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The Impact of Corporate Ownership on Corporate Financial Performance in the Developing Markets

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ABSTRACT

The ownership structure of companies is one of the main factors that affect their financial performance in developing markets. This paper purposes to study the relationship between company ownership, whether public sector, private sector and the corporate financial performance of 108 firms from bursa Malaysia from 2019 to 2024, the data from annual reports and DataStream. The research is found there are positive and significant relationship between corporate ownership and corporate financial performance. The results of studies indicate that the company's ownership structure is one of the significant factors that affect financial performance. Companies rely on different strategies to increase their profitability and improve their financial performance, and it is believed that the ownership can affect administrative decisions, the level of transparency, and governance, which is directly reflected in financial performance. These results confirm the importance of adopting effective governance strategies when designing the ownership structure in order to improve the financial performance of the firm and enhance its long-term sustainability.

Keywords: corporate ownership, corporate financial performance, developing markets

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INTRODUCTION

The impact of corporate ownership on corporate financial performance (CFP). The ownership structure of companies is one of the main features that impact their financial performance, as the nature of ownership reflects the extent of shareholders' control over strategic and managerial decisions. The impact of ownership on financial performance can be negative or positive based on the type of shareholders, such as family ownership, foreign ownership, and institutional ownership. Institutional ownership plays an important role in enhancing governance and administrative control, which may lead to improved operational efficiency and profitability. In contrast, private ownership may lead to long-term management stability, but it may negatively affect performance if there are no clear policies to separate management and ownership. Moreover, the percentage of ownership concentration affects financial performance, as high concentration may give owners greater control over strategic decisions, but it may also lead to problems related to conflicts of interest between minority and controlling shareholders (Xu, & Zeng, 2016) & Maniruzzaman et al., 2014).

Therefore, studying the impact of corporate ownership on CFP provides a deeper understanding of the features that make to enhance the market value and operational efficiency of companies, which helps guide economic policies and investment decisions towards achieving sustainable growth. Company ownership plays a major role in determining its strategies and overall performance. The influence of ownership varies depending on the type of owners, the level of control, their incentives, and how they manage the company. Here are some aspects that illustrate how company ownership affects its performance (Paniagua et al., 2018).

May have a negative impact if profits are transferred outside the local economy. Ownership concentration and its impact concentrated ownership when there is a major shareholder who controls a large percentage of shares. Reduces agency problems as the major owner has a strong incentive to monitor management. Can lead to abuse of power by the controlling owner at the expense of small shareholders. Dispersed ownership when shares are distributed among a large number of shareholders: Increases transparency and governance but may weaken oversight of management.

May face the problem of "free rider" as small shareholders are not interested in supervising management (Tulung, & Ramdani, 2018 & ng., & Hashim, 2019).

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The influence of ownership on financial and administrative performance the more there is a balance between ownership, control and professional management, the more efficient the company's performance. Weak governance or dominance of a certain group can lead to irrational decisions that negatively affect growth and profitability. Companies with good management and organized ownership achieve higher returns and financial stability. Ownership ratios in Asian countries Ownership ratios in Asian countries vary based on the local laws and regulations of each country. These laws determine how shares are distributed among partners, whether local or foreign, as well as the conditions for transferring ownership and the responsibilities associated with it. Therefore, there is a gap between corporate ownership and CFP, this study will test this connection.

LITERATURE REVIEW

Corporate ownership refers to the persons or entities that own ownership rights in the company, which are determined by the shares or stocks they own. Corporate ownership can be classified into several main types, including sole proprietorship: When one person owns the company entirely and bears all profits and losses. Partnership: When the company is owned by more than one person, and profits and losses are shared among them according to the agreement. Joint stock companies: Where ownership is divided between a large number of shareholders who own shares in the firm. Corporate ownership determines the extent of owners' control over administrative and financial decisions, and it also affects the distribution of profits and corporate governance.

A corporate financial performance reflects its efficiency in generating profits and managing its financial resources. CFP is measured by a set of financial indicators that include: Profitability: Measured using indicators such as net profit, gross profit margin, return on assets (ROA), and return on equity (ROE) (Usman, & Amran, 2015 & Xu, & Zeng, 2016).). Financial liquidity: shows the firms capability to meet its short-run financial responsibilities, for example the present ratio and quick ratio. Financial stability: expressed through the debt-to-equity ratio and the interest coverage ratio, which shows the extent of the firm’s reliance on debt.

