

# SHAREHOLDINGS OF NON-PERSONAL INVESTORS IN MANUFACTURING COMPANIES OF MALAYSIA\*

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The importance of non-personal shareholders in Malaysian corporations is widely acknowledged. However, up till now, very little has been known about the nature of these shareowners, their manner of equity ownership (especially their size of holdings hence degree of share concentration), their country of incorporation and how they themselves are controlled i.e. whether Malaysian or foreign. This paper attempts to fill this gap with data compiled from official shareholders' lists of the largest ninety-eight Malaysian incorporated companies engaged in manufacturing, for a point in time 1975-75, which is towards the end of the Second Malaysia Plan period. Some of the empirical findings are then compared with those of a few selected countries.

The introduction of the New Economic Policy (NEP)<sup>1</sup> has aroused new interest in the area of ownership and control in the Malaysian economy. Much of the recent discussion has centred on two main issues. They are the extent of foreign versus Malaysian ownership and the extent of Malay participation amongst the various Malaysian races.<sup>2</sup> This paper attempts to focus on a hitherto neglected but nevertheless important group of shareholders—the non-personal shareowners from Malaysia, including corporations, institutional investors and public sector holders.

## THE PURPOSE

The objectives of this paper are:

- (1) to analyse the relative importance of the various kinds of non-personal shareholders of Malaysia, in terms of their value and number of ordinary shareholdings within the largest manufacturing companies in the country;
- (2) to estimate their extent of concentration in shareownership;
- (3) to analyse their country of incorporation and their control type as officially classified; and
- (4) to make comparisons with a few selected countries.

\*This paper is based on a section of the third chapter of the writer's Ph.D. thesis, 'The Structure of Ownership and Control of Manufacturing Companies in Malaysia, 1974-75', University of Sheffield, 1978.

<sup>1</sup>The New Economic Policy (NEP) as spelt out in the Second Malaysia Plan 1971-75, was introduced in 1971. With its overriding goal of promoting national unity, the NEP contains the twin objectives of eradicating poverty by raising income levels and increasing employment opportunities and second, of the restructuring of society so as to reduce and eliminate the identification of race with economic function through reducing imbalances in income, employment and the ownership and management of productive assets in the economy. See, Malaysia: *Mid-Term Review of the Second Malaysia Plan, 1971-75*, Government Printer, Kuala Lumpur, pp. 1 and 8.

<sup>2</sup>Sieh, M. L., "Size Distribution of Shareholdings in Manufacturing Companies of Malaysia, 1974-75", Fourth Malaysian Economic Convention, Malaysian Economic Association, Kuala Lumpur, May 1977.

## THE METHOD AND DATA

Empirical analysis is performed on primary data obtained from membership registers of the largest ninety-eight manufacturing companies in Malaysia. The criterion for company size follows the 1972 paid-up capital as reported to the Financial Survey of Limited Companies conducted by the Department of Statistics.

Information on a host of variables pertaining to country, race, sex, type, size of holdings etc. are simultaneously coded and transcribed onto code-cum-work-sheets for all ordinary shares held by each and every holding in the ninety-eight companies.<sup>3</sup> All Malaysian non-personal holdings are then checked against the mailing list of the Financial Survey of Limited Companies at the Department of Statistics for their specific type by their industrial classification code, their country of incorporation and their official control type.

Examination of the latest available membership registers was completed in late 1975. As such, the analysis below, relating to one point in time, is based on 1974-75 data. The mass of data collected on more than 100,000 shareholdings was processed to produce cross-tabulations of the number and nominal value of shareholdings by size of holdings.<sup>4</sup>

Before presenting the findings, two qualifying remarks must be made. First, it is not the intention to discuss the measure of inequality used in this paper, namely the Gini coefficient. However, an important assumption underlies the measure, that is the ideal situation of equality is inherently assumed to prevail when no absolute difference between and amongst each and every holding is discernible.<sup>5</sup>

Secondly, it may be appropriate to indicate that the top ninety-eight manufacturing companies accounted for 71 per cent of the paid-up capital, 65 per cent of the total assets, 59 per cent of the current profits and 52 per cent of net fixed assets of all manufacturing companies operating in Malaysia in 1972. Even if smaller unincorporated manufacturing enterprises are included i.e. proprietorships and partnerships, the ninety-eight companies contributed 55 per cent of the sector's net fixed assets and 50 per cent of gross value of output.<sup>6</sup> In other words, the analysis will highly reflect the entire manufacturing sector and more so the manufacturing incorporated subsector.

<sup>3</sup>Although similar data for preference shares and other types of shares are also obtained, they are not analysed in this paper.

<sup>4</sup>The Statistical Package for Social Sciences (SPSS) was used on the IBM 360. The writer would like to thank the staff of the Computer Centre, University of Science, Penang, for their help in data processing.

<sup>5</sup>It is crucial to note that the use of a summary measure of concentration such as the Gini index is valid only if a distribution is *consistently* more equal or less equal to another as visually indicated by the relative positions of their Lorenz curves. As soon as the curves intersect, the summary measure is rendered meaningless and may be used only with reservation. Although the Lorenz curves are not presented, they are nevertheless charted and examined for consistency before the Gini indices in this paper are used.

<sup>6</sup>Figures computed from unpublished data obtained from the 1972 Financial Survey of Limited Companies, Department of Statistics.

