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RESEARCH ARTICLE

GOVERNMENT-CONTROLLED COMPANIES AND ACCOUNTING PERFORMANCE

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ABSTRACT

This study investigates the effects of Government-Controlled Funds (GCFs) and Private-Government-Controlled Funds (PGCFs) ownerships on accounting performance using a sample of 190 non-financial listed companies on Bursa Malaysia from 2009 to 2014. The study finds that PGCFs ownership has positive and significant impact on accounting performance while GCFs ownership has negative and significant impact on accounting performance. These results imply that PGCFs ownership lead to better accounting performance while GCFs ownership leads to lower accounting performance. This study is one of first effort to examine the two groups 'GCFs and PGCFs' of Government Linked Investment Companies (GLICs) ownership in Malaysian market. So far the previous studies have been done focusing GLICs as whole or individual. The implications of this study will be very important to provide the shareholders, managers, and investors with the clear guidance before their decisions.

Key Words: GCFs ownership, PGCFs ownership, Accounting performance, Malaysia.

INTRODUCTION

Government-controlled companies are commonly criticized because of two main factors. The first criticism is that government objectives might differ from private sector objectives (Claessens and Fan, 2002; Estrin and Perotin, 1991; Hisyam, Ahmed, and Aliahmed, 2008; Shepherd, 1989). Shepherd (1989) argues that government pays a significant attention to political goals i.e., employment, small output price, and external impacts relative to firm performance. Similarly, Estrin and Perotin (1991) argue that government-owned companies do not focus on maximizing firm performance because the government has political as well as economic objectives. The second criticism is that the divergence in objectives between the government and private sector might lead to higher agency costs (Eng and Mak, 2003; Xu and Wang, 1997), weak governance arrangements (Estrin and Perotin, 1991), or weak investor protection (Shepherd, 1989; Shleifer, and Vishny, 1997) in government-owned companies. Shleifer (1998) argues that government ownership fails to motivate managers to innovate, implement cost reductions, and improve firm performance. However, government-controlled firms are that it serves as a monitoring device that leads to better company performance (Ang and Ding, 2006; Caves and Christensen, 1980; Hisyam, Ahmed, and Aliahmed, 2008; Kay and Thompson, 1986; Koleand Mulherin, 1997; Martin and Parker, 1995; Ramirez and Tan, 2004). Furthermore, government-controlled companies can solve the information asymmetry problem, which implies to the lacking information given to investor about the company value (Engand Mak, 2003). Government-controlled companies could be influenced either through federal government or state government only in Malaysia. Federal government ownership is achieved through shareholdings in companies through Government-Linked Investment Companies (GLICs) while state ownership is realized through state-owned companies. GLICs ownership is described as companies that have primarily commercial objectives and in which the federal regime of Malaysia has a straight controlling stakes to at least appoint board members. GLICs play an important role in structuring Malaysian economic. There are seven Malaysian GLICs which are monitored by federal government and they can be separated into two different groups based on their source of funds. The first group, National Treasure Limited or Khazanah Nasional Berhad (KNB), Ministry of Finance Incorporation (MFI) or Kementerian Kewangan Diperbadankan, and Pension Trust Money Group or Kumpulan Wang Amanah Pencen (KWAP) have their funds provided by the government (GCFs), while for the second group, which is consisted of Employees Provident Fund (EPF) or Kumpulan Wang Simpanan Pekerja, National Capitalisation Limited or Permodalan Nasional Berhad (PNB), Pilgrimage Fund or Lembaga Tabung Haji (LTH), and Armed Forces Fund Board or Lembaga Tabung Angkatan Tentera (LTAT) the funds are provided by unit holders or depositors (PGCFs).

