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The Effect of Risk Taking on Ownership Structure and Bank Performance: A Malaysia Case

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Highly concentrated ownership structure is a usual scenario in developing countries. In Malaysia, despite various regulations and diverse reformations in the banking institutions, the ownership structure persists until present. Realizing the importance of banking institutions in developing countries, this paper analyzes the impact of the concentrated ownership structure to the performance of the banks. This paper hypothesize that bank performance depends largely on the type of the bank owners. As banking business is about taking risks, this paper also tests the interaction effects of bank risk taking on ownership structure and bank performance. Confined to Malaysian commercial banks for the period of 2000- 2011, the results evidence that among the various ownership structures that exist in Malaysian banks, the ownership structure of family-owned banks and its risk taking have no significant influence on the bank performance. Hence, highlighting the importance of family-owned banks in Malaysia.

Field of Research: Banking

1. Introduction

The relation between ownership structure and performance has been the subject of continuous debate since the original paper of Berle and Means (1932). In recent years, the discussion has centered on the cost and benefits of concentrated ownership structure as opposed to diffused ownership structure. Concentrated ownership structure is regarded as reducing the agency problem between shareholders and managers resulting from the separation between ownership and control. The managers of a diffused ownership structure tend to engage in value reducing activities and this is commonly due to low monitoring by the shareholders (Berle & Means, 1932). Low equity stake by shareholders in a diffused ownership structure resulted in weak incentives to engage in monitoring the manager's activities as they have to bear all the costs of monitoring while getting only a small fraction of the benefits. In contrast, large ownerships in a firm induce shareholders to monitor the manager's activities, refute them from engaging in moral hazard behavior and ensure that the managers work towards maximization of the shareholders interest (Belkhir, 2005). Ungureanu (2008) contends that concentrated ownership enhances banks' control and monitoring of its activity through a better flow of information. Large shareholders are more effective in exercising their rights, thus having more control over the management. The existence of large shareholders is also associated with high performance of the bank. Morck, Nakamura and Shivdasani (2000) indicate that equity ownership by corporate blockholders is positively related to firm value

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while Jensen and Meckling (1976); Cole and Mehran (1998); Claessens, Djankov and Lang (2000); Mitton (2002); Iannota, Nocera and Sironi (2007) and Ongore (2011) find that there are strong positive relationships between ownership concentration and profitability. However, contrary to the findings, Demsetz and Lehn (1985), McConnel and Servaes (1990), Karathanassis and Drakos (2004), Berger *et al*., (2005) find a negative impact of concentrated ownership on performance. They argue that firms with high concentration of ownership is more prone to financial distress and crisis. Nevertheless, Shleifer and Vishny (1997), Thomsen and Pedersen (2000), Gursoy and Aydogan (2002) suggest that the relationship between ownership structure and performance depends on the identity of the large (controlling) shareholders. This is because different types of shareholders always have different priorities, preferences and objectives (Ongore, 2011).

Laeven and Levine (2009) and Shehzad, Haan and Scholtens (2010) argue that the impact of ownership on performance is affected by other variables. Other than external governance factors such as supervisory control and minority protection, internal factor such as bank risk taking affects the relationship between ownership and performance. Although risk taking might increase banks' returns but high risk taking also increases the cost of doing business and vulnerabilities of the bank (Hermosillo, 1999). Cooper (1999) indicates that the greater the risk, the greater the potential return and, necessarily the greater the potential for loss while Sinha (1998) argues that high risks do not always come with high reward in the forms of high returns. Other studies such as Nam (2004), Drew and Kendrick (2005), Maury (2006), Tandelilin *et al*., (2007), Laeven and Levine (2009), Haw *et al*., (2010) find that high risk taking increased bank fragility and the possibility of failure. High authority in making the corporate decisions induces large shareholders to behave in a self-serving behavior by making decisions that would maximize their profits although the decisions might increase the banks' risks (Samudram, 2007). Conversely, Molyneux and Thornton (1992), March (1994) and Barth *et al*., (2003) find a positive relationship between risk taking and performance.