## THE FINDINGS

### *Categories of Malaysian Non-Personal Holdings*

Malaysian non-persons, including public sector holdings, account for 73.4 per cent of the ordinary capital attributed to Malaysians whilst taking up merely 4.8 per cent of the number of all Malaysian holdings. Even if all foreign holdings are included, Malaysian non-persons own 38 per cent of the ordinary capital representing 3.3 per cent of the holdings covered by the study. See Table 1.

TABLE 1  
DISTRIBUTION OF NUMBER AND VALUE OF ORDINARY SHAREHOLDINGS BY  
COUNTRY AND CHARACTER OF HOLDING

Character of Holding	Number of Shareholdings		Value of Shareholdings	
	Number	%	\$1,000	%
Malaysians				
Persons	67,600	65.8	159,195.3	13.7
Non-Persons	3,429	3.3	440,074.7	38.0
Subtotal	71,029	69.1	599,270.0	51.7
Non-Malaysians				
Persons	29,552	28.8	85,799.3	7.4
Non-Persons	2,143	2.1	473,606.1	40.9
Subtotal	31,695	30.9	559,405.4	48.3
<b>Total</b>	<b>102,724</b>	<b>100.0</b>	<b>1,158,675.4</b>	<b>100.0</b>

Table 2 shows that of the \$440.017 million worth of ordinary shares owned by Malaysian non-persons, the biggest proportion is held by non-financial corporations engaged in mining, rubber, agriculture, manufacturing and commercial activities and by non-profit institutions established for charity, education, religion or other social cause. That such companies and institutions own the lion's share amongst Malaysian non-persons is not surprising in view of their possible linkages to the more established companies in rubber, tin and commerce through the parent-subsidary device.

Financial companies including banks, insurance, investment trusts and other financial companies, often referred to as institutional investors, come second in importance whilst the public sector, defined as the Malaysian government plus its agencies, ranks third. Although the public sector's ownership is about \$6 million less than that held by financial companies, the small number of public sector holdings implies that on average, public sector holdings must be relatively very large. Indeed, Table 2 shows that the average public sector holding is far greater than those of other holders. Except for the residual category of holdings whose types are not identifiable, nominee holdings are not only the smallest on average, but they also account for the smallest proportion of capital.

It must be noted that trustees are often classified together with nominees in many studies elsewhere. If this were done, fiduciary holdings would account for

TABLE 2  
DISTRIBUTION OF NUMBER AND VALUE OF MALAYSIAN NON-PERSONAL ORDINARY SHAREHOLDINGS BY TYPE AND BY SIZE OF HOLDINGS

Size of Shareholdings (No. of Shares)	Nominees		Financial Companies		Non-financial Companies and Non-profit Institutions		Public Sector		Unclassified		Total	
	No. of Shareholdings	Value of Shareholding (\$1,000)	No. of Shareholdings	Value of Shareholding (\$1,000)	No. of Shareholdings	Value of Shareholding (\$1,000)	No. of Shareholdings	Value of Shareholding (\$1,000)	No. of Shareholdings	Value of Shareholding (\$1,000)	No. of Shareholdings	Value of Shareholding (\$1,000)
Very small (1-1,000)	160	137.1	302	167.7	345	528.1	17	13.3	118	227.8	942	1,074.0
%	23.9	0.3	30.1	0.1	30.2	0.4	6.9	0	32.2	1.7	27.5	0.2
Small (1,001-5,000)	231	643.5	286	1,153.6	348	1,842.1	34	103.9	127	380.2	1,026	4,123.3
%	34.4	1.3	28.5	1.0	30.5	1.3	13.7	0.1	34.7	2.8	29.9	1.0
Medium (5,001-50,000)	184	3,350.9	302	5,490.4	329	7,391.9	77	3,836.8	98	1,666.2	990	21,736.2
%	27.4	6.6	30.1	4.7	28.8	5.1	31.1	3.4	26.8	12.1	28.9	4.9
Large (50,001-800,000)	83	17,111.5	97	19,513.1	91	26,679.8	101	17,302.3	19	4,115.2	391	84,721.9
%	12.4	33.9	9.7	16.5	8.0	18.3	40.7	15.5	5.2	29.9	11.4	19.3
Very large (800,001 and above)	13	29,268.1	16	91,937.8	28	109,218.6	19	90,594.7	4	7,343.0	80	328,362.2
%	1.9	57.9	1.6	77.7	2.5	74.9	7.6	81.0	1.1	53.5	2.3	74.6
Total	671	50,511.1	1,003	118,262.6	1,141	145,660.5	248	111,851.0	366	13,732.4	3,429	440,017.6 <sup>a</sup>
%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Row %	19.6	11.5	29.2	26.9	33.3	33.1	7.2	25.4	10.7	3.1	100.0	100.0
Average Value of shareholding \$	75,277.4		117,908.9		127,660.4		451,012.1		37,520.2		128,322.4	
Gini Index <sup>b</sup>	0.9005		0.9444		0.9235		0.8545		0.8868		0.9253	

<sup>a</sup>Differs slightly from Table 1 due to rounding.

<sup>b</sup>Gini index is computed by the formula based on approximate triangles.

