal policies on equity, tax incentives and so forth (Ministry of Finance Malaysia 2001: 173 – 210).

The Ministry of International Trade and Industry (MITI) and other related agencies have been given the responsibility to promote Malaysia's FDI. Besides, these agencies have also been given the task to channel overseas trade enquiries, provide information to Malaysian MNCs. Thus, it is easier to engage business with foreign partners and other government agencies. In addition, the development of FDI policy was to promote the investment opportunities that are present in the country to the overseas investors and strike a balance between the overseas and local investors (Foreign Direct Investment Policies, 2010).

The effect of FDI had greatly impact on different countries which is an important issue in the economic literature. The increase interest in this area of research had affected a lot of policy makers concentrate on ways to attract more FDI inflows. In fact, over the past few decades the growth rate of world FDI has exceeded the growth rates of both world trade and GDP (UNCTAD, 2001). FDI is one of the most relevant aspects in the wave of recently globalization, which have higher growth rate than both world trade and output (Bajo-Rubio, Diaz-Mora & Diaz –Roldan, 2010). FDI played an important role in Malaysia as it boosts up Malaysia’s economic growth. FDI inflows help to boost Malaysia’s employment rate, contribute to physical capital accumulation and may increase domestic competition in the short run. Since 1960, FDI in Malaysia faced significant growth as government set up policies in promoting foreign investment for example, the introduction of Investment Incentives Act 1968 and the establishment of Free Trade Zone (FTZ) during the Second Malaysia Plan (1971-75) (Rahman, 1971).

Overall, technological innovation, economic integration, convergence of consumer tastes and increased worldwide competition are the factors that force the Malaysian firms to engage in FDI.

2.2 Overview of foreign directors’ presence

Corporate governance describes the structure of rights and responsibilities of the board, management and the related parties that have a stake in a firm. Corporate governance mechanism in the operation of a firm is perceived as a dynamic role in controlling company’s daily business. Thus, board of director is an essential element in a firm’s corporate governance system. The role of board is to monitoring and advising the corporate decision such as capital budgeting and payout policies which is likely as monitoring and disciplinary role to govern the companies to ensure the managers is working toward for company value (Brickley and Zimmerman et. al., 2010).

Well functioned corporate governance mechanisms are vital indicators in making investment decisions for foreign investors. Companies in countries around the world must conform to basic

common principles of good practice in all areas of corporate governance in order to attract foreign direct investment.

Foreign director is defines as a director who domiciled in foreign country. The effect of the foreign director is likely a double-edged sword. Foreign directors, the argument stated that foreign director can added value on the firm performance in the extend of help to enhance the advisory capability of board by giving knowledge of foreign markets and assist the company to tap or develop into a new connection network of foreign contact due to their knowledge of home countries and closed connection to local business, social and political circles. These resources would able to allow foreign director to provide valuable advice and assistance on the foreign operation and corporation with the intention to expand globally. (Adam and Hermalin et. al., 2009).

Nevertheless, in some extend foreign directors are ought to be less effective than local based directors due to less knowledge of a country culture, politic circles and hence, they could weaken a board's effectiveness in decision. Also, the cost for foreign director such as remuneration, travelling allowance and other administrative cost were also increase the burden of a company as compare to local director which not required to travelling from their home countries.

2.3 Empirical Studies

As a general view of this research, the main research will focus on the effects of foreign direct investment in the listed companies in Malaysia. It was shown that in the past, there were positive effects and negatives effects when foreign direct invest in Malaysia. Those effects will influence the economy growth, culture, social life of the citizen, technologies improvement and provide new working environments.

2.3.1 Positive effect of foreign ownership on firm performance

Foreign owned companies, the argument goes, would introduce new technologies and help upgrade technologies capabilities of domestic owned companies. According to Blomstorm (1987), he revealed that the technology transfer is one of the channels which may stimulate domestic firms to hasten their access to a technology. By bringing foreign technologies into a country such as Malaysia, it makes transition of economies. The FDI facilitates this technology information accumulation process and lead to modernization of production via copying of foreign production methods. For example, the INTEL IC chip manufacturer in Penang introduced i-CORE processor. Some trainees and domestic owned companies like ATOM had underwent the training provided by the INTEL. Today, Malaysia can produce its own processor which called ATOM and entered the local market as well as world market. ATOM is now competitive with INTEL in terms of price and size of the processor. The firms in Malaysia, which uses products of foreign owned companies in their production process may benefit from better quality of their inputs. Some technologies know-how call spill over to suppliers of foreign owned companies, if the latter prefer to have local suppliers (Yudaeva K et.al, 2000).

Based on the studies of Hsieh (2006), by stimulating upstream and downstream linkages, foreign owned companies were able to indirectly help in upgrade the technologies of domestic-owned companies.

Jongmoo and Sehyun (2006) used panel samples with 2987 companies-year observation covering form year 1994 to 2002 in Korea. Estimation was based on the entire sample and by three subsamples which was pre-crisis from year 1994 to 1996, samples from crisis period from 1997 to 1998 and post crisis period from 1999 to 2002. The research has found that foreign equity ownership had significant effect on firm performance for the period from 1994 to 2002. This is due to government completely opened the stock market and undertook reforms following the Asian financial crisis. However, sub-period estimations indicated that the positive impacts of foreign ownership become statistically and economically significant only in the post-Asian financial crisis period of 1999-2002 when inflows of foreign investments increased as a part of

economic reform in the aftermath of the Asian financial crisis. Moreover, it was evidence that foreign investment have been significantly improving firm performance through their representation on the board or contribution to labour productivity.

According to the study of Aydin et al (2007), he investigated all firms listed in Istanbul Stock Exchange (ISE) for year 2003 to 2004. T-test statistics is applied to examine relationship between return on assets (ROA), return on equity (ROE), operating profit margin (OPM) and foreign owned company and domestic owned company. The results showed that foreign owned company is performed better than domestic firm in respect of ROA. The evidence revealed supported the hypothesis that foreign owned company is able to improve the firm performance.

Willmore (1986) had investigated the data of 282 foreign owned companies of manufacturing industry in Brazil. This study has found that the effects of foreign owned companies were significantly affect firm performance. In general, foreign owned companies had higher ratios of value-added to output, higher levels of advertisement and royalty payments, better labour productivity, higher export, better wages and greater capital intensity.

Aitken and Harrison (1999) conducted a research for the period of 1976 to 1989 to identify two result of foreign direct investment on domestic companies by using panel data more than 4,000 Venezuelan plants. The first result revealed that increased in foreign equity participation were correlated with increased in productivity for recipient plants with less than 50 employees, suggesting that these plants benefit from the productive advantages of foreign owners. The second result was shown that increased in foreign ownership negatively affect the productivity of wholly domestically owned companies in the same industry. These negative effects were large and robust to alternative model specifications. Even though past researches usually found positive effects, but these results can be explained by the tendency for multinationals to locate in more productive sectors and to invest in more productive plants. On balance, the evidence suggested that the net effect of foreign ownership on the economy was quite small. Weighted least-squares estimates suggested that the positive effects for recipient firms slightly outweigh the negative effects on companies that remain domestically owned; other approaches yield a net

negative impact of DFI. It concluded that there were benefits from foreign investment, but that such benefits appear to be internalized by joint ventures. There was no proof supported the existence of technology “spillovers” from foreign owned companies to domestic owned companies.

According to Konings (2001), three key questions were addressed (1) Do foreign companies perform better than their domestic counterparts? (2) Do foreign companies generate positive spillovers to domestic companies? (3) Do technological spillovers from foreign companies depend on the absorptive capacity of domestic companies? Konings used firm level panel data to study the effect of foreign ownership on the productivity of domestic companies in three emerging economies of Central and Eastern Europe, Bulgaria, Romania and Poland. The dataset included 2,321 companies in Bulgaria over the period of 1993 to 1997, 3,844 companies in Romania for the period of 1994 to 1997 and 262 companies in Poland between the period of 1993 to 1997. In this study, Konings found that foreign owned companies always outperform than domestic owned companies. Furthermore, the estimate of the effect of foreign investment on productivity is about the same in each country, about 10%. This mean that a company would change its ownership structure from 0% foreign participation to 100% foreign participation, total factor productivity would increase by 10%. This result support the hypothesis that foreign owned companies or joint ventures have better knowledge and/or technology which allows them to be more productive than domestic owned companies. It is also consistent with the idea that foreign owned companies induce restructuring at the firm level which leads to higher productivity (Wallner, 1998). As a result, on average it shows that no evidence of positive spillovers to domestic owned companies. In contrary, there were no spillovers to domestic companies in Bulgaria and Romania, while there were negative spillovers to domestic companies in Poland based on firm level panel data. This might due to taking time for foreign ownership impacts on performance. While past researchers have found that positive spillover from FDI to domestic companies, which motivated policies to attract FDI, the results suggest that policies to attract FDI might lead to perverse effects in the short run.

