PROSIDING PERKEM VI, JILID 1 (2011) 502 – 511
ISSN: 2231-962X

The Bumiputra's Corporate Achievement in Malaysia: A Voting Power Perspective

Norkhairul Hafiz Bajuri
Faculty of Management
Universiti Teknologi Malaysia
81310 Johor, Malaysia
hafiz_bajuri@hotmail.com

Shanti Priya Chakravarty
Bangor Business School
The University, Bangor
Gwynedd, LL57 2DG, UK
s.p.chakravarty@bangor.ac.uk

ABSTRACT

Independence from the British led to a serious economic inequality in Malaysia between the ethnic Bumiputra and the minority ethnic Chinese community. Consequently, a race-based affirmative economic action policy was announced in 1970. The policy had two objectives, to address this economic imbalance and to restore national unity. An important corporate aim of this policy was for the Bumiputra to share at least 30 percent of the country's corporate equity. This corporate aim continues to be regarded as an important agenda of the subsequent economic policies. In 2006, the Centre for Public Policy Studies (CPPS) argues the target as has been successfully achieved, in clear contrast to the estimate made by the country's Economic Planning Unit. The centre calls for the ending of this policy. The corollary was heated debates and discussion from both ethnic groups. In this study, this discussion is extended into corporate control by introducing an almost ignored concept in Malaysia's corporate analysis – the voting power. This study found achievement in corporate control as lower than achievement in corporate equity.

Keywords: Corporate Control, Corporate Equity, Malaysia, Bumiputra, Voting Power, NEP.

INTRODUCTION

Malaysia is a story of melting pot of humanity of various cultures and religions struggling to live peacefully with one another. It is a story where upon disintegration a new formula is seek as a panacea to this pandemic but now the similar formula is being disputed and viewed as the root source of the country's disintegration. This malady is not a recent phenomenon, but is deeply rooted in history, far preceding the said solution. Soon after independence, when one ethnic community was incapable to compete economically with the other group, resentment and eventually rage crept in. The outcome of this inter-ethnic disparity in income and wealth was the short but bitter inter-ethnic racial violence. This divisive disparity was clearly an issue that had to be addressed, and economic policies for over four decades placed a great significance on this aspect of economic development.

The grand formula addressing this inequality is an affirmative economic action policy addressed firstly in the New Economic Policy (NEP) and later mostly continues under the National Development Policy (NDP) and National Vision Policy (NVP). In 2010, a New Economic Model (NEM) was announced, refocusing the agenda to transforming Malaysia into a high-income nation without actually abandoning the need to help the Bumiputra community. In the corporate sector, achieving 30 percents corporate equity[i] remains an important barometer of success for the Bumiputra community.

For the past a few years, the progress made by the Bumiputra has spawned much political interests, debates and discussions. The catalyst was the report by the Centre for Public Policy Studies (2006) (CPPS, 2006). The centre argues the 30 percent targets as has been successfully achieved, in clear contrast to the government's official estimates. The centre calls for the ending of the preferential treatment to the Bumiputra. Naturally, the government maintain the reliability and the validity of its estimates. The then prime minister condemned the CPPS report as baseless much to the dismay of sections of ethnic Chinese community who view race-based affirmative action policy as an unfair form of economic discrimination, unjustly imposed against them[ii]. Since the publication of this report, review of affirmative economic policy has received wide range of supports especially from the non-Bumiputra, and expectedly fierce objections from many sections of the Bumiputra. Apparently, the crux of the discontentment is on the state of corporate equity achievement. In this respect, the purpose of this study is to provide alternative dimension into the whole debate by shifting the focus from corporate equity ownership to corporate control, hoping that the later can further enlighten our understanding on the whole issue of Bumiputra corporate equity saga

BACKGROUND TO MALAYSIA CORPORATE ACHIEVEMENT DISPARITY

As a brief background, Malaysian population is made up of three main ethnic groups: Bumiputra[iii] (65 percent), Chinese (26 percent) and Indians (8 percent) and each of this ethnic group is generally accepted as having a very distinctive and dissimilar culture[iv] (Juo, 2002). The centrality of corporate equity distribution to this country is deeply rooted in the economic and social background of these inhabitants.