Gini index =  $1 - \sum_{i=1}^n (f_{i+1} - f_i)(y_i + y_{i+1})$  where  $f_i$  = the percentage of total number of shareholdings in the  $i$ th group.  $y_i$  = the percentage of total value of shareholdings owned by the  $i$ th group ( $i = 1, 2, \dots, n$ ).

12.4 percent of the ordinary capital *vis-a-vis* the decline in importance of financial companies by 0.9 percent. The reclassification of trustees (including trust bodies, Public Trustees, executors and administrators of estates of deceased from financial companies) will not alter the order of ranking at all, simply because trustee holdings are very insignificant, accounting for not even 1 percent of the value of ordinary shares owned by all Malaysian non-persons.

### *The Degree of Concentration in Shareownership*

The bulk of the ordinary capital owned by Malaysian non-persons are in very large holdings with more than 800,000 shares each. See Table 2. At the bottom end of the size scale, all types of non-personal holders, except for those unclassifiable, have less than 1 percent of their capital in very small holdings of 1,000 shares and below. In terms of number of holdings, generally, every type of non-personal holders have proportionately more of smaller holdings than of bigger ones. All except public sector holders have more than half of their holdings not exceeding 5,000 share units per holding. The finding that only about a fifth of the public sector holdings may be regarded as small, or the concentration of public sector capital in large holdings, deserves further examination. An interesting question is the relationship between the manner of public sector holding and the restructuring goals of the NEP. However, detailed consideration of this relationship is beyond the scope of this paper. By the Gini indices given in Table 2, financial companies show the highest degree of inequality amongst Malaysian non-personal holdings of ordinary shares, followed by non-financial companies cum non-profit institutions, nominee companies, and unclassifiable holdings. As anticipated, public sector ownership in generally large holdings has the smallest degree of inequality. Although differences in the Gini coefficients are not large, the comparative extent of concentration is nevertheless illustrated.

### *Types of Non-Personal Holders by Their Country of Incorporation and Official Control Classification*<sup>7</sup>

This analysis is possible because all Malaysian non-personal holdings were referred to the mailing list of the Financial Survey of Limited Companies where companies are divided into three lists: (i) those which are Malaysian incorporated and locally controlled, meaning 50 per cent or more of the capital is held by Malaysian residents; (ii) those which are Malaysian incorporated and foreign controlled, where 50 percent or more of the capital is held by non-Malaysian residents, and (iii) those which are foreign incorporated and are under foreign control. The following analysis is carried out for ordinary shares only, according to the order of importance described above.

<sup>7</sup>It must be noted that although the present writer disagrees with the official usage of the word "control" to depict what in fact refers to ownership, the official definitions of control types are applied in this paper as the differences do not materially affect our present objectives which concern ownership rather than control.

(a) *Non-financial Corporations and Non-profit Institutions*

From Table 3a it is found that the biggest proportion of the ordinary capital owned by non-financial companies cum non-profit institutions with Malaysian

TABLE 3a  
DISTRIBUTION OF NUMBER AND VALUE OF ORDINARY SHAREHOLDINGS HELD BY  
TYPES OF MALAYSIAN NON-FINANCIAL COMPANIES AND NON-PROFIT INSTITUTIONS

Type of Non-financial Company and Institution	Number of Shareholdings		Value of Shareholdings	
	Number	%	\$1,000	%
Mining, Rubber and Agricultural Companies	199	17.4	17,960.0	12.3
Manufacturing Companies	108	9.5	55,372.3	38.0
Commercial Companies	282	24.7	49,071.4	33.7
Other Non-financial Companies and Non-Profit Institutions	343	30.1	22,357.6	15.4
Co-operatives	209	18.3	900.0	0.6
Total	1,141	100.0	145,661.3	100.0

addresses comes from manufacturing companies, secondly from commercial and trading companies, thirdly from other non-financial companies and non-profit institutions, fourthly from mining, rubber and other agricultural companies, and lastly from co-operatives. If companies engaged in commerce and trade (e.g. agency houses), mining, rubber and agriculture are reckoned as "traditional" companies in the economy of Malaysia, as much as 46 percent of the ordinary capital attributable to Malaysian non-financial companies and institutions, in the largest manufacturing companies, may well have origins in these more established industries. This tends to disprove Puthuchear's allegation that profits from the traditional sectors which were foreign dominated had a "homing tendency" instead of being re-invested in Malaysia.<sup>8</sup> Hence, the finding from Table 3b that 67.5 percent of the ordinary capital owned by commercial companies and 27.1 percent of that held by mining, rubber and agricultural companies are in turn controlled by foreigners, despite the fact that all these companies are incorporated in Malaysia, is not alarming.

Nevertheless, the observation from Table 3b that of the capital invested by mining, rubber and agriculture companies in the largest manufacturing companies, the bulk of it is owned by locally controlled firms suggests that Malaysian controlled companies from the traditional primary industries do play a significant role in the growth of the manufacturing sector. This complies with conclusions of studies elsewhere that locally controlled companies have a higher

<sup>8</sup>Puthuchear, J., *Ownership and Control in the Malayan Economy*, Eastern Universities Press Ltd., Singapore, 1960, pp. 150-161.