According to the study of Asheghian (1982), this study examined the efficiencies of foreign companies, which consisted of Iranian-American joint venture companies and domestic companies in Iran during the pre-revolutions period 1971 to 1976. Asheghian based on three indexes of efficiency, labour productivity, capital productivity and total factor productivity to conclude that foreign owned companies were more efficient than domestic owned companies.

Conyon et al (2002) examined the impact of productivity of foreign owned companies in United Kingdom for the period of 1987 to 1996. Their study also finds that there is positive and significant impact of foreign ownership on firm performance. Geothal and Ooghe (1997) investigated the effect of foreign ownership on Belgian companies. The results revealed that foreign ownership has drastically improves financial performance for Belgian companies.

Correlation between foreign ownership and firm performance has been studied by Chibber and Arbor (1999) by using firm level data over 800 Indian companies listed in Bombay Stock Exchange. Their result found no significant correlation between foreign ownership and firm performance at ownership level lower than 51%. Foreign ownership above 51% has positive and statically significant effect on firm performance only after 1991 – the start year of FDI reforms in India. They studied the firms' cross section of 837 Indian companies, spline regressions were used for time-series regression models. The result showed that superior exporting performance of domestic owned companies is associated with foreign ownership levels of 51% and above in India.

Kimura and Kiyota (2007) used micro-panel data for companies located in Japan to examine the differences in corporate performance between foreign owned companies and domestic owned companies in 1990s. Their study was comprised of all companies with more than 50 employees and with capital of more than 30 million yen, covering both manufacturing and non-manufacturing companies. The result revealed that foreign owned companies performed better than domestic owned companies in both static and dynamic senses.

2.3.2 Negative effect of foreign ownership on firm performance

S. Agarwal et al (2008) stated that foreign investors generally underperform than domestic investors in trading activities. Their research were based on Jakarta Stock Exchange's (JSX) complete order and transaction records for an eight years period, from 1995 to 2003. Their analyses covered a larger sample of 110 stocks that had at least five orders placed by both domestic and foreign investors on a given trading day. The results indicated that foreign investors' performance should be consistently worse than that of domestic investors no matter what type of orders they place and who their counterparties are. The study suggests the aggressiveness of foreign investors in their trading activities best explains the performance discrepancies displayed when considering order types and counterparties involved. The aggressive trading behaviour of foreign investors does affect their performance, particularly in short term, although foreign investors do not necessarily have an information disadvantage relative to their domestic counterparts. Trading aggressiveness behaviour is an important characteristic in explaining the difference in trading performance.

According the study of Dvorak (2005) on whether domestic investor perform better than foreign investor, he concluded that domestic investor earned higher profit than foreign investor in Indonesian market. Moreover, the finding was similar with Choe, Kho and Stulz (2005), foreign investor spent more than domestic investor in purchases and less return for sales in Korean market. Their results was concluded that foreign owned companies is not necessary help in firm performance and might as well underperform than domestic owned companies.

In the study of Baek et al (2004), the relations of foreign ownership and company's share prices during Korean financial crisis in year 1997, companies with high foreign ownership experienced a smaller reduction in share values than high ownership concentration by domestic investor.

Kim and Lyn (1990) did a research to evaluate MNE's performance operating in Unite States (US) by using t-test and regression analysis. The empirical sample for the study was based on 54 largest foreign corporations operating in US in the period of 1980-1984. All the companies were

grouped into different industries. The results indicated that foreign owned companies operating in US were less profitable than randomly selected domestic owned US companies. The reason for that might be due to US companies have less R&D incentives and more advertising oriented than foreign owned companies.

2.3.3 No effect of foreign ownership on firm performance

Mihai (2012) conducted a study to investigate the relationship between foreign ownership and firm performance for the companies listed in Bucharest Stock Exchange. There were 63 companies selected as sample and all credit and financial companies were excluded. Return on asset and return on equity were used to measure the financial and economic of the company. Foreign ownership is measured by the percentage held by foreigner and linear regression analysis is used in the study. The study of the study revealed that there is no significant relationship between foreign owned companies and domestic owned companies.

Basti and Akin (2008) compare the relative productivities of foreign owned companies and domestic owned companies in Turkey for non-financial sector companies listed in ISE for the period from 2003 to 2007. This study used Malmquist index, which is a data envelopment analysis as the productivity measurement tool. The result indicated that no significant different between productivity of foreign owned companies and domestic owned companies in Turkey. Basti et al (2011) analysed the performance of foreign owned companies in Turkey manufacturing sector based on several firm indicator such as age, size, assets and firm risks on different corporate performance measures that is ROA, ROE, basic earning power and total factor productivity by using panel data regression model. The result also indicated that there was no significant effect between the performance of foreign owned and domestic owned companies.

Barbosa and Louri (2005) conducted a study to investigate whether the MNE operating in Portugal and Greece are performed differently than domestic companies. 423 manufacturing companies were selected as samples and the company's data produced by Portuguese Ministry of Labour in 1992 and based on standard survey that is a mandatory required firm answer with wage earners every year. There were 2,651 companies in Greek used for testing and the data were obtained from ICAP directory in 1997. The study used robust method of quintile regression and the result showed that foreign ownership do not make a significant different to the firm performance in Portugal and Greece.

2.3.4 Positive effect of foreign directors on firm performance

Doidge et al (2004) stated that local companies owned partially by foreigner may improve performance due to convergence of governance and business practices to those advanced countries. Moreover, direct management participation by foreigner may also have independent positive impact on local companies because it could lead to improve productivity or effective positioning of local firms in competitive global markets.

Oxelheim and Randoy (2003) document positive impact of foreign directors for Swedish companies. According to the result, a company with foreign board ownership is able to enhance the company's reputation and its value in the financial market. Besides that, foreign ownership can improve corporate performance by securing representation in the board. By having at least one foreign member on the board, it is a signal of greater company's commitment to corporate monitoring and transparency. The evidence is supported by Choi and Hasan (2005), they examined the effect of ownership and governance on firm performance based on the data from Korean commercial banks for the period from 1998 to 2002. Company with foreign board members, regardless of the number, showed better results in terms of handling risk. The reason is due to the conflict of interest is lesser with the foreign board member who are more independent compare to local board members. Furthermore, their knowledge and experiences about competition in the local and global market provided an extra advantage to the commercial banks in Korea. Based on the study of Gulamhussen and Guerreiro (2009) on Portugese banks, the result was consistent and supports the finding of past studies done by Choi and Hasan (2005). They concluded that foreign board membership was able to help bank to increase the revenue by reducing traditional business.

Adam et al (2009) conducted a research and concluded that foreign director was able to help in enhance the advisory capability of boards, to the extent that living or working in foreign countries as it is allow foreign directors to provide valuable insights and assistant to corporation, especially those with major foreign operations or intentionally to expand globally. With the recent trend of increasing globalization of virtually all industries and marketplaces and the rising

importance of emerging-market economies, an ever greater number of companies are looking beyond their national borders for opportunities to cut costs, generate growth, and create shareholder value. During the initial venture into particular foreign markets or incorporating their foreign operation, the companies will face some difficulties such as unfamiliar political landscape, regulatory environments, cultural and social norms, industry structures and consumer preferences. In this circumstances, foreign directors' knowledge of their home countries or region and their close connection network to the local business, social and political circles can be add value to the company when it initial venture in foreign countries. In addition, the article in the Wall Street Journal also emphasizes that the important of foreign director as the directors' international background and expertise is able to help to drive the company growth. According to the same article, some commentators feared that the lack of foreign directors put US companies at a competitive disadvantage in the global marketplace and could lead to poor international expansion decisions. Many US companies such as Duke Energy Corp and Hewlett-Packard Co., either has recently hired or are trying to hire foreign directors.

2.3.5 Negative effect of foreign directors on firm performance

Foreign directors can be less effective in monitoring a company. Geographic distance from corporation headquarter may generate significant oversight costs to a foreign director since making on-site visits and attending board meetings become more difficult and time consuming. This undermines a director's ability and incentives to gather information and closely monitor the management. Consistent with this view, Lerner (1995) finds that venture capitalists are reluctant to sit on boards of geographically distant firms. Knyazeva et al (2009) indicated a significant local component to the matching process of companies and outside director candidates. The obstacles created by distance are even greater for foreign directors, as the time and energy drain and hassle associated with international travel, coupled with heightened security concerns post 9/11, are likely to impose heavy burdens on foreign directors, further eroding their monitoring incentives and ability.

Coval and Moskowitz (1999, 2001) stated that directors who are geographically removed from the vicinity of a firm's corporate headquarters are cut off from local networks that provide valuable soft information. Directors who are located in foreign countries have even fewer channels and less access to current information about the companies on whose boards they sit, and thus may be less able to stay well informed about these companies' current operations and performance.

In addition, foreign directors are less likely to be familiar with local accounting rules, laws and regulations, governance standards, management methods, making it more difficult for them to evaluate managerial performance or challenge managerial decisions. These considerations suggest that foreign directors may weaken a board's monitoring effectiveness, and thus lead to greater agency problems between managers and shareholders and ultimately poorer firm performance.