The ownership structure of Malaysian banks is characterized as highly concentrated with large shareholders hold more than 40 percent of shares in the bank (Claessens, Djankov & Lang, 2000; Fan & Wong, 2002; Detragiache & Gupta, 2006; Soon & Koh, 2007). Claessens, Jankov and Lang (2000) indicate that the ownership structure of Malaysian banks as of 1998 is dominated by family ownership. Dines (2005) indicates that as of 2004, about 50 percent of Malaysian banks are owned by the government while Laeven (2005) finds that government ownership in Malaysian banks has increased from 9.93 percent in 1995 to 49.78 percent in 2004. The ownership structure of domestic Malaysian banks is concentrated into family, government and corporate ownership (Soon & Koh, 2007). They argue that the high concentrated ownership in Malaysian banks continues even after the mega consolidation programme in 1999. The consolidation programme of Malaysian banks does not change the ownership structure of the Malaysian banking institutions significantly and government continues to become the largest shareholders in most of the Malaysian banks. Soon and Koh (2007) indicate that as of 2003, government controlled 50 percent of the domestic banking institutions in Malaysia with shareholdings of as high as 65 percent. The government acquires shares in the banks through several government agencies. Similarly, the individual report of the domestic commercial banks over the period of 2000-2011 revealed that the ownership structure of Malaysian banks is highly concentrated. The reports show that over the 2000-2011 period, the domestic banking institutions are highly controlled by family and government with the highest shareholdings of 78 percent and 66 percent respectively.

Currently, there are very limited studies done on ownership structure of Malaysian banks. Among studies on the ownership structure are Thillainathan (1999), who argues that the concentrated ownership structure is one of the major factors that caused Malaysian banks to involve in excessive risk taking which results in huge losses during the Asian financial crisis. Laeven (1999) finds that family-owned banks and company-owned banks in Malaysia are among the highest risk takers while, Barry, Lapetit and Tarazi (2010), in their studies of Asian countries for the period of 1999-2004, find a negative effect of concentrated ownership structure on the efficiency of Malaysian banks. Hence, this study extends the previous studies on the impact of concentrated ownership structure of Malaysian banks. Unlike previous studies, this study examines the impact of concentrated ownership structure after the major consolidation programme of Malaysian banking institutions. This study covers the period of 2000-2011. Further, this study also investigates the interaction effects of the bank risk taking on the relationship between ownership structure and bank performance. This study posed two questions; (i). what is the impact of concentrated ownership structure on the banks' performance and (ii). what is the impact of the bank risk taking on the relationship between ownership structure and the bank's performance.

In terms of organization of this paper, it is structured as follows; Section 2 discusses the theoretical and empirical literature on ownership, performance and bank risk taking. Section 3 describes the methodological adopted in the study. Section 4 presents the empirical findings and finally, section 5 concludes the paper.

2. Literature Review

Leaven (2005) indicates that the concentrated ownership structure is more pronounced in developing countries as compared to the developed countries. Fan and Wong (2002) in their study of the largest ultimate owners of East Asian countries find that ownership structure of most Asian countries is highly concentrated with Malaysia scored the third highest percentage (30.73%) behind Thailand (36.32%) and Indonesia (34.51%). Claessens, Djankov and Lang (2000) find that more than 40 percent of firms in nine East Asian countries (including Malaysia) are controlled by family while Fan and Wiwattanakantang (2005) in their study of Asian economies indicate that Malaysia has the highest percentage of family owned banks, which is 30 percent, followed by Thailand (16.67%), and Indonesia (8.70%). Wiwattanakantang (2001) finds that about 80 percent of firms in Thailand are family-owned, while Khanna and Palepu (1999) find that majority of companies listed on Bombay Stock Exchange are controlled by families. Soon and Koh (2007) find that most of Malaysian banks are controlled by government with equity stakes of more than 50 percent. Sharing the view, La Porta, Silanes and Shleifer (2002) find that government ownership of banks is common around the world, especially in poor countries, as well as in countries with poorly protected property rights, heavy government intervention in the economy and underdeveloped financial systems. They documented that government ownership of Malaysian banks as in 1995 is 9.93 percent. The percentage is lower compared to the other East Asian countries such as Singapore (13.53%), Thailand (17.09%), the Philippines (27.23%) and Indonesia (42.90%). The government ownership of Malaysian banks had increased to 49.78 percent in 2004 (Laeven, 2005). However, although increased to a higher percentage, but the government ownership of Malaysian banks is still low as compared to Singapore (58.13), Thailand (50.91%) and Indonesia (60.40%).