TABLE 3b  
 PERCENTAGE DISTRIBUTION OF NUMBER AND VALUE OF ORDINARY SHAREHOLDINGS HELD BY TYPES OF MALAYSIAN NON-FINANCIAL COMPANIES AND NON-PROFIT INSTITUTIONS BY THEIR CONTROL TYPE AS OFFICIALLY CLASSIFIED

Type of Non-Financial Company and Non-Profit Institution	Malaysian Incorporated Local Controlled		Malaysian Incorporated Foreign Controlled		Foreign Incorporated Foreign Controlled		Total	
	No. of Shareholdings	Value of Shareholdings	No. of Shareholdings	Value of Shareholdings	No. of Shareholdings	Value of Shareholdings	No. of Shareholdings	Value of Shareholdings
Mining, Rubber and Agricultural Companies	88.4	65.3	10.1	27.1	1.5	7.6	100.0	100.0
Manufacturing Companies	82.4	28.6	17.6	71.4	—	—	100.0	100.0
Commercial Companies	87.2	32.5	12.1	67.5	0.7	—	100.0	100.0
Other Non-Financial Companies and Non-Profit Institutions	95.9	98.4	3.8	1.5	0.3	0.1	100.0	100.0
Cooperatives	100.0	100.0	—	—	—	—	100.0	100.0
<b>Total</b>	<b>92.0</b>	<b>45.6</b>	<b>7.5</b>	<b>53.4</b>	<b>0.5</b>	<b>1.0</b>	<b>100.0</b>	<b>100.0</b>

rate of re-investment despite their relatively smaller rate of return as compared to foreign controlled ones.<sup>9</sup>

However, it may be strange to find that manufacturing companies should feature as the biggest source of ordinary capital amongst non-financial companies and non-profit institutions. It is even more peculiar to find that 71.4 percent of the capital value contributed by manufacturing companies originates from Malaysian incorporated but foreign controlled firms; because first, manufacturing companies are relatively young in the economy and secondly, the extent of ownership participation by foreign controlled manufacturing companies is greater than that by foreign controlled companies from the traditional sectors. A possible explanation is that these foreign controlled manufacturing companies which own shares in the companies under study act as parent or holding companies to the latter, whilst they themselves in turn are Malaysian subsidiaries of foreign firms. This may have important implications for the structure of corporate control because for meaningful analysis one has to examine not what is directly seen from membership registers of subsidiary companies but also the dominant voting groups of their parent firms.<sup>10</sup>

The observation that only holdings by co-operatives are 100 percent in organizations that are Malaysian incorporated and locally controlled is to be expected. First, most of the co-operatives are found amongst the rural populace in agricultural activities, such as amongst small scale farmers, fishermen etc. for the benefit of members. Secondly, amongst urban dwellers, co-operatives are commonly formed among civil servants along departmental lines or for a specific social purpose such as for housing. But with not even 1 percent of the capital owned by non-financial companies cum non-profit institutions in co-operatives, the effect of their local control on the overall picture cannot but remain negligible.

It is again not surprising to find that holdings by "other" non-financial cum non-profit institutions are also almost entirely attributable to locally controlled bodies because most of these organizations (such as foundations and funds for education, religion, charity, employees etc.) have objectives geared to the community (plus perhaps a secondary objective related to taxation). It is possible that the small amount of capital contributed by Malaysian incorporated, foreign controlled establishments are owned by Singaporeans from across the causeway.

#### (b) *Financial Companies*

Amongst financial companies with a Malaysian address, it is evident from Table 4a that investment companies account for the bulk of the ordinary capital, followed by insurance companies, trust bodies and banks. Since the most important type of financial shareholders i.e. investment companies are found to be primarily Malaysian incorporated and locally controlled (see Table 4b), the role of locally controlled financial companies in shareownership amongst the largest manufacturing companies seems more important than that of foreign controlled

<sup>9</sup>Chong, S. J., "Are Foreign Firms More Effective Than Local Firms?", *Malaysian Management Review*, Vol. 8, No. 1, April 1973, pp. 31-35; ———, "Foreign Firms Are More Profitable Than Local Ones?", *Malaysian Business*, February 1974, pp. 56-57.

<sup>10</sup>See Chapter VI of writer's thesis.



TABLE 4a  
DISTRIBUTION OF NUMBER AND VALUE OF ORDINARY SHAREHOLDINGS BY  
TYPES OF MALAYSIAN FINANCIAL COMPANIES

Type of Financial Company	Number of Shareholdings		Value of Shareholdings	
	Number	%	\$1,000	%
Investment Companies	529	52.7	106,721.9	90.2
Insurance Companies	96	9.6	7,308.7	6.2
Trust Bodies	366	36.5	4,065.2	3.5
Banks	12	1.2	167.0	0.1
Total	1,003	100.0	118,262.8	100.0

ones. Despite the importance of foreign controlled insurance companies and foreign controlled banks, the smaller weight of insurance companies and banks in all financial investors as a whole renders the effect of foreign financial interests on manufacturing companies insignificant. Further, trust bodies that own shares are mainly under Malaysian control.