Another concern with foreign directors is illustrated by Enron's experience, where management committed high profile accounting fraud over the period of 1997 to 2001. One particularly

noteworthy aspect of Enron's board was that the audit committee included two foreign independent directors, the chairman of the Hang Lung Group in Hong Kong and a senior executive of Group Bozano in Brazil. This incidence, at a minimum, raises questions about the effectiveness of foreign directors' monitoring of a firm's operations and financial reporting.

Based on the Korean Corporate Governance Service (KCGS), the attendance record of foreign outside directors at board meetings of Korean public companies considered to be poor during a three year period ending in 2007. A researcher at KCGS believed that *“the main reason behind foreigners' low attendance is due to most of them live outside Korea and are unable to fit travelling here for the meeting on their schedule.”*

2.3.6 Positive effect of leverage ratio on firm performance

Laurent Weill (2003) examined frontier efficiency scores to measure performance to evaluate the relationship between leverage and firm performance in France, Germany and Italy. He concludes that leverage is positively linked to corporate performance in France and Germany.

On the other hand, Grossman and Hart (1982) also claim that debt financing provides better incentives for managers to perform as they target to avoid the personal costs of bankruptcy. Therefore, there should have a positive effect of leverage on firm performance. A positive relation between financial leverage and corporate performance would mean that inter-company differences in access to credit result in competitive advantages.

Lane (2009) agrees that a firm's financing structure may affect its incentive to generate profit and invest. Hence, it may determine strategic interactions between the firm's capital structure choice and the behaviour about its customers, suppliers and competitors. Lwarere and Akinleye (2010) indicated that the use of debt financing can lead to some economic benefits thus; firms with less plastic asset could have higher financial leverage than firms with more plastics asset.

In addition, Joshua, A (2005) conducted a research to examine the relationship between capital structure and profitability in less developed country, Ghana. He observed the samples for companies which are listed on Ghana stock exchange for a five years period. His result showed that there is positive relationship between the ratios of short-term debt to total asset and ROE, and negative relationship between the ratios of long-term debt to total assets and ROE. The research further found a positive association between the ratio of total debt to total assets and return on equity.

2.3.7 Negative effect of leverage ratio on firm performance

Huang and Song (2006) revealed that there is a negative relationship between leverage and profitability measured by return on assets.

Deesomsak (2004) in his study on the Malaysian firms showed a negative relation of leverage level with firm performance measure by the gross profit margin. Malaysian firms use internally generated source of funds when profits are high supporting the pecking order theory. Besides, there is negative relationship between the leverage and firm performance in Singapore, Taiwan and Australian firms.

According to the study of Chhibber and Majumdar(1999), they concluded that there is significant negative between leverage and firm performance by adopting an accounting measure of companies' profitability, return on net worth to evaluate the firm performance.

Madan, K (2007) tested the role of financing decision in the overall performance of the leading hotels in India showing that leverage seems to be working only for some companies, while they affect most of the firms negatively.

Pushner (1995) tested the relationship between leverage and firm performance in accordance to the influence of equity ownership in Japan. He revealed that there is negative relationship between leverage and firm performance. He measured the firm performance by total factor productivity, a production frontier is estimated, in which performance is equal to the residual of OLS estimate.

2.3.8 Positive effect of firm size on firm performance

Vijayakumar and Tamizhselvan (2010) found a positive relationship between firm size and firm performance. They studied on 15 companies which are operating in South India, they based on a simple semi-logarithmic specification of the model, used different measures of firm size (sales and total assets) and profitability (profit Croation Operational Research Review (CRORR), vol.3, 2012 217 margin and profit on total assets) to apply on the model.

In addition, Lee (2009) studied on the role that firm size plays in profitability. He conducted analysis on a sample of more than 7,000 US publicly-held companies by using fixed effect dynamic panel data model. His results concluded that absolute firm size plays a significant role in company's profitability.

Papadognas (2007) performed analysis on a sample of 3,035 manufacturing companies in Greek for the period from 1995 to 1999. He applied regression analysis by dividing firms into four size classes which found that for all size classes, companies' profitability is positively affected by the firm size.

On the other hand, Hall and Weiss (1967) who concluded that firm size did tend to be associated with higher profit rates among the Fortune 500 companies for the research he did for the period from 1956 to 1962.

Furthermore, Shergill and Sarkaria (1999) found a positive relationship between firm size and firm performance for the companies in Indian. This was due to larger companies tend to have better economies of scale, more resources, advanced technology and more diversified thus it is more easy to get funds at lower cost.(Frank and Goyal, 2003).

According to Iskenderoglu (2011) studied on the variables affecting ROA of tourism businesses listed in ISE, the result showed that total assets which used as a size indicator are significantly effect on return on assets. Moreover, Akbas and Karaduman (2012) have tested the effect of firm

size on companies' profitability listed in ISE manufacturing industry between year 2005 to 2011. Their results revealed that firm size is positively affected on companies' profitability. Majumdar (1997) conducted a study based on 1,020 companies operating in India. His results showed that big firms have higher profitability as compared to small firm.

2.3.9 Negative effect of firm size on firm performance

According to the study of Maja and Josipa (2012), a conceptual framework that supports a negative relationship between firm size and companies' profitability is noted in the alternative theories of the companies, which advocates that large companies come under the control of managers pursuing self-interested goals and thus profit maximization as the companies 'objective function may be replaced by managerial utility maximization function.

Amato and Burson (2007) tested the relationship between firm size and companies' profitability for the companies operating in financial service sector. They examined both linear and cubic form of the relationship. They found out negative effect of firm size on companies' profitability by using linear specification in firm size. However, they revealed evidence of a cubic relationship between firm size and ROA.

Chaiporn and Jittima (2013) studied the effect of firm size on the relation between the financial leverage and operating performance for the period of 2007 to 2009. From a data set of 496,430 firm-year observations of a sample of 170,013 firms, they found that there is negative relationship between the leverage and financial performance once the firm size is being controlled.

Based on the research conducted by Abdul Ghafoor Khan (2012), he concluded that firm size have insignificant relationship with firm performance which is measured by return on assets. This could due to higher cost of the debt and strong covenants attach to the use of debt.

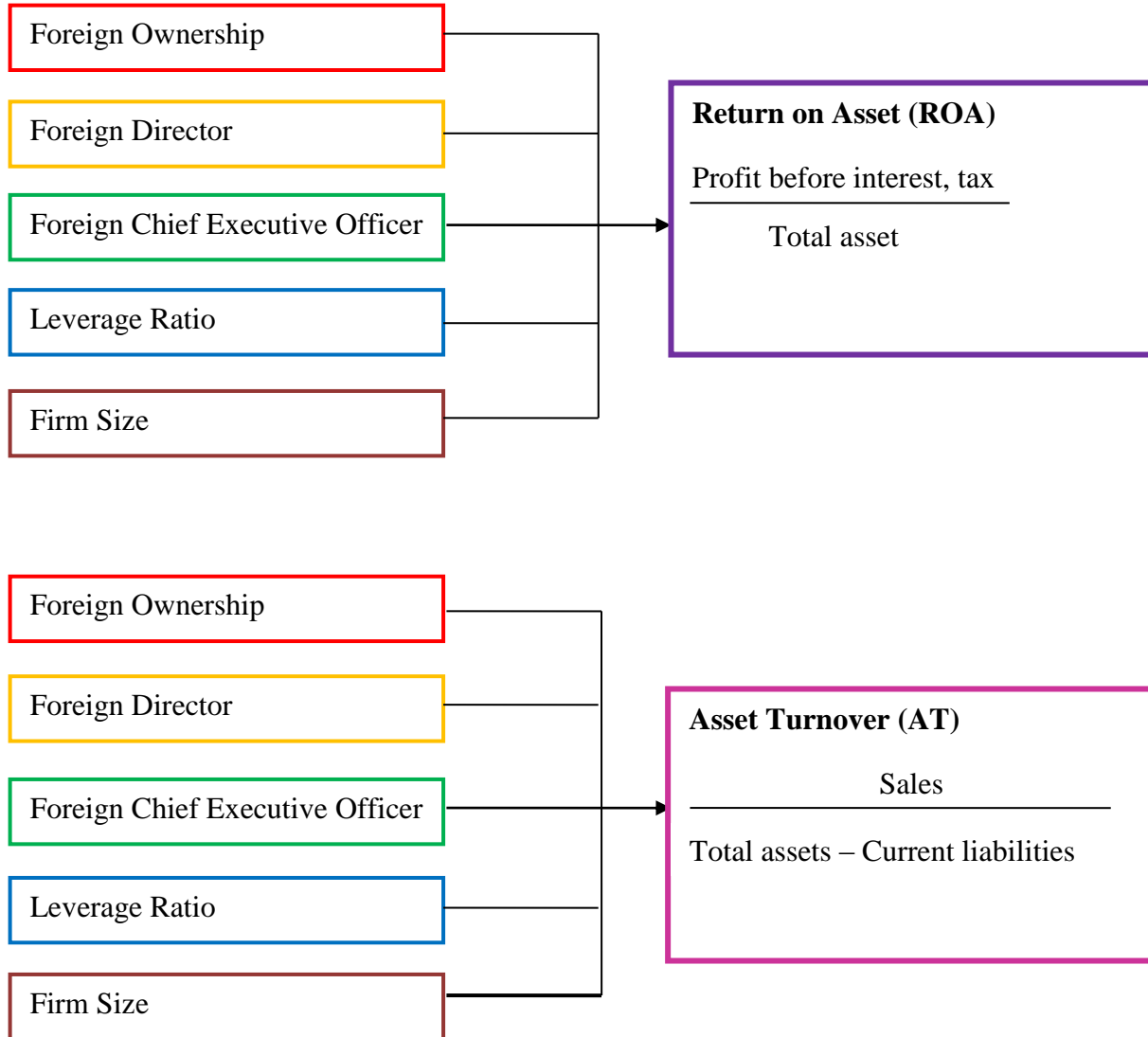
Becker et al (2010) studied the relation firm size and companies' profitability operating in US manufacturing industry between year 1987 to 2002. Their results showed negative significant relationship between the total assets and companies' profitability.