Most of the recent studies so far have been focused on different way to test the performance of government ownership in Malaysia. Lau and Tong (2008) and Sulong and Mat Nor (2010) look at the percentage of total equity of government or GLICs ownership while Ghazali (2010) focuses on government or GLICs ownership as dummy variable. Furthermore, Taufil-Mohd, Md-Rus, and Musallam (2013) test the performance of each GLIC individually. Given these studies, the impact of the percentage of total equity of ownership for GLICs which are two different groups (GCFs and PGCFs) have been not studied. Therefore, an extended study is needed. This paper intends to examine the effect of GCFs and PGCFs ownerships on accounting performance. Furthermore, this paper will help the ongoing debated on the existence of the relationship between government or GCFs and PGCFs ownership and accounting

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performance assessment. Finally, the results of this paper could be important to shareholders, managers, and investors.

Literature Reviews and Hypotheses

Boycko, Shleifer, and Vishny (1996), Shen and Lin (2009), and Shleifer and Vishny (1994) argue that the investment objective of government-controlled companies always promotes social targets, economic development at national or industry rather than company level, or political support. Chen, Firth, and Xu (2009) argue that through GLICs, government representative a better career prospects with more qualifications. Ang and Ding (2006) report that the impact of the level of the state's ownership on the performances of Government-Linked Companies (GLCs) in Singapore. They find that a positive impact of government ownership on company performance. Boardman and Vining (1989), Goldeng, Grunfeld and Benito (2008), and Shen and Lin (2009) post that government-controlled companies tends to have a negatively influence on firm performance. Feng, Sun, and Tong (2004) argue that no evidence to support that the GLCs performance is lower than that non-GLCs. They also argue that government-owned enterprises perform better than private enterprises. Jiang (2004) finds that government ownership has positive impact on accounting performance. On the other hand, Zeitun and Tian (2007) find that government ownership has negative influence on accounting performance.

Tam and Tan (2007) conduct a study in Malaysia using a sample of 150 listed companies in 2000. They find that GLCs tend to underperform companies controlled by foreign or family shareholders. Sulong and Mat Nor (2010) use sample of 1612 listed company-year observations in Malaysia market. They find that the percentage of total ownership equity of GLICs has positive and significant influence on company performance. Ghazali (2010) also uses 87 companies listed on Bursa Malaysia in 2001. He finds that the effect of GLICs ownership as dummy variable is also positive and significant on firm performance, indicating, higher government ownership tends to better performance. Taufil-Mohd et al. (2013) using a sample 1716 listed company-year observations from 2000 to 2009. They find that shareholdings by five out of seven GLICs are positively related to firm performance. As compared this study with other Malaysian studies, it looks at examining the effect of the percentage of total equity of ownership for two different groups of GLICs (GCFs and PGCFs) on accounting performance which are controlled by the government. Basically, it is hypothesized that GCFs and PGCFs are significant related to accounting performance.

MATERIALS AND METHODS

A sample of 190 Malaysian listed companies is selected randomly (1 of 4) out of a population of 760 nonfinancial companies, and their performance is measured over a period of 6 years which consists 1029 companies-years (2009-2014). The year 2009 up to 2014 is selected because it covers a period of economic growth after Global Financial Crisis in 2008. For companies that are delisted, their performances are measured up to the year before delisted. The variables include one measure of performance that is Return on Equity (ROE) is used as dependent variable, two different GLICs ownership variables, which are GCFs and PGCFs, and three control variables which include firm age, firm size, and debt ratio (Oxelheim and Randoy, 2003) are used as independent variables. Data on GCFs and PGCFs ownership is manually collected from company annual reports while other data of three control variables and performance measure are collected from DataStream. Table 1 presents measurements of variables:

GLS method is used in this study instead of OLS method to test the panel data regression models (Gurbuz, Aybars, and Kutlu, 2010). Since a model with OLS does not meet its assumptions that display heteroskedasticity and autocorrelation problems, GLS can be used to tackle these problems. Thus, the following model is estimated:

$$Accounting\ Performance_{it} = B_0 + B_1GCFs_{it} + B_2PGCFs_{it} + B_3FSIZE_{it} + B_4FAGE_{it} + B_5DEBT_{it} + e_{it}$$