(c) *The Government and Its Agencies*

Of public sector ownership, which accounts for about a quarter of Malaysian non-personal capital, it is unambiguous from Table 5 that nearly half is owned directly by the government at either the federal, state or local level. It is also established that such direct government participation, amounting to \$53.8 million, is concentrated in only a few but very large holdings; which suggests the possible motive of governmental control within particular corporations. This is not surprising in industries producing goods for the benefit of society at large such as explosives and ammunition, or for companies engaged in the development of commodities crucial for the economy such as rubber, or for relatively new industries whose development is being encouraged such as pineapple and timber.<sup>11</sup>

But besides direct governmental ownership in the name of the Minister of Finance, indirect participation through a host of statutory bodies and state companies or agencies is equally important. However, it may be more meaningful and revealing to analyse ownership by public enterprises in terms of whether they are organizations established for the purpose of fostering Malay interest or otherwise i.e. not specifically for Malay but other general interest. The former are relatively new organizations established after 1970, whilst the latter are the more conventional statutory bodies supplying essential public services.<sup>12</sup> The findings

<sup>11</sup>There are economic as well as political-economic theories on the extent and pattern of public ownership. For a brief discussion see: Pryor, F., "The Extent and Pattern of Public Ownership in Developed Economies", *Weltwirtschaftliches Archiv*, 2, 104, 1970, pp. 159-186.

<sup>12</sup>For a background to the types, nature and objectives of public enterprises in Malaysia see, Sieh, M. L., "A Frame for Measuring Effectiveness of Public Enterprises, Malaysia", 1974, Meeting of Asian Business Schools, Hong Kong. Subsequently published in *Malaysian Management Review*, Vol. 10, No. 1, April 1975, pp. 21-37.

TABLE 4b  
 PERCENTAGE DISTRIBUTION OF NUMBER AND VALUE OF ORDINARY SHAREHOLDINGS BY TYPES OF MALAYSIAN FINANCIAL COMPANIES  
 BY THEIR CONTROL TYPE AS OFFICIALLY CLASSIFIED

Type of Financial Company	Malaysian Incorporated Local Controlled		Malaysian Incorporated Foreign Controlled		Foreign Incorporated Foreign Controlled		Total	
	No. of Shareholdings	Value of Shareholdings	No. of Shareholdings	Value of Shareholdings	No. of Shareholdings	Value of Shareholdings	No. of Shareholdings	Value of Shareholdings
Investment Companies	93.9	86.3	5.9	13.7	0.2	<sup>a</sup>	100.0	100.0
Insurance Companies	33.3	17.7	5.2	0.7	61.5	81.6	100.0	100.0
Trust Bodies	88.8	83.9	1.1	1.4	10.1	14.7	100.0	100.0
Banks	8.3	21.0	—	—	91.7	79.0	100.0	100.0
<b>Total</b>	<b>85.2</b>	<b>81.9</b>	<b>4.0</b>	<b>12.4</b>	<b>10.8</b>	<b>5.7</b>	<b>100.0</b>	<b>100.0</b>

<sup>a</sup>Negligible.

are presented in Table 5. Detailed examination and comparison of size of holdings tends to suggest that the holdings by Malay interest public enterprises are geared towards spreading ownership in many companies rather than gathering control within a few, although it must not be mistaken that Malay oriented public enterprises own a fragmented lot of very small shareholdings. However, it is difficult to conclude that Malay interest public enterprises are less concerned with corporate control than with ownership because in companies with numerous holdings, as in those quoted on the stock exchange, it does not require a very large holding of the shares to gain or remain in control.

TABLE 5  
DISTRIBUTION OF NUMBER AND VALUE OF ORDINARY SHAREHOLDINGS  
HELD BY THE MALAYSIAN PUBLIC SECTOR

Type of Public Sector Owner	Number of Shareholdings		Value of Shareholdings	
	Number	%	\$1,000	%
Government	20	8.1	53,814.0	48.1
Malay Interest Public Enterprises	174	70.1	48,833.0	43.7
Other Interest Public Enterprises	54	21.8	9,204.1	8.2
Total	248	100.0	111,851.1	100.0

In comparison to direct government ownership and Malay interest public enterprises' holdings, the participation of other public enterprises in equity is insignificant. This is not unexpected because the bulk of whatever funds are available to those authorities will be utilized for their immediate objectives which include provision of services such as electricity, port facilities, shipping, railroad, air, postal, education, housing, social welfare services etc., and the development of important industries such as rubber, tin, agricultural industries, tourism, manufacturing, etc. Little will be left for buying corporate equity except when excess liquidity is invested in the course of financial management (e.g. by universities), hence their relatively small holdings. On the other hand, funds for Malay interest enterprises would probably be partly spent on real resources, such as to acquire land and construct buildings or to train Malays, and partly on financial assets such as to purchase equity shares on behalf of the Malays.

(d) *Nominee Companies*

It is remarkable to find from Table 6 that more than 80 percent of the nominee company ownership is concentrated in the hands of those that are Malaysian incorporated and locally controlled. This observation is logical in the sense that beneficiaries, whoever they are and whatever their motives for employing the legal cloak, are likely to have their nominees as near the market place as possible for convenience or for secrecy. It is found that most of these

TABLE 6  
DISTRIBUTION OF NUMBER AND VALUE OF ORDINARY SHAREHOLDINGS  
HELD BY MALAYSIAN NOMINEE COMPANIES BY THEIR CONTROL TYPE AS  
OFFICIALLY CLASSIFIED

Control Type	Number of Shareholdings		Value of Shareholdings	
	Number	%	\$1,000	%
Malaysian Incorporated, Local Controlled	585	87.2	40,711.6	80.6
Malaysian Incorporated, Foreign Controlled	38	5.7	2,399.3	4.7
Foreign Incorporated, Foreign Controlled	48	7.1	7,400.1	14.7
Total	671	100.0	50,511.0	100.0

nominees are either subsidiaries of security dealers, brokers, Malaysian incorporated commercial banks or linked to solicitors, trustee and insurance companies.