2.3.10 No effect of firm size on firm performance

On the other hand, Amato and Wilder (1985) examined size-profitability relationship in linear as well as quadratic form based on US manufacturing companies. Nevertheless, the result of their analysis revealed that there is no relationship between firm size and profit rate. In the study of Falope and Ajilore (2009), they were using a sample of 50 quoted companies to test the effect in the working capital management between large and small companies in Nigeria, however, they found no significant effect on the study.

2.4 Conceptual Framework model

Figure 2.1: Conceptual Framework



CHAPTER 3

RESEARCH METHODOLOGY

Empirical researches discussed in previous chapter facilitate the development of research model for this study. The formulated dependent and explanatory variables are determined and are used to examine the effect of foreign equity ownership and foreign director's presence on financial performance of Malaysian listed manufacturing companies. The data collection and sampling design will be discussed in this chapter.

3.1 Theoretical Framework

Regression model has been widely used by past researches to determine the effect of foreign ownership on firm performance (Karimi and Yusop, 2009). Hence, the multiple linear regressions are used to check the significant impact of foreign ownership on firm performance in this research. The models are as follows;

$$ROA_{it} = \beta_0 + \beta_1 FO_{it} + \beta_2 FD_{it} + \beta_3 FCEO_{it} + \beta_4 Lvrg_{it} + \beta_5 Size_{it} + \varepsilon$$

$$Asset\ Turnover_{it} = \beta_0 + \beta_1 FO_{it} + \beta_2 FD_{it} + \beta_3 FCEO_{it} + \beta_4 Lvrg_{it} + \beta_5 Size_{it} + \varepsilon$$

ROA and Asset turnover is the dependent variable. In the above model whereas "FO", "FD", "FCEO", "Lvrg" and "Size" are independent variable.

Measurement of theoretical conceptual framework as the following:

Dependent Variable		Description
Return on Assets	ROA	<p>A profitability ratio that measures the income produced by the company's total assets during a period by comparing net income to the average total assets</p> $\frac{\text{Profit before interest, tax}}{\text{Total asset}}$ <p>Azzam et al (2013)</p> <p>Grigol. M (2011)</p>
Asset Turnover	AT	<p>An efficiency ratio that measures a company's ability to generate revenue from its assets by comparing net sales with the average total assets</p> $\frac{\text{Sales}}{\text{Total asset} - \text{Current liabilities}}$ <p>Azzam et al (2013)</p> <p>Khalil-Ur-Rehman W et al (2012)</p>
Explanatory Variable		Description
Foreign Ownership	FO	Percentage of a companies' equity owned by foreigners
Foreign Director	FD	Percentage of a foreign directors sitting on a company's board of directors
Foreign CEO	FCEO	Foreign chief executive officer in the companies
Firm leverage	Lvrg	A leverage ratio that calculated by company's total debt divided by its total assets
Firm Size	Size	Log of the company's total assets

3.2 Data Collection

This section describes data sources and sampling method for this research. Data collection explains the sources and databases that are used to collect data for dependent and explanatory variables. Subsequently, data sampling discusses about the data available for consumer product sector and industrial product sector where the samples are being employed to examine companies' financial performance.

3.2.1 Data Sources

All data collect in this research is secondary data. Data are gathered from the annual report of each selected company that meet the requirement of sampling criteria set as below. All the annual report is collected from Bursa Malaysia. The percentages of shares owned by foreigner are obtained from top 30 shareholding statistic for period 2009 to 2013 in annual reports. The presence of foreign director and foreign CEO are extracted from board of director's statement and key executive disclosure in the annual reports. FO is computed by summing up the percentages of shares owned by top 30 shareholders who are foreigners. FD is computed by dividing number of directors who are foreigners by total number of directors sitting on the company's board.

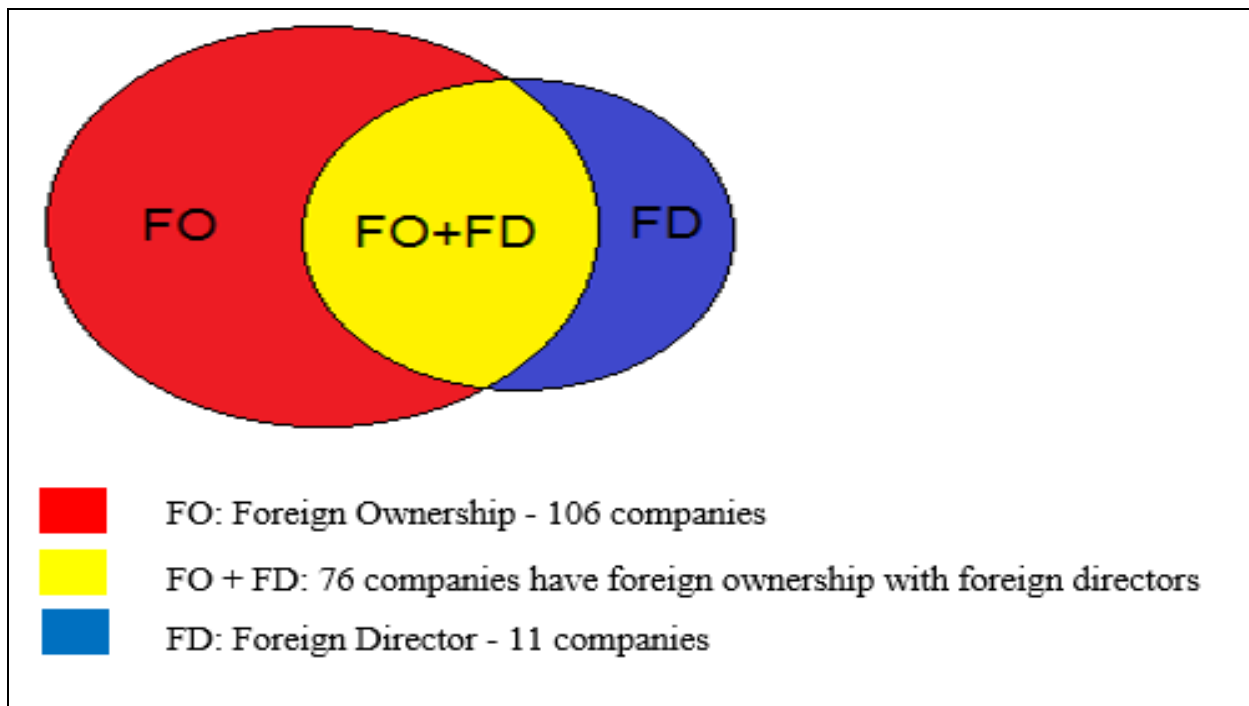
The sum observations are collected are consists of 182 companies from 2009 to 2013 respectively. Total number of firm-year observations is 910. Besides, data used in annual report like financial statement to determine firm size and leverage of the firm.

3.2.2 Data Sampling

In this research, consumer product sector and industrial product sector listed under Bursa Malaysia Main Market were the samples selected. The reason of these sectors being selected is due to manufacturing sector has always been major driver of Malaysia's economy growth over the last three decades (Chandran & Krisnan, 2008). In fact, foreign direct investment inflows is known as major contributor to the development of manufacturing sector in Malaysia (Chandran & Krisnan, 2008).

Firms which do not meet the criteria set during the period of study will be excluded from the samples. The company data sampling consist number of steps to filter manufacturing companies listed in Bursa Malaysia Main Market. Initially there are a total of 389 companies, which consist of 138 companies from consumer product sector and 251 companies from industrial product sector. The samples selected undergone screening process with various exclusion criteria whereas 134 companies with no foreign ownership, 229 companies with no foreign directors presence in company board, 25 companies that not listed since year 2009, 18 companies was delisted during the samples period test has been excluded. Besides, the research data has to exclude 30 companies due to incomplete data and incomplete availability of annual report during the period of samples test. The total samples test in this research is 182 companies which contain foreign shareholdings and foreign directors.