Shleifer and Vishny (1997) indicate that the different types of ownership structure have important implications for corporate governance and performance. Morck, Nakamura and Shivdasani (2000) indicate that the differences in ownership structure have two obvious consequences for corporate governance, which are (i), the controlling shareholders have both incentive and power to discipline management and (ii), the controlling shareholders can create conditions for a new problem when their interests are not aligned with the interest of the minority shareholders. In terms of performance, Thomsen and Perdersen (2000) find that the identity of large owners has significant effects to bank performance. Similarly, La Porta *et al.,* (2002) and Classens and Djankov (2000) find that the type of ownership structure determines firm performance. However, the studies on the impact of each type of ownership on firm performance provide mixed results and still unclear (Cornet *et al*., 2007).

Moldenhauer (2006) indicates that the existence of insider ownership in a firm would increase the firm's performance. Chen, Guo and Mande (2003) in their study of firms in Japan find a positive relationship between insider ownership and performance. Similarly, Davies, Hillier and McColgan (2005) in their study of UK firms, and Beiner *et al* (2005) in his study of firms in Switzerland find that insider ownership has a positive relationship with firm performance. However, they are also studies that find a negative relationship between insider ownership and performance. A study by Gugler, Mueller and Burcin (2008) find that insider ownership has an unambiguous negative effect on firm performance while Sullivan and Spong (2007) indicate that insider ownership boost risk taking strategies among managers.

A study by Anderson and Reeb (2003) on Standard & Poors 500 firms finds that family-owned firms perform better than the non-family firms. They argue that family ownership is an effective organizational structure as compared to the non-family-owned firms. The finding is supported by Pinteris (2002), who finds that firm's profitability is lower when the controlling family's ownership is lower. Other studies such as Maury (2006) and Villalonga and Amit (2006) conclude that family controlled business perform better than the other type of businesses. Conversely, Gursoy and Aydogan (2002) find that family-owned firms have lower performance and lower risks. Morck *et al*. (2000) indicate that due to the high concentration of wealth in the business and the concern for the family legacy, family-owned firms tend to display an excessive risk aversion and forego profitable expansion strategies.

As for the impact of government ownership, Micco, Panizza and Yanez (2007) in their studies of ownership structure of 179 countries around the world find that government owned banks in developing countries have lower profitability and higher costs than their private counterparts. Using country-level data, La Porta et al. (2002) argue that higher government ownership of firms in 1970 is associated with slower subsequent financial development and lower economic growth for a sample of 92 countries. Similarly, Iannotta, Nocera and Sironi (2007) find that government-owned banks have less profit than the privately-owned banks in spite of their lower costs while Berger *et al*., (2005) argue that government-owned banks have poor long-term performance. Sharing the view, Gupta (2005), indicates that government-owned enterprises have negative effects on profitability, productivity, and investment in India. Conversely, Gursoy and Aydogan (2002) argue that government-owned banks have high risk taking and high performance while Bonin, Hasan and Wachtel (2004) in their study of 11 transition countries find that government-owned banks performs better than the domestic private banks. Further, Najid and Rahman (2011) find that government ownership has a positive relationship with performance. They noted that most investors are more confident to conduct business with government-owned firms as they believe that the government would assist the firm in the time of trouble.