Foreign incorporated foreign controlled nominee companies however comprise in the main branches of nominees which are subsidiaries of foreign banks, many of them from Singapore as well as nominees of British banks. In view of multiple listings of several companies on the stock exchanges of Kuala Lumpur, Singapore, Hong Kong and London, it is not surprising to find foreign incorporated nominees often related to banks participating in the ownership of equity in Malaysian corporations. Moreover, the average holding of such nominees at \$154.2 thousand, which is more than double that for Malaysian controlled nominee companies (at \$69.6 thousand) and for Malaysian incorporated, foreign controlled nominees (at \$63.1 thousand), may have implications for control. With no possible access to identity of beneficiaries, the dominant foreign incorporated nominees may well be in a position to exercise corporate control in Malaysian manufacturing companies unnoticed. This formidable legal cloak certainly draws attention to some of the usual fears associated with large, undisclosed holdings by nominees, such as direct control of assets or behaviour of the company in takeover bids, in manipulation of share prices etc.,<sup>13</sup> especially when the holdings are controlled from abroad.

On the other hand, it is unlikely to find nominee companies that are Malaysian incorporated and foreign controlled particularly concerned with internal corporate control except in relatively small companies. For such nominees own holdings which are insignificant and they are usually Malaysian subsidiaries of Singapore banks or stock brokerage firms on behalf of their clients.

<sup>13</sup>Rappaport, H., "Dangers in Growth of Nominee Companies", *Rydge's*, Sydney, Vol. 48, October 1974, pp. 81-84.

### *Comparison With Selected Countries*

The biggest difficulty in comparing share ownership distribution across countries arises from differences of definitions. Moreover, it is almost impossible to have data for the same point in time. Nevertheless, Table 7 attempts to provide some basis for rough comparative analysis. The most striking finding is that domestic ownership by Malaysians is relatively small, just over 50 percent as compared to nearly 67 percent for Singapore and 95 percent or more for the developed economies of the United Kingdom, Japan and the United States of America. (The Australian figures are not comparable because foreign holdings are presented together with domestic ownership). Conversely, foreign participation in Malaysian companies is definitely more significant than those in Singapore, British,<sup>14</sup> Japanese or American firms.

Invariably, non-persons tend to own more capital than persons amongst both foreign as well as domestic holdings. The only exception lies in American holdings where natural persons in fact account for a proportion of capital greater than their non-personal owners. Perhaps the exception reflects the stage of economic affluence yet to be attained by other countries, bearing in mind that the American data is the oldest in Table 7 (except for Australian data which is not as comparable). Indeed, by considering the share of personal ownership amongst domestic holdings alone, it is found from Table 8 that the percentage varies directly with the degree of economic development. Malaysia, with a large rural sector, deeply involved in agriculture, albeit undergoing modernization, has the lowest proportion of domestic holdings belonging to individuals. Singapore, being an urbanized state, finds itself with a bigger portion i.e. nearly a third of domestic capital held by persons, whereas for Japan and the United Kingdom, both of which have highly developed economies, individuals account for more than 40 percent of domestically owned equity share capital.<sup>15</sup> However, the proportions for the latter two countries are still smaller than their domestic non-personal holdings and they are certainly not as large as the share attributable to American persons (62.4 percent).

Amongst non-personal domestic holdings, it is not easy to decipher clear-cut patterns with respect to the different types of holders from Table 8. However, despite classification differences, both Malaysian and Singapore companies tend to have non-financial corporations taking top position whilst financial institutions take the lead in the United Kingdom, Japan and the United States of America *vis-a-vis* the lesser importance of non-financial corporations. That the proportion of shares held by financial institutions is generally bigger, well above 30 per cent amongst the developed economies (such as Japan and the United Kingdom), than amongst developing countries (such as Malaysia and Singapore) is a striking feature to note. The role of "institutional investors" and the trend towards

<sup>14</sup>The latest available figure for the United Kingdom is 2.9 percent as at 31st December 1975. Erritt, M. J. and Alexander, J. C. D., "Ownership of Company Shares: A New Survey", *Economic Trends*, H.M.S.O., September 1977, pp. 96-107.

<sup>15</sup>The latest available figure for the United Kingdom is smaller at 32.9 percent as at 31st December 1975. Computed from Erritt, M. J. and Alexander, J. C. D., *op. cit.*