Where the variables are described in Table 1

RESULTS AND DISCUSSION

Table 2 presents the descriptive analyses of each variable used in the research. The average value of ROE during the period from 2009 to 2014 is 0.0137. Therefore, the range of ROE is from lowest value of -9.337 to highest value of 4.108. It also presents that the mean value of PGCFs is 0.064%, which is higher than the mean value of 0.011% reported for GCFs. The reason is that PGCFs has funds provided by the unit holders. The maximum and standard deviation values of 0.758% and 0.105% respectively reported for PGCFs are also higher than the maximum and standard deviation values reported for GCFs of 0.629% and 0.066% respectively. Judge, Hill, Griffiths, Lutkepohl, and Lee (1988) argue that the problem of multicollinearity exists when the correlation coefficients between two variables has a value higher than 0.8 or 0.9. As it can been seen from the results of Table 3, there is no problem of multicollinearity between all variables. Table 4 presents the results of OLS and GLS methods. Results of OLS are presented in column 2 of Table 4. It shows that OLS method suffers from autocorrelation problem based on DW test that gives value (1.811) with F-critical of 1.889 and also from heteroscedasticity problem based on Cook-Weisberg (CW) or Breusch-Pagan (BP) test that gives value 418.44with p-value of 0.000. Therefore, GLS is used.

GLS results are presented in column 3 of Table 4. Overall, the effect of PGCFs ownership has a positive and significant influence on accounting performance, indicating that PGCFs ownership leads to better governance and enhances accounting performance. This result is similar to previous studies that look at government ownership in Malaysia (Ghazali, 2010; Sulongand Mat Nor, 2010). In contrast, the effect of GCFs ownership has negative and significant impact on accounting performance, indicating that GCFs ownership does not lead to better governance and improve accounting performance. This could be because GCFs holdings of shares are usually of national interests. In this case, GCFs main objective might not be maximization of its shareholders' but more of protecting the national interest. The results also find that the impact of firm size and firm age is positive and significant on accounting performance while the impact of debt ratio is negative and significant on accounting performance.

Table 1. Measurements of Variables

Variables	Descriptions
Dependent variable:	One measure of market performance is used:
ROE	(Net income before Preferred dividends - preferred dividend requirement) /average of last year's and current year's common equity * 100.
Independent variable:	
GLICs ownership:	Two different GLICs ownership variables are used
$GCFs_{it}$	GCFs ownership in company i in year t.
$PGCFs_{it}$	PGCFs ownership in company i in year t.
Control variables:	
Firm Size ($FSIZE_{it}$)	The natural logarithm of total assets of company i in year t.
Firm Age ($FAGE_{it}$)	The natural logarithm of firm age since listed on Bursa Malaysia of company i in year t.
Debt Ratio ($DEBT_{it}$)	Long term debt divided by total assets of company i in year t.

Table 2. Descriptive Analyses of the Variables

Variables	Minimum	Maximum	Mean	Std. Deviation
ROE	-9.337	4.108	0.013	0.509
GCFs	0.000	0.629	0.011	0.066
PGCFs	0.000	0.758	0.064	0.105
FAGE	0.000	3.611	2.349	0.592
FSIZE	7.474	18.083	12.837	1.408
DEBT (%)	0.000	24.099	0.118	0.765

Notes. Total number of observations for all variables is 1029; For the definition of variables refer to the Table 1.

Table 3. Correlation Matrix between Independent Variables

Variables	GCFs	PGCFs	FAGE	FSIZE	DEBT
GCFs	1				
PGCFs	0.143(**)	1			
FAGE	-0.006	0.118(**)	1		
FSIZE	0.396(**)	0.238(**)	0.336(**)	1	
DEBT	0.044	-0.021	-0.023	-0.033	1

Notes.** Correlation is significant at the 0.01 level (2-tailed); For the definition of variables refer to the Table 1.