The Bumiputra is widely considered as the earlier population while the Chinese and the Indians are the recent arrivals. The Chinese and Indians arrived in the then Malaya[v] in the early 19th and 20th century to work largely in the tin mines and in the plantations sectors. Life at that time was generally peaceful. The real seed of discontentment started after independence from the British in 1957. When the colonial master left the country, what followed was a reduction in their participation in local business activities. This situation represented new business opportunities to the local population. Naturally, the Chinese who resided predominantly in the thriving coastal urban towns were quick to grab the opportunity to the exclusion of the Bumiputra, many of whom lived in the underdeveloped parts of the country lacking in exposures to business and trade. Consequently, the Chinese were wealthier than other ethnics groups were. The Malays, who formed the majority of the Bumiputra, meanwhile continue to live below poverty level mostly as subsistence farmers in rural villages lacking exposures to commercial activities. Eventually, the rising wealth gap and lack of social integration created distrusts between these two ethnic groups. The peak culminated into the short but tragic racial violence[vi] of 1969.

Obviously, the status of ‘special position’ to protect the Bumiputra upon conferment of citizenship to the Chinese and the Indians lucidly stated under Article 153 of the Federal Constitution was inadequate to overcome this economic disparity. The government[vii] later initiated a series of economic policies to reduce this wealth gap and restore national unity. In 1970, the New Economic Policy (NEP) was announced. An important and controversial element of the policy is the Industrial Coordination Act 1975 requirement for manufacturing companies of certain size to obtain license prior to operation, a policy deemed by the Chinese commerce as attempt at controlling their progress (see Yasuda 1991). Another important policy is the requirement of Malaysia Securities Commission for 30 percents of the company’s shares to be allocated to the Bumiputra for all companies seeking listing in the stock exchange[viii].

Fourty years on, Malaysia is now a relatively peaceful country, despite unabated grumblings and dissatisfactions towards this policy. The overall handling on this controversial matter was a considerable success (McKay 2006). The NDP although continues to accord privileges to the Bumiputra was in fact better accepted in comparison to NEP (Heng, 1997). Nevertheless, it is no denial that suspicion, squabbles and communalism is rife in Malaysia (e.g. Brown, 2005; Haskell 2005) with many especially the non-Bumiputra seeing this affirmative policy as a form of discrimination and not a binding ties (Jomo, 2004). Recently, following the CPPS report in 2006, this misunderstanding has amplified.

CENTRE FOR PUBLIC POLICY STUDIES (2006) REPORT ON CORPORATE EQUITY

The Centre for Public Policy Studies (CPPS) is a non-governmental organisation that addresses issues related to social and economy in Malaysia[ix]. In particular, it views the NEP and NDP objective of increasing the Bumiputra group corporate equity ownership to 30 percent as a target successfully achieved, in clear contrast to the government’s official position. Accordingly, the centre calls for the ending of affirmative economic action policy.

The central reason, according to the CPPS is that a number of companies are under the control of the government i.e. government-linked, and since the government is predominantly represented by the Bumiputra, these companies are also technically controlled by this community. As per this basis, the CPPS estimates that the Bumiputra's corporate equity ownership as surpassing 45 percent – rebuking the 18.7 percent reported by the government's economic planning unit (EPU).

The other reason is the success of various government agencies such as Bursa Malaysia, Ministry of International Trade and Industry, Securities Commission and Foreign Investment Committee in ensuring the target is achieved. Some important policies that benefit the Bumiputra are the requirement for 30 percent equity to be allocated to this community for any company seeking listing in the Malaysian Bourse and the issuance of licences in the privatisation exercise. In addition, the CPPS claim that the 1997 financial crisis has eroded the ethnic Chinese equity more than that of ethnic Bumiputras community. The crisis resulted in bank consolidation exercises that reduced the Chinese community's corporate ownership.

According to the CPPS, the case for rescinding the NEP has added benefit. It encourages foreign and domestic investments. Presently, the centre is wary of the safety of foreign investments in this country. Additionally, helping all companies regardless of ethnicity encourages entrepreneurship. In this respect, the report claims that some of the non-Bumiputra companies could have grown into bigger companies, able to compete internationally. This level playing field not only encourages entrepreneurial spirit in the country it also sets fair competition among the Bumiputra entrepreneurs themselves. The report in essence implied that the government has purposely undervalued this corporate equity achievement in order to continue the Bumiputra's economic privilege and, in doing so has hindered economic progress.