TABLE 7  
PERCENTAGE DISTRIBUTION OF SHARE CAPITAL IN MALAYSIA AND SELECTED COUNTRIES

Country	Malaysia <sup>2</sup>	Singapore <sup>3</sup>	U.K. <sup>4</sup>	U.S.A. <sup>5</sup>	Japan <sup>6</sup>	Australia <sup>7</sup>
Year	1974-1975	1975	1973	1965	1970	1957
Sector	Manufacturing	Manufacturing and Trading	General	General	General	Manufacturing
Share/type	Ordinary of Largest 98 Companies in Sector by Paid up Capital	Ordinary of Singapore Registered Companies Quoted on the Stock Exchange of Singapore	Ordinary of Largest Companies Quoted on London Stock Exchange (Beneficial Ownership)	All Quoted Shares on New York Stock Exchange of which 2% are Preference Stock	Shares of Companies Quoted on the First Section of Japanese Stock Exchanges	Shares of Large Voting Share-holdings of 48 Domestic Companies
Domestic Persons	13.7	20.0	42.0	61.1	39.9	41.7
Domestic Non-Persons:						
Financial institutions	10.2	8.1	41.6	15.9	33.5	19.2
Nominees	4.4	18.0	—	17.5	—	3.2
Non-financial corporations	12.6	20.0	8.7	3.4	23.1	35.9
Others	9.7	0.7	2.5	—	—	—
Sub-total	<u>36.9</u>	<u>46.8</u>	<u>52.8</u>	<u>36.8</u>	<u>56.6</u>	<u>58.3</u>
Total Domestic	50.6	66.8	94.8	97.9	96.5	100.0
Foreign Persons	7.4	8.4	NA	NA	0.2	
Foreign Non-Persons	<u>40.9</u>	<u>23.0</u>	<u>NA</u>	<u>NA</u>	<u>3.0</u>	
Total Foreign	<u>48.3</u>	<u>331.4</u>	<u>5.2</u>	<u>2.1</u>	<u>3.2</u>	
Total <sup>1</sup>	<u>98.9</u>	<u>98.2</u>	<u>100.0</u>	<u>100.0</u>	<u>99.7</u>	

128

<sup>1</sup>Due to rounding, some totals do not add up to 100%.

<sup>2</sup>Data from present study.

<sup>3</sup>Ooi, G., "Shareownership Survey" Part IV, *Stock Exchange of Singapore Journal*, June 1976, Table 2, p. 7.

<sup>4</sup>United Kingdom, *Income from Companies and Its Distribution*, Royal Commission on the Distribution of Income and Wealth, Report No. 2, HMSO, Command Paper 6172, July 1975, Table 10, p. 17.

N.B. If recorded ownership is taken instead of beneficial ownership, the figures for every category will decline whilst nominees will show up as owners of between  $\frac{1}{4}$  and  $\frac{1}{5}$  of the share capital. The proportion was 19.2% in 1966 (Revell, J. and Moyle, J., *The Owners of Quoted Ordinary Shares*, University of Cambridge, Chapman & Hall, 1966) and 25.5% in 1975 (UK, Royal Commission on the Distribution of Income and Wealth, *op. cit.*, Table 2, p. 10).

<sup>5</sup>New York Stock Exchange, *Census of Shareholders 1965*, cited in Revell, J. and Moyle, J., *op. cit.*, Table 1.2, p. 8.

<sup>6</sup>Japan, Ministry of Finance, *Share Distribution Status Survey*, cited in Miyazaki, Y., "The Japanese Type Structure of Big Business", *Japanese Economic Studies*, Vol. 1, No. 1, Fall 1973, Table 3, p. 22.

<sup>7</sup>Wheelwright, E. L., *Ownership and Control of Australian Companies*, Law Book Co. of Australasia, Australia, 1957, Table 111F, p. 57.

TABLE 8  
PERCENTAGE DISTRIBUTION OF DOMESTICALLY HELD ORDINARY SHARE CAPITAL IN MALAYSIA AND SELECTED COUNTRIES<sup>1</sup>

Country	Malaysia	Singapore	U.K.	U.S.A.	Japan	Australia <sup>2</sup>
Year	1974-75	1976	1973	1965	1970	1957
Domestic Persons	27.1	29.9	44.3	62.4	41.4	41.7
Domestic Non-Persons:						
Financial institutions	20.1	12.1	43.9	16.2	34.7	19.2
Nominees	8.7	27.0	—	17.9	—	3.2 <sup>3</sup>
Non-financial corporations	24.9	29.9	9.2	3.5	23.9	35.9
Others	19.2	1.1	2.6	—	—	—
Sub-Total	<u>72.9</u>	<u>70.1</u>	<u>55.7</u>	<u>37.6</u>	<u>58.6</u>	<u>58.3</u>
Total Domestic	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

129

<sup>1</sup>All column headings and footnotes for Table 7 similarly apply to this table.

<sup>2</sup>Foreign holdings included with domestic holdings.

<sup>3</sup>A more recent publication shows that nominee companies hold at least 8.03% of the issued ordinary capital of the 100 largest companies in Australia (by examining the largest 20 shareholders). However, the same source shows financial institutions own but 12.94% of ordinary capital. Rappaport, H., "Dangers in Growth of Nominee Companies", *Rydge's*, Sydney, Vol. 48, Oct. 1974, pp. 81-84.

“financial capitalism”, crucial in developed countries, are certainly less important in Malaysia.<sup>16</sup>

Between Malaysia and Singapore at least three observations may be discerned.