Operating efficiency: measured by the asset turnover ratio, inventory turnover ratio, and the efficiency of utilising working capital. Strong financial performance indicates that the company is able to achieve profits and growth, while poor performance may indicate problems in financial or operational management. A company's ownership directly affects its administrative

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and financial decisions, while financial performance is the actual measure of the firm's success and ability to achieve its economic goals.

Previous studies indicate that there is an important association between the composition of a firm's ownership and its financial performance, as how ownership is distributed among shareholders directly and indirectly affects administrative decisions, governance, and financial strategy. The following are key points drawn from these studies. The advantages of ownership concentration: In some studies, it has been indicated that the presence of a small number of large shareholders may enhance management control and contribute to making quick and effective strategic decisions, which leads to improved financial performance. Cons of concentration: On the other hand, high concentration may lead to agency conflicts, as controlling shareholders may make decisions that serve their own interests at the expense of the company's overall interests, and this may reduce management transparency.

Insider ownership the research suggests that increasing management ownership helps reduce the agency problem between owners and managers, as managers' interests become closely linked to shareholders' interests. This link may motivate managers to make decisions that benefit the CFP. However, there must be a balance; high management ownership without sufficient external oversight can sometimes lead to managerial tyranny and difficulty in assessing objective performance.

The participation of institutional ownership, such as investment funds and banks, contributes to strengthening the governance system within companies, as these owners monitor management more closely, which contributes to improving financial performance. Their presence may also give the company an image of confidence and financial stability in the markets, making it easier for it to access sources of financing at appropriate interest rates. Influence of the environment and institutional context:

The results of studies vary depending on the economic and regulatory environment. In developed markets with strong governance systems, the positive impact of ownership structure or balance is more pronounced. In emerging markets, external factors such as weak legal systems or government intervention may play a role in modifying the link between COWN and CFP (Uwuigbe., & Egbide, 2012 & Din et al., 2021).

The summary of the studies show that company ownership is not just a matter of distributing shares, but rather a strategic factor that affects all aspects of management and financial

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decisions. Therefore, it is advisable to adopt balanced ownership structures that support control to ensure that shareholders' interests are aligned with the company's financial objectives and attain outstanding financial performance. The important of "information" is hence evidence from a emerging market, which displays a limited about COWN and CFP. Hence, this research answer this influence by test this relation by proposed:

H1. "The corporate ownership is important and positive with CFP of Malaysia firms.

RESEARCH METHODS

Several methodologies are utilised to analyse the link among COWN and CFP, as these studies aim to understand how the ownership affects CFP indicators such as return on assets (ROA), "return on equity" (ROE), market value, and others (Wan Ahamed et al., 2014 & Wang, 2015). The following are the most prominent methodologies used the Descriptive analysis the purpose: provide an overview of the variables studied, for instance different ownership ratios and CFP measures. The method: Use tables and graphs to analyze basic data, and identify differences and trends between different companies or time periods. The ownership of companies is one of the main factors that affect their financial performance in developing markets. This research aims to study the relationship between company ownership, whether public sector, private sector and the CFP of 108 companies from "bursa Malaysia" from 2019 to 2024 by using statistical software Stata to analyse the data. Therefore, table 1 shows the variables measures.

Table 1: *Measures of Variables*

Terms of Variable	Terms Measures
Corporate financial performance	ROA
Corporate ownership	The percentage of common shares owned by executive directors.
Control Variables	
Firm size	The natural logarithm of the total assets at the date of the private placements firms.
Productiveness	1 indicates productiveness company and 0 otherwise.

This research displays the "model" which is with the link between two main variables in order to show the influence of the "first variable" is the corporate ownership and the second variables is CFP in the Malaysian firms. The "regression" of this model below explains the connection.

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$$CFP =_{it} \beta 0 + \beta 1\, COWNit + \beta 2FSIZEit + \beta 3PROit \ + \varepsilon$$

RESULTS

Descriptive statistics test

This paper displays in the table 2 the “descriptive” analysis test in the “sample” of 108 in the Malaysian firms from annual reports and DataStream from 2019 to 2024. The CFP shows a mean with 0.253 and the corporate ownership displays 0.174.

Table 2: *Descriptive analysis*

Variables	Obs	Mean	Std. Dev.	Min	Max
CFP	108	0.253	0.319	-1.976	0.214
COWN	108	0.174	0.129	0.000	0.641
FSIZE	108	1.241	1.201	3.511	17.452
PRO	108	0.931	0.482	0.000	1.000

Note: This table displays the “descriptive statistics” test of the employed in this paper. “The CFP= corporate financial performance, measured by return on assets” = return on asset; COWN = corporate ownership; FSIZE= firm size, and PRO= productiveness.