Barry, Lepetit and Tarazi (2010) indicate that institutional ownership has increased substantially over the past 20 years, which implies changes in corporate governance of banks. Cornett *et al*., (2007) indicate that there is a significant relation between the firms' cash flow returns and the shareholding size while Hartzell and Starks (2003) argue that institutional ownership better align the interest of managers with the shareholders through a high proportion of incentive-compensation of the managers in the total, this thereby, advances firm performance. Maury and Pajuste (2005) find that institutional ownership affects the relationship between ownership and firm value whereby increased in voting power and control, enhances the firm performance. Further, studies which looked at the direct impact of institutional ownership on performance such as Smith (1996) and Del Guercio and Hawkins (1999) find that institutional ownership is positively related to firm performance. In contrast, a study by Faccio and Lasfer (2000) find that institutional-owned firms does not adopt the *Code of Best Practice*, have weak and even negative relationship with firm value. However, a study by Agrawal and Knoeber (1996) find that there is no significant relationship between institutional ownership and firm performance.

On the relation between foreign ownership and firm performance, Berger *et al*., (2005) indicate that due to the advantages of foreign banks such as large capital, diversification, high expertise, superior ability to diversify risks and the ability to offer services to multinational clients, foreign banks perform better that the domestic banks. Similarly, Dages *et al*., (2000) in their study on Argentina find that foreign banks have better performance than the domestic banks. Sharing the view, Bonin, Hassan and Wachtel (2005) argue that foreign-owned banks are the most cost-efficient and provide better service than other banks. IMF (2000) reports that the return on equity of foreign banks is significantly higher than the domestic banks in Hungary, Poland and Czech Republic while Detragiache and Gupta (2006) in their study of foreign banks in Malaysia, indicate that foreign banks whose operations were not concentrated in Asia perform better than other banks during the Asian financial crisis. However, there are also studies that found different results on the relation between foreign ownership and performance. Mian (2006) finds that foreign banks in Pakistan are less effective at recovering impaired loans than the domestic banks. Lensink and Naaborg (2007) find that a rise in foreign ownership negatively affects bank performance. In a related study, Demirguc-Kunt and Huizinga

(1999) indicate that foreign banks in developed countries are less profitable than the domestic banks but perform better than the domestic banks in developing countries.

Taking into account the suggestion by Laeven and Levine (2009) and Shehzad *et al*. (2010), who indicate that the relation between ownership structure and performance is influenced by other variables, this study also investigates the interaction effects of risk taking on this relationship; a relation which has not been widely explored by previous studies. This is due to the nature of banking business which is taking risks (Obiyatullah, 1998) and the negative implication of risk to bank's returns (Ciancanelli & Gonzalez, 2000). Saunders, Strock and Travlos (1990), who are the first to test the relationship between banks' ownership structure and their risk taking incentives, find that ownership concentration is significantly related to bank risk taking. The finding is in line with Agency Theory which suggests that high risk taking in concentrated ownership structure would affect the firm's performance (Jensen & Meckling, 1976). Haw *et al*. (2010) in their study of listed commercial banks in East Asia and Western Europe find that concentrated ownership is associated with higher insolvency risks and greater return volatility, while Laeven and Levine (2009) indicate that banks with more powerful owners tend to take higher risks which would affect the bank's returns.

3. Methodology and Hypotheses Tested

3.1 Data Collection

This study covers the entire population of commercial banks in Malaysia. The commercial banks are selected as the unit of analysis as commercial banks are the most important financial intermediaries in Malaysia and provide the largest range of products and services to bank customers. All the banks in the study are locally incorporated and have commenced operations in Malaysia before the year 2000. Due to the merger and acquisition of the banking institutions in 1999, the commercial banks in Malaysia are left with 9 domestic banks and 13 foreign banks. However, due to problems of data availability, one of the foreign banks (China Bank Limited) has been dropped from this study. Hence, the final sample size of this study is 252 observations, where data are collected from 21 commercial banks for the period of 2000-2011. In collecting the data, any changes that happened over the study period are taken into account. This involved changes in the name of the bank and also changes in the substantial shareholders.