(1) An outstanding finding is that Singapore has about three times the proportion of domestically held capital in the name of nominees as Malaysia. Even if the Malaysian proportion is adjusted to include holdings of trustees, so as to be comparable with the Singapore definition, the former would have an additional 0.6 percent totalling 9.3 percent, instead of 8.7 percent, whilst the Singapore proportion remains at as high as 27 percent. A possible explanation may be due to the fact that Singapore is a longer established financial centre than Kuala Lumpur, the up and coming federal capital of Malaysia. Since the nominee device affords not only convenience to overseas beneficiaries but more importantly provides a shield for important manoeuvres of corporate control and share price manipulations, it is not surprising to find a freer use of nominee facilities in the more experienced market. However, it is expected that on the Malaysian scene, such devices will be employed to a greater extent in the near future for two reasons. First, as the money and stock markets grow in sophistication, nominee devices are bound to be increasingly used for the usual reasons just stated. Second, it is believed that the nominee device, being an effective way of remaining undisclosed within the existing legal framework,<sup>17</sup> will play a vital role as an interpersonal device for obtaining or maintaining internal corporate control, in the light of the new laws for ensuring attainment of the NEP, such as the Industrial Co-ordination Act and the Petroleum Development Act. This point cannot be dealt with at length here.<sup>18</sup>

(2) It does appear strange that Singapore financial institutions, operating in a more established financial centre, should have a smaller proportion of domestically held capital when compared to those of Malaysia. To match the two sets of figures more closely, two adjustments to the Malaysia figure must be made. As already explained, 0.6 percent of Malaysian domestically held capital in trustees may be subtracted from that classified under financial institutions. Further, it can be computed from earlier tables that a great part of another 3.9 percent of Malaysian domestically held holdings in fact belongs to non-profit institutions. This figure, now included under non-financial corporations, may be added to that for financial institutions so that by definition, Malaysian and Singapore “institutional” holdings are as close as possible in meaning. Combining both the steps, Malaysian institutions—financial plus non-financial—should own 23.4 percent of domestic capital. The difference between the two countries would therefore be bigger than what is shown in Table 8; the adjustments result in Singapore

<sup>16</sup>(a) Baum, D. J. and Stiles, N. B., *Silent Partners: Institutional Investors and Corporate Control*, Syracuse University Press, 1965.

(b) Fitch, R. and Oppenheimer, M., “Who Rules Corporations? The Resurgence of Finance Capital”, Part I, *Socialist Revolution* Vol. 1, 1970, pp. 74–107; Part II, Vol. I, 1971, pp. 61–114; Part III, Vol. 2, 1971, pp. 33–94.

<sup>17</sup>Perhaps with the exceptional conditions as specified under section 69A of the *Companies Act 1965 (Revised 1973)*, Malaysia.

<sup>18</sup>See Chapters VI and X of writer's thesis.



institutions having only half the proportion their Malaysian counterparts have of domestic ownership.

However, if one chooses to define nominee holdings in a broader sense as holdings for and on behalf of another, i.e. to include quasi-nominee companies such as trustee companies, insurance and assurance companies, investment companies, etc.,<sup>19</sup> Singapore will have a greater portion of domestic capital held in nominees and quasi-nominees than Malaysia, with 39.1 percent and 32.7 respectively. Then, generally between the two countries, notwithstanding foreign ownership, the distribution of share capital amongst persons, quasi-nominee and non-financial corporations would be about the same, if not for the phenomenal participation of the Malaysian government and its agencies. This leads to the next observation.

(3) The figures for Malaysia and Singapore from Table 8 tend to suggest that public sector ownership of shares in the former is nearly 20 times more significant than in the latter. "Others", denoting primarily the public sector, rank more importantly than nominees in Malaysia, accounting for 19.2 percent of the equity compared to a mere 1.1 percent of "others" in Singapore. No mention was made of governmental holdings by the investigator for Singapore, whilst the same investigator in conducting a pilot study for Malaysia did not hesitate to include "government agencies" under the category "institutions".<sup>20</sup> The reason is because the Singapore data includes only companies listed on the Singapore Stock Exchange and not because government participation is unimportant,<sup>21</sup> whereas the Malaysian data includes companies both quoted and unquoted on the Kuala Lumpur Stock Exchange.

In view of the immense task which the Malaysian government has taken on itself to restructure society, including reallocation of shares equity ownership, it is not surprising to find public agencies owning a considerable proportion of wealth for the relatively poorer group, namely the Malays. In fact, most if not all of the agencies created to foster Malay interest came into existence only in the 1970s. They own equity on behalf of the Malays, for ownership as well as control would be passed into private hands as soon as the Malays are ready to take over. However, up till now it is not known what exactly is meant by "readiness" nor how the transference process is to be effected. Perhaps the bigger problem is to ensure maintenance of the ratio of 30 percent ownership by the Malays after they have taken over. Attempts are currently being made to look into this problem i.e. to ensure 30 per cent Malay ownership, e.g. the possibility of establishing a separate stock exchange for trading stocks meant for the group only. Undoubtedly such restrictive trading would have serious implications for the value of the stocks exchanged, not to mention the effects on development of the capital market as a whole.<sup>22</sup>

<sup>19</sup>Though not common, this definition is sometimes used to avoid drawing the line between strict nominees and financial institutions acting on behalf of their clients. For example, see Rappaport, H., *op. cit.*, p. 81.

<sup>20</sup>Ooi, G., "Shareownership Survey of Malaysian Incorporated Companies", *Stock Exchange of Singapore Journal*, April 1977, Table 2, p. 19.

<sup>21</sup>See Rowley, A., "Dynamic State Role Queries", *Far Eastern Economic Review*, 28th October 1977, pp. 36-40.

<sup>22</sup>For further discussion, see Chapter X of writer's thesis.