Correlation test

This research explained in Table 3, the COWN and FSIZE are important and positive linked with CFP and the PRO displays a negative connection with CFP. “In terms of “multicollinearity”, the link matrix proves that not at all “multicollinearity” found between the “variables” because the association values of all the “variables” are less than 0.80 (Hair et al., 2010).

Table 3: *Correlation analysis*

Variables	ROA	COWN	FSIZE	PRO
CFP	1.000			
COWN	0.169*	1.000		
FSIZE	0.156	-0.127	1.000	
PRO	-0.176*	0.069	-0.362***	1.000

Note: ***Correlation is important at the 0.01 level and *Correlation is important at the 0.10 level.

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The findings for the “model” are displayed in Table 4, releasing the findings relating to COWN, which shows that COWN has a “positive” relationship with CFP (t=1.50, p-value=0.016).. The FSIZE has a “positive” and significant relation with CFP, but the PRO has a significant and negative connection with CFP. As a finding, “hypothesis” which suggests that COWN is “positively” related to CFP. Developing markets 'regulators could develop from these consequences in their attempt to achieve the growth process. Furthermore, the results of this research can also be used to define the current COWN.

Table 4: *Regression Results*

Panel A	**OLS**		**VIF**
Variables	t-stat	sig	
COWN	1.50	0.016**	1.60
FSIZE	0.71	0.081*	1.50
PRO	-0.50	0.063*	1.20
Constant	-0.27	0.073*	
OLS Heteroskedasticity		0.000	
N		108	
R2 (%)		25%	
Adjusted R2 (%)			
F-value		0.47	
p-value		0.90	

CONCLUSION AND RECOMMENDATIONS

This research tested the influence of COWN on the CFP of developing market. The finding shows there is a positive link between COWN and CFP. It was found that the type and composition of a COWN clearly affects CFP. Companies with a diversified and balanced ownership often show better CFP levels as a finding of the diversity of financial and managerial sources. Companies that adopt strong and transparent governance policies record higher rates of profitability and growth, as the presence of effective internal control contributes to making calculated strategic decisions. An ownership that ensures the effective participation of various stakeholders helps enhance accountability and improve risk management. The study indicates that companies with concentrated ownership (where a limited party or group controls) may face difficulties in facing administrative and economic challenges, which may negatively impact their CFP.

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In some cases, the concentration of power may lead to decisions that may not reflect the interests of all parties or be sufficiently transparent. It is clear that economic, environmental and market factors play a role in modifying the relationship between COWN and CFP, as economic fluctuations can affect the efficiency of utilizing different ownership. Changes in regulations and legislation may have a positive or negative impact on companies depending on their companies that adopt ownership that enable them to encourage a culture of innovation and investment in modern technologies tend to achieve positive financial results in the long term. Investing in continuous development and innovation is a contributing factor to improving operational efficiency and increasing competitiveness.

This study recommended to adopt a “balanced” ownership structure that comprises a variety of shareholders (local and international) to achieve diversity in expertise and financial and administrative resources. Companies that adopt ownership diversification can improve flexibility in decision-making and dealing with economic challenges. Enhancing governance and transparency systems: Companies must develop strong governance systems that ensure transparency in administrative and financial operations, which enhances investor confidence and reduces the risks of ineffective management. Regulatory bodies can require companies to periodically disclose ownership structures and decision-making mechanisms. Developing management cadres, it is recommended to provide training and development programs for management to enhance their skills in dealing with the effects of ownership structures on financial performance. Emphasis should be placed on improving leadership skills and making informed strategic decisions. Periodic monitoring and evaluation, Companies and financial institutions should periodically evaluate COWN and their influence on CFP, in order to identify strengths and weaknesses and make the necessary adjustments.

Regulatory bodies and research institutions can cooperate to provide data and indicators that help monitor this relationship. Encouraging innovation and investing in technology. It is advisable to enhance the culture of innovation within companies by supporting research projects and applying the latest technologies, which contributes to raising efficiency and improving financial performance. Investing in modern technologies helps companies adapt to changing market requirements. These findings and recommendations contribute to providing inclusive framework for understanding how COWN affects a CFP, helping decision makers and investors adopt management and financial strategies that contribute to long-term sustainability and success.

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