Expectedly, in multi ethnic country, this report was a sensational fodder for the political opportunists and agitators alike. Unsurprisingly, the economic policy is often misconstrued with the Federal Constitution[x]. Some sections of the Bumiputra consider questioning the NEP as attacking[xi] the Federal Constitution and as attempts to renegade on what they see as the sacred social contract agreed by the country's ancestors that protects their economic privilege in return for granting citizenship to the non-Bumiputra, agreed on the eve of independent from the British. To some of them the CPPS intention was irresponsible and as challenging the government's authority and as having ulterior motive[xii]. There was even some worrying suggestion that certain quarters of the Bumiputra is threatening ethnic Chinese[xiii] with another racial violence similar to that of 1969.

The Chinese, at the other spectrum, especially the second and third generation of the descendents abhor this special privilege arrangement. These later generations argue as citizens that were born and raised in this country, they should not be treated any differently. The CPPS report on the success of the NEP, propagated further by claims that the government deliberately under estimates this success in order to protect the Bumiputra elites[xiv], certainly fortifies this derision towards affirmative economic action plan. They insist on the implementation of a fairer economic system that is based not ethnicity, but on merit, *a-la* the Singapore's system.

Certainly, both sides of the community have their own arguments. It is not the intention of this study however, to imbued further suspicions by elaborating on the accuracy of the government reports versus the CPPS reports or the merits of each ethnic community's argument or the effectiveness of race-based affirmative economic action policy. Not that these issues are less important; they are left to political scientists and economists in another academic venture. This study aims to move the focus of analysis, and debates for that matter, away from accuracy of corporate equity estimates to the relationship between these estimates and corporate control. In this respect, the concept of voting power is central to this study.

VOTING POWER CONCEPT

The CPPS report was based on the percentage of equity ownership. In theory, for studies that employ such basis, the percentage represents the shareholders right and risk. In practice, it is often referred to as the cash flow right (e.g. Zuani and Napier 2006), simply because it is the share of cash such as dividends, warrants, share options and anything of similar value that a shareholder will get from his/her participation in the company. In the case of the CPPS, the Bumiputra percentage of cash flow right is based on issued share price as a replacement for market share price. The basis is acceptable since the focus is on percentages or relative size of ownership and not the value of the ownership. After all, it is fair to accept that over large number of companies the relative size of ownership is expected to converge to similar ratio to that is based on the market share price. Regardless, the perspective is when the Bumiputra own 40 percent share in a company they own 40 percent of the company's worth.

An alternative way of looking at this corporate equity ownership issue is by analysing what this 40 percent share represents from the perspective of corporate voting exercise. In particular, will this shareholder win the company's election? To understand this it is necessary to understand the concept of voting power.

The concept is not new; it has been around for over half a century when it was first introduced by Penrose (1946). Today it is widely used in political studies e.g. Algaba et. al., (2007), Felsenthal et. al., (2003) and Kauppi and Widgren (2006) but is hardly applied in Malaysia's corporate analysis studies. In general, the concept is simple and can be understood by people seriously interested in understanding new dimension of corporate control. Precisely, it is based on the concept of probability. This means, having 40 percent of shares therefore does not guarantee the shareholder a 40 percent chance of winning of an election. The probability has to be calculated.

To illustrate the above point let us now calculate the probability of this very simple example. Assume that at the annual general meeting (AGM) a simple majority i.e. more than 50 percent votes is required to approve a policy. Now obviously a shareholder with 40 percent votes will lose and a shareholder with 60 percent shares will win this election. Allocating figure to reflect this result, the voting power of 'A' is nil or '0' since it loses this election while the voting power of 'B' is absolute or '1' since it wins this election. To sum up, 'A' corporate equity is 40 percent but his voting power is '0' while 'B' corporate equity is even though is only 60 percent comes with absolute voting power i.e. '1'.

Let us now extend this concept to a voting rule where a super majority i.e. more than 2/3 or 66.7 percent is required to pass a resolution. In this scenario, 'A' will always need 'B' to get pass the 66.7 percent threshold requirement. Likewise, 'B' will always need 'A' to achieve the similar objective. In this situation, since 'A' and 'B' always need each other despite their unequal size, the voting power is 0.5 for each voter. A few lessons can be learnt from this simple illustration; voting power is not necessary proportionate to size of shareholding and secondly this power varies according to the rules on the majority requirement. These are summarised in the following table.