Figure 3.1 presents the summary of the samples selected in this research.



Foreign direct investment (FDI)

Criteria	Consumer Product	Industrial Product	Total
Companies in manufacturing sector	138	251	389
Companies that no foreign ownership	56	78	134
Companies that not listed in year 2009	12	13	25
Delisted companies	5	13	18
Incomplete data	12	18	30
Total Samples Tested	53	129	182

Foreign director

Criteria	Consumer Product	Industrial Product	Total
Companies in manufacturing sector	138	251	389
Companies that no foreign director	81	148	229
Companies that not listed in year 2009	12	13	25
Delisted companies	5	13	18
Incomplete data	12	18	30
Total Samples Tested	28	59	87

3.2.3 Sample Period

In this research, the sample period is from year 2009 to 2013 being selected to investigate the financial performance of company which owned by foreigner and managed by foreign directors *and/or* foreign CEO. Sampling period start from 2009 is due to the fact that the global financial crisis in year 2008 has shown a sharp decline of foreign investment in Malaysia. The uncertainties of global economies has led to investor less confident to invest aboard and more likely to draw back their investment in oversea to prepare for possible difficult circumstances that may arise in uncertain financial conditions. However, in year 2009 the FDI in Malaysia was recovered its upward trend of FDI as compared to year 2008 and it is increasing year by year. This research ends in year 2013; due to the latest annual report for year 2014 is not available at this time of conducting the study.

3.2.4 Data Measurement

This research examined the effect of FDI, Foreign Director, Foreign CEO, firm size, firms' leverage and companies' financial performance in respect of return on asset and asset turnover. Foreign ownership is defined as the percentages of a company's equity owned by foreign investor, which is stated in annual report for the top 30 largest shareholders and it is incorporated outside Malaysia. Foreign ownership is computed as the sum of all percentages of direct ownership by foreigners. Foreign directors were determining by the percentage of foreign director sitting on company's board of director in the annual report. Foreign director is computed as number of foreign director over the total number of directors sitting on the company's board of director. Foreign CEO was determined by there is a foreign managing director or CEO presence in the management team of the companies. Foreign CEO will be a dummy variable, taking value of "1" if he/she is foreigner or "0" otherwise.

Firm size is measured as the logarithm of the company's total asset.

Firm leverage is calculated as the total liabilities of the companies divided by total asset.

ROA is calculated as the net profit after tax and interest expenses divided by total assets. It is expected that the higher the ROA ratio, the better performance of the company due to the companies is generate more profit over the money invested. Other return measures could have been used, but all suffer from the basic problems of accounting information and mostly are highly correlated (Bettis & Hall 1982). For example, foreign sales to total sales ratio, which only capture one dimension of the multinationality (foreign market penetration) (Thomas & Eden, 2004).

However, asset turnover is used to measure how effectively the firm is managing its assets and measure the amount of sales generated by the capital employed or total assets investment. It was also regresses against the foreign ownership and foreign director, foreign CEO, leverage and firm size. In study of Azzam et al (2013), the asset turnover was used as indicator of firm performance.

3.3 Statistical Techniques

The dependent and explanatory variables selected in this chapter based on empirical researches. As a result, specific model implemented attempts to examine and analyze the hypotheses. The data sources specified in this study is panel or pool data technique, which are comprised of time series, indicated the period of this study (2009 to 2013) and cross sectional, indicated individual companies (53 consumer product sector and 129 industrial product sector) in Malaysia.

The favorable employed panel data based on more informative, variability, degree of freedom and efficiency, whilst less co linearity among variables as indicate by Gul, Irshad and Zaman, (2011) since cross-sectional estimation yields consistent structural parameters, where it often includes the deviations in long run equilibrium that tends to be correlated between variables (Curak, Poposki & Pepur, 2012). The use of pane data enables the adjustments of disequilibrium, while the industry's specific data are minimized, due to the presence of observable industry specific. As a result, panel data are propitious to explain dynamic changes of variables.

3.3.1 Ordinary Least Square (OLS)

Empirical researches investigated financial performance of company using pooled least square or known as panel least square modeling technique. The pooled regression model constructed according to Al-Omar & Al Mutairi (2008) as equation:

$$\pi_{it} = \beta_1 + \beta_2 X_{it} + \beta_3 X_{it} + \varepsilon \quad i = 1, 2, \dots, 21, t = 1, 2, \dots, 9 \text{ (Eq. 1)}$$

Subscript i and t refer to cross-sectional and time-series respectively. The coefficient assumes for individual object constant over time while $var(e_{it}) = \sigma^2$ and $E(e_{it}e_{js}) = 0$ for $i \neq j$ or $t \neq s$. Short (1979) and Bourke (1989) suggest that linear model generates favorable results as good as any form of econometric function forms, since the regression model for parameter of linear profitability may change over time, as different cross-sectional units are encountered by economic and financial shocks.

However, panel data encounter that individual specific for respective explanatory variables for error terms are correlated (Gujarati & Porter, 2009), which may lead to potential bias when the statistical results were generated. Fixed effect model (FEM) or random effect model (REM) are

applying in this study where the model implement are determined by Hausman test (Pasiouras & Kosmidou, 2006; Rumler & Waschiczek, 2010).

3.3.2 Fixed Effect Model (FEM)

The econometric model specified in explaining the financial performance with regards to implement FEM suggested by Rumler and Waschiczek, (2010), and Althanasoglou, Delis and Staikouras, (2008), are illustrate in equation 2.

The fixed effect estimator model is regressed on the notion across individual company, and it is captured by differences in intercept.

$$\pi_{it} = \beta_1 + \beta_2 X_{it} + u_{it} \quad i = 1, 2 \dots 21, t = 1, 2 \dots 9 \text{ (Eq. 2)}$$

Where i is the object of cross sectional, t is the period of time in defining the variables over time periods. π_{it} is the dependent variables, whereas σ_{1i} is the intercept term, which are treated as fixed unknown parameters that can be estimated. β_1 is a $k \times 1$ vector of slope coefficient, while X_{it} is a $1 \times k$ vector of explanatory variables. The intercept value of companies are expressed as $\beta_{1i} = \beta_1 + \varepsilon_i$. ε_i is the reflected error variance that is identically and independently distributed with zero mean and constant variance, $iid \sim (0, \sigma_{\varepsilon}^2)$. Under the assumptions that there are zero covariance between individual cross-sectionals, $cov(\varepsilon_{it}, \varepsilon_{jt}) = 0, i \neq j$. Besides, there are no auto-correlation implied over time, $E(u_{it}:u_{is}) = 0, i \neq s$.

The FEM allows individual error component, ε_i to be correlated with one or more explanatory variables. Bataagi (2005) suggest that firm level of heterogeneity could be eliminated through employed mean deviation data by introducing FEM, whereas results estimated from the regression is efficient and unbiased. The restricted F-test can be used to examine the significant individual effect of fixed estimation postulated by panel least square and fixed effect model.

3.3.3 Random Effect Model (REM)

Random effect model is a kind of hierarchical linear model and it assumes that the dataset being analyzed consist of a hierarchy of different populations whose differences relate to that hierarchy. Random effects models are used in the analysis of panel data when one assumes no fixed effects (it allows for individual effects). The random effects model is a special case of the fixed effects model. The random effects assumption is that the individual specific effects are uncorrelated with the independent variables. If the random effects assumption holds, the random effects model is more efficient than the fixed effects model. However, if this assumption does not hold (i.e., if the Durbin–Watson test fails), the random effects model is not consistent.

3.3.3.1 Hausman Fixed Test

The preference of FEM or REM was determined by using Hausman test. The underlying hypotheses are used to examine the error term of v_{it} , whether it is correlated to other explanatory variables. If critical the probability of chi-square, X^2 significance to 5% or 10%, or critical chi-square value of 9.341 and 25.182 respectively, the suggested random effects are probably correlated with one or more independent variables. Application of FEM is preferable to REM, or vice versa.

3.3.3.2 Breuseh and Pagan Lagrange Multiplier (LM) Test

Essential of fixed effect estimation could be absence of heteroskedasticity for the residuals. Breusch Pagan LM test takes place to check evidence of non-constant residual variance implied in the model. The null hypothesis assumes that there were homoskedastic residual variances. The White (1980) transformation has been introduced as an attempt to control of the residual variance which mitigates potential biases the results generate.

3.4 Research Design

The subsequent step was to analyze the data by using statistical software, Stata Package (Stata). The ordinary linear square (OLS) estimator introduced is mainly used in the estimation. The fixed effect model (FEM) will be carried out to examine the model (Rumler & Waschiczek, 2010, Kosmidou & Pasiouras, 2005) to determine the validity of estimation model in this study. Panel least squares estimation are generally identified the critical effect of risk associated factors upon company's financial performance. The diagnostic test are contrains Breusch-Pagan LM test, Huasman fixed test in the study. The result output will be identified and discussed in the following chapter.