In extracting the ownership data, the ultimate owner of the sample banks as stated in their annual report under 'Ultimate Holding Company' title are examined. For example, the ultimate owner of Alliance Bank Berhad is Malaysian Plantations, thus the ownership data for Alliance Bank Berhad are taken from Malaysian Plantations annual report. This is consistent with Claessens, Jankov and Lang (2000) and, Fan and Wong (2002) which find that corporate ownership structures of Malaysian firms are associated with indirect / ultimate ownership. Therefore, data on direct or immediate ownership of Malaysian companies are insufficient for determining control (Zuaini, 2004). Based on the reason, this study focused on ultimate ownerships as they control the decisions making and have major influences on strategies and directions of the bank. Gadhoum and Ayadi (2003) contend that the analysis of ultimate ownership provides further insights into how corporate performance is contingent upon the presence of the ultimate owner's shares and their types.

After the ultimate owner of banks has been identified, substantial shareholders in the ultimate owners' company are examined. In determining substantial shareholders, this study examines all shareholders that own at least 5 percent of the votes in the company. This percentage is accordance with the definition of substantial shareholders under Malaysia Companies Act 1965. Wiwattanakantang (2001) contends that the choice of cut-off points should be based on economic or legal frameworks of the given country while Demsetz and Lehn (1985) indicate that an ownership position of 5 percent is sufficient to influence corporate outcomes.

Once the names of the substantial shareholders and their percentage of shares are collected, the information is then separated into different types of ownership according to the largest holding of shares. The ownership types are divided into family ownership, government ownership, institutional ownership and foreign ownership. In separating the ownership into different types of ownership, this study follows Gursoy and Aydogan (2002). First, the largest shareholders among the substantial shareholders are identified. Next, the identity of the largest shareholders is examined. Finally, the banks are categorized either as family-ownership, government ownership, institutional ownership or foreign ownership. The separation into different type of ownership is done with the intention to get a more robust and comprehensive finding and based on the argument that different type of ownership has different influences on bank decisions and management (Demsetz & Lehn, 1985) and different impacts on bank performance (Shleifer & Vishny, 1997).

In identifying family ownership, surname or individual name of the largest shareholders in the substantial shareholders list of the bank is examined. For example, the ultimate owner of Hong Leong Bank is Hong Leong Credit Berhad, and it is found that Quek family controls more than 70 percent of shares in Hong Leong Credit Berhad. Therefore, Hong Leong Bank is categorized as family ownership or family-owned bank. A bank is identified as government ownership if the largest shareholder in the substantial shareholding list is a government link company. For the purpose of identifying government ownership, this study uses the list of government linked companies as provided by the Treasury Department of Malaysia. A bank is categorized as institutional ownership if the major shareholder in the bank is an institution, and is categorized as foreign ownership if the bank is owned by foreigners or the bank is a subsidiary of foreign banks.

3.2 Variables Definition

Similar to Najid and Rahman (2011), this study uses banks' return on equity (ROE) as a measure for bank performance. Rose and Hudgins (2013) indicate that ROE is among the most important measures for banks' profitability; which indicates the overall performance of the bank.

Based on the previous findings on ownership structure of Malaysia (i.e., Soon & Koh, 2007; Detragiache & Gupta, 2006; Laeven, 2005; Fan & Wong, 2002), this study categorized ownership structure into five categories which are insider, family, government, institutional and foreign ownership structure. Insider ownership refers to members of the board that are also members of the current management that hold a certain percentage of shares in the bank and measured as the total number of shares held by directors of the bank in period *t* to total number of shares in period *t*. Meanwhile, family, government, institutional and foreign ownership refer to substantial shareholders in the banks and is measured as shares held by substantial shareholders in period *t* to total number of shares in period *t*. The definition of ownership in this study relies on voting rights rather than cash flow rights as this study intends to investigate the presence of controlling shareholder and its effect on bank risk taking. The voting rights enable shareholders to control the banks by influencing the decisions making in the banks. In Malaysia, the one-share-one-vote rule with dividend rights linked directly to voting rights is taken as a basic right in corporate governance. Malaysia is found to be one of eleven countries out of forty-nine which impose genuine one-share-one-vote rule (Thillainathan, 1999). The author indicates that the enforcement of the one-share-one-vote rule prevent shareholders from owning a small share of the company's share capital but maintaining a high share of voting control.