Penrose index

The above example introduces the concept of probability in voting power analysis. In practice, there are variations on the application of this concept. The concept in practice is represented by a few indices and Penrose index[xv] is one of them. The probability as in this index is measured as the number of times a voter is important (often called pivotal) to form winning partnerships (often called coalition) over the total number of coalitions involving that voter. Determination of pivotal is essential in voting power concept. In a precise definition, it is when withdrawal of support from a voter will result in a winning collation turning into a losing coalition.

Suppose there is a company with ownership distribution that mimics the composition of Malaysian populations, Bumiputra 65 percent, Chinese 26 percent and Indians 9 percent and assume a simple majority of more than 50 percent is required to win an election. The following TABLE II list all the winning coalitions and the pivotal votes (underlined). There are four winning coalitions altogether i.e. those coalitions that manage to accumulate shareholdings exceeding 50 percent. Although there are four winning coalition none of the ethnic is pivotal except the Bumiputra. In total the Bumiputra is pivotal in four coalitions the Chinese and Indians is pivotal in none of the coalitions. As the number of coalitions, involving each ethnic shareholder[xvi] is four, the Penrose index is the Bumiputra = 4/4 or 1, Chinese = 0/4 or 0 and Indians = 0/4 or 0.

Assume there is another company – Malaysian Plc 'B' with the following composition; Bumiputra 40 percent, Chinese 40 percent and Indians 20 percent with a similar majority requirement rule as the previous illustration i.e. simple majority. In this illustration (TABLE III), four winning coalitions are present i.e. those exceeding the 50 percent requirement. Nevertheless, pivotal shareholders are only present in three of them. As for the pivot, each shareholder is pivotal twice hence, the voting powers are the Bumiputra 2/4, the Chinese 2/4 and the Indians 2/4. This example illustrates the unpredictable relationship between size of ownership and voting power. The Bumiputra corporate equity size, despite twice that of ethnic Indians has voting power equal to that of the Indians.

The voting power in the above illustration range from zero to one and can be translated as between powerless to absolute power while anything in between reflects power sharing. The logic is simple, as an example in Malaysian Plc 'A' the Bumiputra who owns 65 percents of the share have absolute voting power while in Malaysian Plc 'B' the Bumiputra owns 40 percent share hence the power is shared.

While this is easily observed, it is in situation as the ethnic Indians in Malaysian Plc 'B' that the calculation of the index is beneficial i.e. will the Indians 20 percent corporate equity provide any voting power? Additionally, as the number of shareholders increases the number of coalition increases exponentially[xvii]. The analysis become prohibitive as the number of shareholders increases, hence the need to understand the technical aspect of this index in order to produce an accurate spreadsheet functions[xviii] or mathematical equations.

Suppose the issued share capitals for Malaysian Plc 'A' and 'B' are RM4billion and RM0.4billion respectively. The relationship between equity ownership and corporate control is summarised in the following TABLE V. The framework permits investigation of mismatch between corporate equity ownership against the level of operational corporate control. As an example, although the Bumiputra equity ownership is 62.7 percent, they have absolute or full decision-making ability only on 50 percent of the companies (column 4).

DATA AND RESEARCH METHODS

This study is based on a randomly selected sample of 203 companies listed on the Main Board of Bursa Malaysia for the year ended 2005. Data on ownership size were hand-collected from compilation of annual reports available on the Bursa Malaysia website in particular from four sections: the list of thirty largest shareholders, the substantial shareholders, the director's shareholding and the director's background information. This information is the requirement of the Listing Requirement of Malaysian Bourse (2001).

Corporate equity size of each group of shareholder was the combination of actual shareholdings in the list of the top thirty shareholders and the estimates of the small shareholders. The estimates of the small shareholders were based from the trend of the last ten shareholders in the list of thirty largest shareholders. The total corporate equity size formed the basis for calculating the voting power index of each group of shareholder. The salient point of the analysis and assumption is as per APPENDIX I.

CORPORATE EQUITY OWNERSHIP VERSUS CORPORATE CONTROL

The following TABLE VI summarises the findings.

As for corporate equity ownership[xix], the Chinese is the largest owner. The distribution is as follows: the Chinese 35.8 percent, the government 21.7 percent, the Bumiputra 18.3 percent, the foreign investors 21.1 percent and the Indians 3.1 percent (TABLE VI, Column 2).