3.5 Hypothesis

Hypothesis 1:

H₀: There is no relationship between foreign ownership and return on asset.

H₁: There is a relationship between foreign ownership and return on asset.

Hypothesis 2:

H₀: There is no relationship between foreign ownership and asset turnover.

H₁: There is a relationship between foreign ownership and asset turnover.

Hypothesis 3:

H₀: There is no relationship between foreign director and return on asset.

H₁: There is a relationship between foreign director and return on asset.

Hypothesis 4:

H₀: There is no relationship between foreign director and asset turnover.

H₁: There is a relationship between foreign director and asset turnover.

Hypothesis 5:

H₀: There is no relationship between foreign chief executive officer and return on asset.

H₁: There is a relationship between foreign chief executive officer and return on asset.

Hypothesis 6:

H₀: There is no relationship between foreign chief executive officer and asset turnover.

H₁: There is a relationship between foreign chief executive officer and asset turnover.

Hypothesis 7:

H₀: There is no relationship between firm leverage and return on asset.

H₁: There is a relationship between firm leverage and return on asset.

Hypothesis 8:

H₀: There is no relationship between firm leverage and asset turnover.

H₁: There is a relationship between firm leverage and asset turnover.

Hypothesis 9:

H₀: There is no relationship between firm size and return on asset.

H₁: There is a relationship between firm size and return on asset.

Hypothesis 10:

H₀: There is no relationship between firm size and asset turnover.

H₁: There is a relationship between firm size and asset turnover.

3.6 Summary

The determined dependent variables include return on asset and asset turnover. The explanatory variables consist of foreign equity owned by foreigner, foreign directors, foreign CEO, firm size and firm leverage. Most of the data are extracted and collected through Bursa Malaysia Database, financial statement, corporate board information. Panel data consist of 182 companies have been implemented due to incomplete selected companies data available for specified periods. OLS has been used to identify the relationship between specific determinants, profitability and efficiency. Data analysis conduct includes descriptive statistic used to explain the variables characteristic.

CHAPTER 4

DATA ANALYSIS AND EMPIRICAL RESULTS

This chapter attempts to identify the relationship between the foreign ownership, foreign directors' presence and the appointment of foreign CEO, with its financial performance. Stata packages is mainly using for analyzed after all the necessary information and data collected and research design set. The analysis output will be presented in form of tables. This chapter focused on 2 main analysis whereas descriptive statistic are presented for overview of determinants, and statistical analysis includes pooled regression, fixed effect model and random effect model.

4.1 Descriptive Statistics

The descriptive statistics present consists of mean, standard deviation, minimum and maximum for particular individual variables in sampling. Outputs report in Table 4.1 includes total panel of 910 firm-year observations. The issues include stationary distributives; endogenous problem incorporated in sampling could deteriorate the result presented by implementing OLS.

Table 4.1: Descriptive Statistic for Variables and Sub Period

Variable	Total Samples						Observation
	Mean	Median	Maximum	Minimum	Standard Deviation	Skewness	
ROA	0.041	0.042	0.365	-0.277	0.084	-0.038	910
AT	1.351	1.112	7.062	0.000	0.997	1.998	910
FO (%)	18.109	8.680	84.830	0.150	21.169	1.299	910
FD (%)	12.500	0.000	75.000	0.000	19.300	1.418	910
FCEO	0.236	0.000	1.000	0.000	0.425	1.242	910
LVRG	4.016	2.733	113.569	0.002	4.909	13.182	910
SIZE	8.576	8.486	11.338	6.300	0.571	0.530	910

The company's profitability is measured in term of return on asset (ROA) while efficiency is measured in term of asset turnover (AT) in this study. The average positive profit and efficiency indicated over period of time. The mean value of ROA is equal to 0.041 with minimum of -0.277 and maximum equal to 0.365. There are larger extreme value downward and upward, which caused by global financial crisis lead to market struggling during 2008 in Malaysia. These large downside observation influence standard deviation for ROA substantially, 0.084. The minimum value of Asset Turnover (AT) is equal to 0.000 and the maximum value equal to 7.062. The average (median) of asset turnover (AT) is 1.112 and mean value of AT is equal to 1.351.

The explanatory variables had generated interesting results specified in Table 4.1. The maximum of foreign ownership (FO) is equal to 84.83 percent. This is consistent with the Malaysia Act which allows 100% foreign shareholding in the manufacturing companies. The average of foreign director is equal to 12.50 percent while the standard deviation is 19.30 percent. The maximum value of the leverage and size is 113.569 and 11.338 respectively. And the standard deviation value for leverage and size is 4.909 and 0.571 respectively.

4.2 Empirical Findings

These paragraphs discussed regression analyses regards determinants of manufacturing company profitability in Malaysia. Further paragraph discuss result presented in Table 4.2, 4.3 and 4.4 whether determinants are valid explain effect on companies profitability. Several tests performed to examine the findings are robust to changes in sample or changes of methodology.

4.2.1 Ordinary Least Square (OLS)

Empirical analysis suggests several justified regression analyses and sample constructing methods. The OLS model includes pooled least square, fixed effect model or random effect model are going to review sensitivity of result to the assumptions. If statistical procedures are insensitive to the initial assumptions of model, results are considered robust and valid. Both of regressions do not include the lagged variables since it could lead several biases to the estimate for other parameters.

4.2.1.1 Pooled Regression Model

Table 4.2, 4.3 and 4.4 present pooled least square model are not adjusted for non-normality, heteroskedasticity, endogeneity or autocorrelation in the disturbance term. Therefore, the probability value (p-value) performed using robust standard errors in order to make hypothesis rejection area more conservative whether in the presence of endogeneity or heterokedasticity items. There are some interesting differences to mention.

For the return on assets (ROA) in Table 4.2, the variable of foreign director present in company board is significant to the determinant of company profitability with p value and parameter equal to 0.037 and 0.000. The foreign CEO was also shows significant result to the return on assets with parameter equal to 0.044. Besides, the variables of firm size are shown significant positive effect to the determinant of company profitability (return of asset) with parameter equal to 0.023. However, the FO and leverage ratio are negative effect and positive effect respectively to the company but insignificant to the determinant of company profitability (return on asset) with parameter equal to -0.022 and 0.001. For the asset turnover, the variable of foreign ownership and foreign director present in company board is significant respectively to the determinant of company efficiency with parameter equal to 0.562 and 0.005. However, the variable of leverage ratio is negative effect to the company efficiency with parameter equal to -0.051.

In Table 4.3 present the relationship of the variables foreign ownership, foreign director, foreign CEO, leverage of firm and firm size to the determinant of company profitability and efficiency in consumer products industry. For the return on assets, the foreign ownership and firm size are significant positive effect to the determinant of company profitability whereas parameter equal to 0.001 and 0.041 respectively. However, the variables of foreign director, foreign CEO and leverage are show positive relationship but insignificant to the company profitability. For the asset turnover, the variable of foreign ownership and foreign CEO were significant positive effect to the determinant of company's efficiency (asset turnover) where the parameter is equal to 0.016 and 0.328 respectively. However, the leverage of firm is significant but negative effect to the determinant of company's efficiency (parameter equal to -0.960).

For Table 4.4 present the relationship between variables mentioned in Chapter 3 and the determinant of company's profitability and efficiency in industry products. From the tables, the foreign CEO and firm size were shown significant positive effect to the return on asset of the company. For the asset turnover, the results revealed that foreign director is significant and positive effect to the determinant of the company efficiency. However, leverage of firm is showed significant negative effect to the company's asset turnover.

4.2.1.2 Fixed Effect Model (FEM)

For the return on assets in Table 4.2, there are only the variable of firm size is significant and positive relationship to the determinant of the company's profitability. The other variables such as foreign ownership and foreign director present in company board are showed insignificant level of positive effect to the company's profitability. Nevertheless, the variables of foreign CEO and leverage of firm are insignificant negative relationship to the return on assets of the company. From the Table 4.2, the results revealed the variables of foreign directors, leverage of firm and firm size have significant relationship to the asset turnover of the company. From the results, the variable of foreign director has significant positive effect to the company's asset turnover. However, the leverage of firm and firm size are showed negative effect to the determinant of the company efficiency – asset turnover.

From the Table 4.3, the variable of foreign ownership is significant but negative effect to the company profitability. The foreign director present in company board has significant positive relationship to the company's return on asset. The other variables such as leverage of firm and firm size are showed insignificant level of positive effect to the company's return on asset. However, foreign CEO is insignificant negative effect to the determinant of company's profitability. In addition, for the asset turnover, the variable of foreign ownership, leverage of firm and firm size are significant to the determinant of the company efficiency. From the table, it revealed the foreign ownership has significant positive effect to the asset turnover. However, the variables of leverage of firm and firm size have significant negative effect to the company's asset turnover.