As for the interaction effects, this study uses bank risk taking as a third variable that might affect the relationship between ownership structure and bank performance. Bank risk taking is measured as banks' non-performing loans to total loans. Rose and Hudgins (2013) indicate that non-performing loan is the most important indicator of bank risks, and high non-performing loans would decrease asset quality of banks, create vulnerability and increase variations in banks' returns.

3.3 Method and Hypotheses Tested

There are two objectives in this study which are (i) to analyze whether commercial banks with different ownership structures present significant differences in their performance and (ii) to investigate whether risk taking influence the relationship between ownership structure and bank performance. Therefore, the hypotheses of this study are as follows.

Hypothesis 1: Different types of ownership structures imply different impact to banks' performance

The following econometric model is used to test the Hypothesis 1:

$$ROE_{it} = \alpha_0 + \beta_1 INSIDER_{it} + \beta_2 FAMOWN_{it} + \beta_3 GOVOWN_{it} + \beta_4 INSTOWN_{it} + \beta_5 FOROWN_{it}$$

where,

INSIDER = insider ownership
FAMOWN = family ownership
GOVOWN = government ownership
INSTOWN = institutional ownership
FOROWN = foreign ownership

Hypothesis 2: Bank risk taking moderates the relationship between ownership structure and bank performance.

Hypothesis 2 is tested uses the following econometric model:

$$ROE_{it} = \alpha_0 + \beta_1 INSIDER_{it} + \beta_2 FAMOWN_{it} + \beta_3 GOVOWN_{it} + \beta_4 INSTOWN_{it} + \beta_5 FOROWN_{it} + \beta_6 BRT_{it} + \beta_7 INSIDER*BRT_{it} + \beta_8 FAMOWN*BRT_{it} + \beta_9 GOVOWN*BRT_{it} + \beta_{10} INSTOWN*BRT_{it} + \beta_{11} FOROWN*BRT_{it} + e_{it}$$

Where,

$$\left.\begin{array}{l}\text{INSIDER*BRT, FAMOWN*BRT,}\\ \text{GOVOWN*BRT, INSTOWN*BRT,}\\ \text{FOROWN*BRT}\end{array}\right\} \quad \text{Interaction terms}$$

In testing the two models, hierarchical moderated multiple regression, which is a minor extension of an ordinary multiple regression is used. The hierarchical moderated regression model allows the relationship between a dependent variable and an independent variable to depend on the level of another independent variable (i.e. the moderator) and is an appropriate method for detecting the effects of moderating variables (Bisbe & Otley, 2004). This method attempts to improve standard regression estimates by adding a third variable to an ordinary regression model. This model is also used by other studies such as Bisbe and Otley (2004); Laeven and Levine (2009) and Barry, Lepetit and Tarazi (2010). The studies argue that, in order to run the hierarchical moderated multiple regression model, three steps or model are involved. First, the dependent variable is regressed on the independent variables, (Model 1). Then, the dependent variable is regressed on the independent variables and moderating variable, (Model 2). Finally, the dependent variable is regressed on the independent variables, moderating variable and interaction terms (independent variables x moderating variable), (Model 3).

4. Empirical Results

The normality test indicates that the data deviate from the normality assumptions while Breusch-Pagan-Godfrey test and Lagrange Multiplier test show that heteroscedasticity and auto-correlation problem respectively, exist in the data. Taking into account of the normality problem, the regression analysis is conducted by using GLS estimation. GLS is a transformed model of OLS and is more appropriate than OLS in the case of non-normal data (Gujarati, 2003). Meanwhile, the problems of heteroscedasticity and auto-correlation are corrected by using White's General Heteroscedasticity and AR(1) respectively. The Hausman test, which is carried out in order to find the most appropriate model shows that fixed effects model outperform the random effects model, indicating that the fixed effects model is more appropriate for this study. Table 1 presents the regression results of the study.