Table 4. OLS and GLS models by using ROE

Variables	OLS	GLS
Const	-0.312 (0.093)*	-0.207(0.000)***
GCFs	-0.067 (0.537)	-0.049 (0.072)*
PGCFs	0.193 (0.008)***	0.123 (0.000)***
FAGE	0.038 (0.102)	0.013 (0.007)***
FSIZE	0.017 (0.193)	0.015 (0.000)***
DEBT	0.006 (0.159)	0.006 (0.739)
R^2	0.008	0.091
Adjusted R^2	0.003	0.085
F-statistic	1.726	20.279
P-value(F)	0.125	0.000
DWT	1.811	-
F-critical (dL)	(1.889)	
BP/CWT	418.44 (0.000)	-

Notes.* Significant at the 0.1 level; ** Significant at the 0.05 level; *** Significant at 0.01 level; Total number of observations for all variables are 1029; For the definition of variables refer to the table 1.

Robust Analyses

As previous studies in Malaysia have been used different ways to estimate GLICs ownership. Robustness analyses are also done in this study by combining all GLICs ownership, which are measured by either the percentage of total equity holdings (Lau and Tong, 2008; Sulong and Mat Nor, 2010) or a dummy variable (Ghazali, 2010), and splitting GLICs into seven parts which are EPF, PNB, LTAT, LTH, KWAP, KNB, and MFI (Taufil-Mohd *et al.,* 2013). The result represents in table 5, which shows that when combined all GLICs ownership as a percentage of total equity holdings or as a dummy variable, the effect of GLICs ownership is significant and positive on accounting performance. Furthermore, when splitting GLICs into seven parts, the effect of three out of seven GLIC only is significant and positive on accounting performance.

Conclusion

This study examined the impact of GCFs and PGCFs ownership on accounting performance of listed companies in Malaysia using a sample of 1029 company-year observations during a period of 2009 to 2014. The result of GLS shows that accounting performance is positively related to PGCFs ownership while it is negatively related to GCFs ownership. The theoretical implications emerge from this paper. First, to the best of authors' knowledge, this is the first paper to examine the impact of the two different groups of GLICs (GCFs and PGCFs) on accounting performance.

Table 5. GLS models by using ROE

Variables	GLS		
	GLICs Combined	GLICs Dummy	GLICs Individually
Const	-0.185 (0.000)***	-0.199 (0.000)***	-0.171 (0.000)***
GLICs	0.051 (0.035)**		
GLICs dummy		0.013 (0.036)**	
EPF			0.271 (0.002)***
PNB			0.051 (0.147)
LTAT			0.378 (0.004)***
LTH			0.208 (0.042)**
KWAP			0.071 (0.731)
KNB			-0.057 (0.237)
MFI			-0.053 (0.738)
FAGE	0.014 (0.007)***	0.015 (0.004)***	0.012 (0.023)**
FSIZE	0.014 (0.000)***	0.014 (0.000)***	0.012 (0.000)
DEBT	-0.000 (0.965)	0.001 (0.948)	0.005 (0.752)
R^2	0.071	0.077	0.091
Adjusted R^2	0.066	0.073	0.081
F-statistic	19.365	21.419	10.094
P-value(F)	0.000	0.000	0.000

Notes.* Significant at the 0.1 level; ** Significant at the 0.05 level; *** Significant at 0.01 level; Total number of observations for all variables are 1029; For the definition of variables refer to the Table 1.

However, this study provides evidence that GCFs ownership equity improves accounting performance while GCFs ownership equity destroys market performance. Second, agency costs may decrease in firms with PGCFs ownership equity while it may increase in firms with GCFs ownership equity. In practical perspectives, this study is important to shareholders, managers, and investors in Malaysia. To shareholders and managers, it provides evidence that a PGCFs ownership leads to better performance, while to investors, it also provides evidence that investors can invest in the companies with PGCFs ownership share. Future research that tries to examine the effect of GCFs and PGCFs ownerships on firm performance may include other performance measures such as market to book value ratio (MTBVR), return on asset (ROA), return on investments (ROI), and return on sales (ROS). Other control variables can also be used e.g., industry and risk effects to ensure the robustness the results. Then, the results may be compared with this study.

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