UNIVERSITI TEKNOLOGI MARA

EQUITY RETURN ON FAMILY AND NON-FAMILY FIRMS: EVIDENCE FROM PROPERTY INDUSTRY IN MALAYSIA

AIDA NOR SHAMIRA BINTI AHMAD

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ABSTRACT

The study investigates the relationship between equity return of family firms and non-family firms specifically on property firms in Malaysia. This study uses sampled panel data restricted to property companies listed on Bursa Malaysia from 2006 to 2015. The dependent variable involve in this study is return on equity (ROE) while short-term debt ratio (STD), long-term debt ratio (LTD) and total debt ratio (TD) act as the independent variables. The study uses leverage measures as the proxies for capital structure and return on equity (ROE) as the proxy for firm's profitability. The family and non-family firms chosen are based on the same industry which is property industry in order to make the result comparable. There were 5 family firms and 5 non-family firms. The company was selected based on its three criteria which are market capitalization which is more than RM400 million, year of establishment which is more than 20 years and the availability of data from 2006 to 2015. The financial data was obtained from the DataStream. By analyzing with the 10 years observation from 2006 to 2015, the results from this study is significantly related to the return on equity of the selected property companies in Malaysia. The findings suggest that for family firms, short-term debt, long-term debt and total debt have significant relationship with return on equity while for non-family firms, leverage have no significant relationship with the profitability.

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TABLE OF CONTENTS

CHAPTER ONE

INTRODUCTION

1.1 HISTORY

Equity return is a measure of how efficient a firm is at generating its profits. It is also known as return on equity (ROE). Equity is the amount of cash that a firm received from the original investors in exchange for shares. Furthermore, investors will use equity return of a company to evaluate stocks and to make a decision whether to invest or not in a firm. Plus, return on equity is the best measurement for comparing the profitability of a firm with another firm in the same industry. The capital structure can be a mixture of debt and equity that are used to finance a firm's long-term operation and growth. Debt financing is also known as external financing or leverage while equity financing is known as internal financing. Both of these types of financing are commonly used by most of the firm to finance its operation and maintain its sustainability.

Family firm is a firm that is managed and controlled by multiple generations of family members that are related in terms of blood and marriage. It can also be defined as when the family is the owner and have the right to make a decision for the firm as well as to manage and control the firm. However, a firm is considered to be a non-family firm when there is a lack of family influence and multiple generations of family members in the management of the firm. Based on (Nor, Sehat, & Nor, 2013), 67.2% of the Malaysian firms are managed by families while 37.4% are owned by only one majority shareholder and 13.4% are controlled by the government. Therefore, we can clearly see that family firms controlled a majority of the development of the capital market in Malaysia.