Table 1:The Moderating Effect of BRT on Ownership Structure and ROE

Variables	Model 1	Model 2	Model 3
INSIDER	-0.1356**	-0.1345**	0.7965**
	(0.0495)	(0.0503)	(0.3401)
FAMOWN	-0.0817	-0.0960	0.3550
	(0.1397)	(0.1359)	(0.4279)
GOVOWN	-0.1084**	-0.1340**	1.1723**
	(0.0426)	(0.0276)	(1.1723)
INSTOWN	0.0091**	0.0273**	1.4300**
	(0.0038)	(0.0034)	(0.7283)
FOROWN	-0.6508	-0.6490	0.7438
	(1.1665)	(1.1731)	(0.8635)
BRT		0.0153**	1.6102**
		(0.0062)	(0.6037)
INSIDER* BRT			-1.4358**
			(0.6326)
FAMOWN* BRT			-0.8914
			(0.9108)
GOVOWN* BRT			-2.5233**
			(0.9965)
INSTOWN* BRT			-2.8736*
			(1.5002)
FOROWN* BRT			-1.5898**
			(0.6088)
AR(1)	0.2822	0.2895	0.3832
R^2	0.7309	0.7305	0.7685
Adjusted R^2	0.6966	0.6945	0.7311
F-Statistics	1059.38	1355.93	59.74
Number of observations	231	231	231

* significance at the 0.05 level
** significant at the 0.01 level

Model 1 of Table 1 answers hypothesis 1 of the study whereby the result shows that different type of ownership has a different impact on the performance of banks. The existence of insider in banks and highly concentrated ownership of governments is found to have a negative impact on bank performance while high concentrations of ownership by institutional have a positive impact on the bank performance. However, the result shows that family and foreign ownership have no significant impact on the performance of Malaysian banks. Further, model 2 shows a significant result of risk taking, indicating the significant impact of bank risk taking as a moderating variable. Next, the regression results on the interaction effects of bank risk taking on the relationship between ownership structure and bank performance (model 3) show that risk taking of banks has a negative impact to the banks' performance. Bank risk taking is found to reduce the performance of insider, government, institutional and foreign ownership of banks but does not have a significant impact to family-owned banks.

The findings suggest that different types of ownership have different impact to bank performance and are consistent with the results of Ongore (2011), Gursoy and Aydogan (2002) and, Thomsen and Pedersen (2000), who indicate that the relationship between ownership structure and performance depends on the identity of the controlling shareholders. The findings also support the arguments of Shehzad (2010) and, Laeven and Levine (2009) who indicate that the impact of ownership structure on bank performance is affected by another variable. The results on the interaction effects suggest that the existence of controlling shareholders increases bank risk taking and therefore reduces the overall performance of the banks; implying the existence of agency problem related to the concentration of ownership of banks. This is consistent with arguments by Ciancanelli and Gonzalez (2000), who find that the authority to make decisions in banks might induce moral hazard behavior among controlling shareholders; the shareholders tend to make decisions that benefits themselves at the expense of the banks' creditors. Meanwhile, Pinteris (2002) indicates that large shareholders of banks may involve in risky activities in order to maximize their own returns at the expense of other creditors. This is because the controlling shareholders will enjoy the upwards of the outcome and in the case of failure, the cost will be shared with other creditors.

5. Conclusions

High concentration of ownership represents an important form of ownership structure in Malaysian banks. Covers the entire populations of commercial banks in Malaysia (21 banks) for the period of 2000-2011, this study examines the impact of concentrated ownership structure on bank performance and the interaction effects of bank risk taking on the relationship. Using panel data analysis, the fixed effects model indicates that different types of ownership structure have different impact to bank performance. Insider, government and institutional ownership have negative significant impact on bank performance while family and foreign ownership are not significantly related to bank performance. As for the interaction effects, except for family ownership, bank risk taking is found to affect the relationship between ownership structure and performance. The risk taking is found to reduce the performance of the banks; suggesting the existence of agency problem related to high concentration of ownership in the banks. Overall, the results show that performance of banks with a concentrated ownership structure depends largely on the identity of the bank owners. Further, unlike some studies that report a negative impact of family-owned banks to performance, the results of this study suggest that family ownership might be an important type of ownership structure for Malaysian banks. However, as all studies have their limitations, the results of this study are limited to the conventional commercial banks of Malaysia only and are not applicable to the Malaysian Islamic banks, as well as other types of banking institutions in Malaysia.

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