In Table 4.4, indicated that only the variables of leverage of firm and firm size have significant effect to the return on assets of the industry products company. The firm size has significant positive effect to the return on assets of the company however the leverage of firm is significant negative effect to the return on assets of the company. For the asset turnover, the variables of foreign ownership, foreign directors and leverage of firm were significant to the determinant of company efficiency. Foreign ownership and leverage of firm were significant negative effects to the company's asset turnover. However, the foreign directors present in the company board have positive effect to the company's asset turnover.

4.2.1.3 Random Effect Model (REM)

From Table 4.2, indicated that there are only 2 variables have significant relationship to the return on assets in both combined consumer and industry products companies. From the results, the variables of foreign CEO and firm size were showed significant positive effect to the determinant of the company profitability – Return on assets. However, the other variables are showed positive but insignificant level of relationship to the return on asset of the company. For the asset turnover, the variables of foreign ownership, foreign directors and foreign CEO were showed positive effect to the determinant of the company efficiency but there is only the variable of foreign directors has significant level of effect to the company's asset turnover. Additionally, the leverage of firm is showed significant negative effect to the company's asset turnover.

In Table 4.3, the variables of foreign directors and firm size have significant relationship to the consumer products company's return on assets. Foreign directors and firm size have positive effect to the determinant of company profitability with parameter is equal to 0.119 and 0.042 respectively. For the asset turnover, the variables of foreign ownership and leverage of firm have significant relationship to the determinant of company efficiency. The variable of foreign ownership has positive effect to the asset turnover of the company. However, the variable of leverage has shown negative effect to the company's asset turnover with parameter equal to -0.027. The result showed is consistent with the findings in pooled least square model and fixed effect model.

From Table 4.4, the variables of foreign CEO and firm size have shown significant relationship to the return on assets of the industry product company. From the tables showed both variables has positive effect to the return on assets where foreign CEO is significant positive with parameter is equal to 0.033 while the variable of firm size has significant positive at 1% level whereas parameter is equal to 0.023. The results are also consistent with the outcome revealed in pooled least square model where the foreign CEO and firm size have significant relationship to the company's return on assets. For asset turnover, the variable of foreign director is significant and positive effect to the determinant of the company efficiency. However, leverage of firm is showed significant negative effect to the company's asset turnover. The finding is also consistent with the results in pooled least square model.

Table 4.2 Regression Result of OLS, FEM and REM with Dependent Variables of ROA and Asset Turnover in whole manufacturing industry (combined both consumer products and industry product)

Explanatory variables	Pooled Least Square (PLS)						Fixed Effect Model (FEM)						Random Effect Model (REM)					
	ROA			AT			ROA			AT			ROA			AT		
	β	p-value		β	p-value		β	p-value		β	p-value		β	p-value		β	p-value	
FO (%)	-0.022	0.331		0.562	0.034	**	0.000	0.930		0.001	0.661		0.006	0.857		0.003	0.250	
FD (%)	0.000	0.037	**	0.005	0.004	**	0.058	0.428		0.966	0.068	*	0.000	0.371		0.807	0.026	**
FCEO	0.044	0.000	***	0.044	0.684		-0.111	0.789		0.025	0.933		0.036	0.018	**	0.006	0.972	
LVRG (%)	0.001	0.272		-0.051	0.000	***	-0.001	0.137		-0.167	0.000	***	0.000	0.366		-0.019	0.000	***
SIZE	0.023	0.000	***	-0.019	0.738		0.030	0.014	**	-0.159	0.075	*	0.026	0.000	***	-0.100	0.166	
F-test	18.31	0	***	19.72	0	***	1.580	0.163		6.370	0.000	***						
Wald Chi-square													30.540	0.000	***	45.360	0.000	
Bresuch Pagan Test	594.62	0	***	1236.06	0	***	-	-		-	-		-	-		-	-	
Hausman Fixed Test	-	-		-	-		-	-		19.300	0.002	***	5.890	0.318		-	-	
Observation	910			910			910			910			910			910		

The significant coefficient indicated with p-value of *, ** and *** indicated for 0.10 (10%), 0.05 (5%) and 0.01 (1%)

Table 4.3 Regression Result of OLS, FEM and REM with Dependent Variables of ROA and Asset Turnover in Consumer Products Company.

Explanatory variables	Pooled Least Square (PLS)						Fixed Effect Model (FEM)						Random Effect Model (REM)					
	ROA			AT			ROA			AT			ROA			AT		
	β	p-value		β	p-value		β	p-value		β	p-value		β	p-value		β	p-value	
FO (%)	0.001	0.000 ***		0.016	0.000 ***		-0.001	0.058 *		0.012	0.000 ***		0.000	0.484		0.013	0.000 ***	
FD (%)	0.016	0.725		-0.263	0.547		0.198	0.070 *		-0.081	0.898		0.119	0.057 *		-0.014	0.977	
FCEO	0.013	0.464		0.328	0.068 *		-0.225	0.569		0.105	0.644		-0.002	0.928		0.243	0.197	
LVRG (%)	0.001	0.316		-0.960	0.000 ***		0.003	0.141		-0.027	0.009 ***		0.002	0.138		-0.027	0.003 ***	
SIZE	0.041	0.000 ***		0.063	0.475		0.032	0.519		-0.714	0.015 **		0.042	0.008 **		-0.231	0.135	
F-test	16.52	0 ***		29.29	0 ***		1.850	0.105 *		4.380	0.001 ***		-	-		-	-	
Wald Chi-square	-	-		-	-		-	-		-	-		20.260	0.001 ***		39.450	0.000 ***	
Bresuch Pagan Test	164.68	0 ***		341.41	0 ***		-	-		-	-		-	-		-	-	
Hausman Fixed Test	-	-		-	-		13.980	0.016 **		33.290	0.000 ***		-	-		-	-	
Observation	265			265			265			265			265			265		

The significant coefficient indicated with p-value of *, ** and *** indicated for 0.10 (10%), 0.05 (5%) and 0.01 (1%)

Table 4.4 Regression Result of OLS, FEM and REM with Dependent Variables of ROA and Asset Turnover in Industry Products Company.

Explanatory variables	Pooled Least Square (PLS)				Fixed Effect Model (FEM)				Random Effect Model (REM)			
	ROA		AT		ROA		AT		ROA		AT	
	β	p-value	β	p-value	β	p-value	β	p-value	β	p-value	β	p-value
FO (%)	0.000	0.540	0.000	0.919	0.001	0.108	-0.006	0.095 **	0.000	0.618	-0.004	0.143
FD (%)	-0.008	0.725	0.943	0.003 ***	-0.047	0.626	1.813	0.015 **	-0.025	0.527	1.410	0.003 ***
FCEO	0.032	0.003 ***	-0.183	0.182	-	-	-	-	0.033	0.067 *	-0.271	0.298
LVRG (%)	0.001	0.261	-0.039	0.000 ***	-0.001	0.041 **	-0.017	0.000 ***	-0.001	0.222	-0.019	0.000 ***
SIZE	0.019	0.000 ***	-0.018	0.792	0.035	0.008 ***	-0.130	0.194	0.023	0.004 ***	-0.081	0.328
F-test	5.74	0 ***	7.42	0 ***	3.020	0.018 **	7.680	0.000 ***				
Wald Chi-square									14.320	0.014 **	34.260	0.000 ***
Bresuch Pagan Test	350.17	0 ***	878.88	0 ***	-	-	-	-	-	-	-	-
Hausman Fixed Test	-	-	-	-	9.390	0.052 *	-	-	-	-	6.760	0.149
Observation	645		645		645		645		645		645	

The significant coefficient indicated with p-value of *, ** and *** indicated for 0.10 (10%), 0.05 (5%) and 0.01 (1%)

4.3 Robustness Check

The previous chapter has discussed OLS model which are employed by empirical researchers that incorporate FEM and REM. The first estimation models is pool least square. The second and third estimation models are FEM and REM presented in table 4.2, 4.3 and 4.4.

The Breusch Pagan LM test is used to examine and identify heteroscedasticity problem which disturbances are random. Meanwhile, the Hausman fixed test are used to determine preferable model employed either FEM or REM. From the table 4.2, 4.3 and 4.4, both results revealed that there are consistent in rejecting the null hypothesis of homoscedasticity and therefore, the statistical evidence was also implied that the heteroskedasticity is present and the error terms are randomly distributed. The tables above have indicated the tests are significant at 1% respectively stated that there are heteroskedasticity is present. In addition, null hypothesis stated for Hausman fixed test choose REM as preferable model and vice versa. Statistical results reported that estimations are significant at 10% and 5% respectively for ROA and ROE. The model employed is consistent to most researches because implying significant effect of company financial performance could capture in FEM, but not REM.