As for corporate control, the Chinese has the most controls. On absolute corporate control, the distribution is as follows: the Chinese 58.6 percent, the Bumiputra 7.4 percent, the government 5.4 percent, ethnic Indians 1.0 percent and foreigner 10.8 percent (TABLE VI, Column III). On corporate control where decision is shared, the Bumiputra and the Chinese control are at 13.3 percent respectively. The rest of the distribution is as follows: the government 10.3 percent, the Indians 3.4 percent and the foreign investors 13.8 percent.

On the subject of intra-ethnic mismatch between corporate equity and control, this is observed for all groups of shareholders with the Chinese enjoying more level corporate control than the corporate equity, at 58.6 percents corporate control for 35.8 percent corporate equity. For the other groups the level of corporate control is less than the corporate equity. The findings are: the Bumiputra 7.4 against 18.3 percent, the government 5.4 against 21.7 percent, the foreign investors 10.8 against 21.1 percent and the Indians 1.0 against 3.1 percent. In summary, mismatch between corporate equity and corporate ownership is observed.

(The Bumiputra lower level of corporate control can be explained by the spread of investments. The Bumiputra capital sampled is much lower than ethnic Chinese but is spread over large number of companies[xx]. In other words, the Bumiputra ownership is less concentrated than the Chinese hence has lesser control than the Chinese does.)

CONCLUSION

It is unfortunate that Malaysia, at the turn of the 21st century is not experiencing the rise in national harmony, but rather of communal politics. Exacerbating this sad impasse is the report by the CPPS in 2006 on the state of Malaysia's corporate equity ownership. Since then, many sections of the society seek to discern the truth. Is it true that the Bumiputra of today holds more than 30 percents of corporate equity? This study however, does not seek to answer this question, less so to perpetuate this ethnic sentiments malady, but to encourage meaningful discussions, if ever there is. The equity figures presented both by the government and the CPPS may both be accurate in their own ways. The findings, in the larger scheme of things however, are inconsequential. It is inconceivable for an analysis to be confined to the size of corporate equity ownership while ignoring the operational control aspect of a company. As have been illustrated in this study, size of equity ownership is a poor proxy of corporate control. It is therefore crucial to analyse this size in tandem with the level of corporate control and observe whether such mismatch exists. With that as the first objective, this study has discussed the concept of voting power and introduced a new framework for analysing Bumiputra's corporate achievement. The second objective is to describe the possible existence of this mismatch. Evidently, the Bumiputra's corporate success as measured by the level of corporate control is substantially less than the level of corporate equity ownership. While some readers may dispute the need to analyse corporate equity versus corporate control since they are in the first instances representing different categories of achievement, this study is of the opinion that it serves to draw attention to the theoretical schisms between them, which for some time have been confounded. Readers however should be conscious, while the conclusions are correct; these are achieved without analysing the dynamic relationships among the shareholders, particularly the Bumiputra business relationships with the government and the effect of small shareholders inactivism. Clearly, further in-depth studies are indispensable to our understanding of Bumiputra corporate achievement saga.

END NOTES

[i] Since the inception of the NEP this figure is generally accepted as the target and is often used for reference in many debates and discussion. The origin however is not clear as this has never been stated as a formal target in any government document or economic policy.

[ii] Former Prime Minister Abdullah Badawi comments as published in Retrieved from http://sun2surf.com/article.cfm?id=15726 and http://sun2surf.com/article.cfm?id=15753 9 Oktober 2006 and comment by Roonie Liu's a central committee member of Democratic Action Party a main opposition party from the ethnic Chinese. Retrieved from http://www.malaysiakini.com/letters/58050 11 Oktober 2006.

[iii] As per Census 2000 and population is as estimated in early 2007. Retrieved from http://www.statistics.gov.my/ 11 January 2007.

[iv] They are identifiable by their own language and religion. Although Malays is the official language each ethnic has its own language which is taught in school and is widely used in the community. The widely spoken Chinese dialect is Mandarin and Hokkein while ethnic Indians speak Tamil. The Malays are mostly Muslims while other Bumiputras could be of any religion. The Chinese and Indians are mostly Buddhist and Hindus respectively but could also be Christians.