4.4 Summary

Statistical results generate using two regression analyses includes ordinary least square (OLS) and fixed effect model (FEM). The pre-assumptions specified normally-distributed, heteroskedasticity and serial correlation by using panel data (composed of time-series and cross-sectional) for the employment of OLS generated biased and non-efficient estimation. Foreign directors, foreign CEO and firm size were found significant positive relationship to return on assets of the company. In addition, the variables of foreign ownership and foreign directors are found significant positive relationship to the asset turnover of the company while the variables of leverage and firm size were found negative relationship to the asset turnover. The results presented are consistent to previous researchers by using OLS including FEM.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis carrying out in Chapter 4, the major findings were the foreign ownership, foreign directors, foreign CEO and firm size have positive relationship on the company profitability (return on asset). However, leverage ratio of the companies showed negative relationship on return of asset. On the other hand, foreign ownership, foreign director and foreign CEO have positive effect on the company efficiency which is measured by asset turnover. The leverage ratio and firm size shown negative effect on the companies' asset turnover for manufacturing sector companies that are listed in Bursa Malaysia main market. Refer to the table below for the summary of the research findings:

Explanatory variables	Return on Asset (ROA)			Asset Turnover (AT)		
	Overall Panel	Consumer Product	Industrial Product	Overall Panel	Consumer Product	Industrial Product
FO	Not significant	Positively significant	Not significant	Positively significant	Positively significant	Negatively significant
FD	Positively significant	Positively significant	Not significant	Positively significant	Not significant	Positively significant
FCEO	Positively significant	Not significant	Positively significant	Not significant	Positively significant	Not significant
LVRG	Not significant	Negatively significant	Not significant	Negatively significant	Negatively significant	Negatively significant
SIZE	Positively significant	Positively significant	Positively significant	Negatively significant	Negatively significant	Not significant

5.1 The effect of foreign ownership on return on asset and asset turnover

According to the finding of this research, the result shows that foreign ownership has no effect in profitability performance of the companies in term of ROA. This result is consistent with the result of Bastia and Akin (2008) that no significant difference between the performance of foreign owned companies and domestic companies in respect of ROA. However, the result was contradict with Aydin et al (2007) who suggested that foreign owned companies are performed better than domestic owned companies in term of ROA. The result may indicate that foreign owner companies operating were insignificant help in performance of generate income. Reasons to these results might be foreign owned companies might have to spend more on survey and research cost in understanding the market trend. This is different with domestic companies that are doing business in their homeland. Foreign owned companies would need to spend more advertising cost to promote its business as the companies do not have a close connection with the local contact compared to those domestically owned firm. Thus, foreign owned companies might not have strong influence to support in generating income. On top of that, the reason of foreign owned companies would not benefited in companies' profitability may due to less ownership advantages which are culture complementarities and less closer with local suppliers compare to domestic owned companies. If the foreign owned company less closely with the local suppliers, this is a disadvantage for them as it will increase their purchasing cost, so it leads to lesser profit (Choe, Kho and Stulz, 2005).

Based on the results shown in Chapter 4, it is revealed that foreign owned companies are performed better than the domestic owned companies in term of asset turnover. There is a significant positive effect on foreign ownership and asset turnover. The result is also consistent with the Jongmoo (2006), foreign investment can positively affect companies' performance through their representation on the board or through its contribution to labor productivity. This result confirms the hypothesis that foreign owned companies or joint ventures have some superior knowledge and/or technology which allows them to be more efficient than their domestic counterparts. Moreover, it is also consistent with the idea that foreign owned companies encourage restructuring at the firm level which leads to higher productivity (Wallner, 1998).

On the other hand, it is consistent with the findings of Asheghian (1982) who based on three indexes of efficiency, labour productivity, capital productivity and total factor productivity to conclude that foreign owned companies were more efficient than domestic owned companies.

Also, foreign ownerships tend to concentrate in high research and development and advertising spending sectors so that they might be more productive simply because they operate in higher productivity sectors and foreign owned companies can benefit from managerial experience of their foreign owners (Yudaeva K et. al, 2000). It makes the foreign ownership companies performed better than domestic ownership companies.

5.2 The effect of foreign director on return on asset and asset turnover

Based on the result in this research, it shows that foreign directors have significant positive effect in profitability performance of the companies which is return on asset. It is indicated that foreign directors were significantly benefited in generating income. The result is consistent with Doidge et al (2004), who concluded that foreign directors may improve performance due to convergence of governance and business practices to those advanced countries. Moreover, those foreigner who has direct management participation may also have independent positive impact on local companies as it could lead to increase productivity or effective positioning of local companies in the competitive global markets. Besides, foreign directors may possess knowledge of foreign markets that can assist the company in entering overseas markets and hence lead to improve of firm performance.

Apart from the finding, it is evidence that companies with the foreign director presence are performed better than the domestic owned companies in asset turnover performance. The result of this research is also consistent with the Jongmoo's study; companies would be performing better than domestic companies through the representation of foreign director on the board of company. This research finding is able to confirm the hypothesis that foreign director which have superior knowledge and skills would add value to the companies and thus it tends to be more efficient than the domestic companies.

5.3 The effect of foreign chief executive officer (CEO) on return on asset and asset turnover

The findings in this research show that the foreign CEO has significant positive impact on the companies' performance in both the return on asset and asset turnover. It is indicated that foreign CEO were significantly help in companies' profitability. This is consistent with the result concluded by Adam et al (2009). Foreign CEO was able to help in enhance the advisory capability of boards, provide valuable assistant to the company.

With the recent trend of increasing globalization of virtually all industries and marketplaces and the rising importance of emerging-market economies, an ever greater number of companies are looking beyond their national borders for opportunities to cut costs, generate growth, and create shareholder value.

5.4 The effect of leverage ratio on return on asset and asset turnover

According to the finding of this research, the result shows that leverage ratio has significant negative effect on the return on asset. This result is consistent with Huang and Song (2006) study that there is a negative relationship between financial leverage ratio and return on asset. The reason for this may be due to companies have high leverages ratio would tend to had lesser profit. It means that incensement of financial distress costs would be more impactful when the debt level is above the optimized level and in the advantages of tax shield. Companies with high profit will generate more capital flow and thus sufficient retained earnings internally generated could be used as internal finance. Companies can reduce the total of debt financing and corresponding would decrease the level of leverage in this funding process.

In addition, it is also revealed that there is significant negative relationship between leverage ratio and companies efficiency in respect of asset turnover. This result also consistent with the study of Pushner (1995) that measured the firm performance by total factor productivity, and he found that leverage is negatively effect on companies' performance.

5.5 The effect of firm size on return on asset and asset turnover

The findings from this research also show that firm size has significant impact on the companies' profitability in term of return on asset. The result is consistent with the studies of Lee (2009) and Frank and Goyal (2003). The reason on the significant positive relationship between firm size and return on asset due to bigger companies would have more advanced technology, more resources, better economies of scale and well managed hence it is easier to get funds at lower cost.

On the other hand, this research noticed that there is a significant negative relationship between firm size and companies' efficiency in respect of asset turnover. Where there will be loss of control from inefficient hierarchical structures in the company management, a negative effect may exist.

5.6 Limitations of Study

In this research, there was several limitations constraint identified during the time conducting this research. These limitations should take into consideration when generating and interpreting the results. First of all, the main obstacle against this study is the difficulties in samples size selection. In this research, the samples is selected and screen based on the list of top 30 shareholder in the annual report to determine the percentage of foreign ownership in each selected company. Also the samples are selected in board of director information to determine the company is consisting of foreign director presence in the companies. However, foreign ownership determination may not accurate in some companies it is because some of the foreign investor is invested in the company through local financial institution or Malaysia local companies, which stated as Sdn. Bhd and the samples will be classified as domestic owned companies and not foreign owned companies.

5.7 Recommendations for Future Study

A qualification is that the present paper does not address alternative channels of foreign equity and foreign directors through the real side such as locations, background, and education level. The real impact of foreign capital and foreign directors are a subject of future study. Besides, it would be also interesting to explore the effect of FDI on the domestic firms in Malaysia. In other words, to investigate whether FDI has spillover effect on the local economy and it would be more valuable into the existence literature.

Based on the research findings in this paper, foreign directors' presence and foreign CEO are positively affected on both companies' return on asset and asset turnover. Hence, local companies are encourage to attract more foreigner to sit in the company's board. According to consumer and industrial product companies listed in Bursa Malaysia main market, the average percentage of foreign directors' presence on the board is about 12.5% and companies which have foreign CEO is only about 21%. The percentage is still consider low thus, local companies are encourage to hire more foreign directors and foreign CEO to sit on the board to improve company's financial performance. In order to attract more foreigners to sit in the local company's board, companies should also provide more guidance on workforce training needs to maintain its competitiveness.

5.8 Conclusions

In conclusion, the objectives of this study were achieved and research questions have been answered accordingly. The results are partially supported and consistent with the previous researches. Despite achieving and answering research objectives, there were several incurred limitation in this study, while number of recommendations have been provided to improve the area of study. Nevertheless, the findings from this study could provide directions for companies in creating greater benefits.

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