[v] The name has changed to Malaysia and part of Borneo namely Sabah and Sarawak constitute the country and the population size stands at around 27 million populations. Retrieved from http://www.statistics.gov.my/ 11 January 2007.

[vi] Milne (1976) however suggested this clash was more political rather than economic and social. Similarly, Kuo Kia Soong (2008) argues the riot was a conspiracy by UMNO to declare a state of emergency and gained control of the government following their loss in the 1969 general election.

[vii] Led by the UMNO, a main Bumiputra party that lead a coalition of parties that won the mandate to form the government since winning back the election in the post 1969 racial crisis.

[viii] This however has recently been relaxed in situation where upon being offered there are no takers of this allocation.

[ix] As per CPPS. Retrieved from http://www.cpps.org.my/sub_page.aspx?catID=1&ddlID=8

[x] The NEP, NDP, NVP and NEM are economic plans; although they provide preferential treatment to the Bumiputra are not parts of the constitution.

[xi] As highlighted by the former Prime Minister- Dr. Mahathir Mohammad. Retrieved from http://test.chedet.com/che_det/2008/09/the-social-contract-3.html#more 10 September 2008.

[xii] e.g. Former Prime Minister Datuk Seri Abdullah Badawi and Tan Sri Mohyiddin Yassin, the present Deputy Prime Minister in their criticism of CPPS report. Retrieved from http://sun2surf.com/article.cfm?id=15726 and http://sun2surf.com/article.cfm?id=15753 9 Oktober 2006

[xiii] E.g. Roonie Liu Central Committee Member of Democratic Action Party main opposition party from the ethnic Chinese Retrieved from http://www.malaysiakini.com/letters/58050 11 Oktober 2006.

[xiv] E.g. Prof. Khoo Kay Kim, a prominent historian, is less critical on ethnic issue, instead suggesting that the understatement of the Bumiputra equity achievement is to avoid explanation to the poor

Malays. Retrieved from http://www.malaysiakini.com/letters/57791 Website of Malaysiakini 5 Oktober 2006.

xv The other two popular indices are the Shapley-Shubik index and the Banzhaf index.

xvi E.g. for the Bumiputra shareholders the coalitions are: Bumiputra alone; Bumiputra and Other Malaysians; Bumiputra and Foreigners; Bumiputra and Other Malaysians and Foreigners.

xvii i.e. 2^n where n is the number of shareholders. Example if n = 5 the number of coalition is 32 while when n=6 the number of coalition is 64.

xviii In this respect, the function is developed on a spreadsheet based on an Excel programme.

xix Detail comparison to EPU estimates are hindered due to differences in classification, in particular EPU classified shareholders into Bumiputra, Chinese, Indians, others, nominees companies, locally controlled firms and foreigners. EPU does not specifically classified government shareholdings. As a comparison, for the year 2004 EPU estimates equity for ethnic Bumiputra is 18.7%, Chinese 40.9%, Indians 1.5% and Foreigners 28.8%. Source: CPPS 2006.

xx In particular, for the Bumiputra the sampled capital size of RM9.5 billion was spread over 185 companies while for the Chinese RM18.6 billion was spread over 193 companies i.e. about the same number of companies. Because of this spread, average percentage of ownership per company is lower for the Bumiputra than the Chinese. Consequently, the Bumiputra corporate ownership only controls 7.4 percent of the companies.

REFERENCES

Algaba, E. Bilbao, J. M. Fernandez, J. R. (2007). The distribution of power in the European constitution. *European Journal of Operational Research, 176*, 752-1766.

Bursa Malaysia Listing Requirement (2001). Website of Bursa Malaysia. Retrieved from http://www.klse.com.my/website/bm/rules_and_regulations/listing_requirements/downloads/LR_MBSB.pdf

Brown, G. K. (2005). *Balancing the risk of corrective surgery:the political economy of horizontal inequalities and the end of new economic policy in Malaysia*. Working Paper, Centre for Research on inequality, human security and ethnicity, Queen Elizabeth House Oxford. Retrieved from http://www.crise.ox.a.uk.

Centre for Public Policy Studies. (2006). *Corporate Equity Distribution: Past Trends and Future Policies*. Website of Centre for Public Policy Studies. Retrieved from http://www.cpps.org.my/downloads/D_%20Corporate_Equity_Distribution.pdf

Felsenthal, D. S. Machover, M. Leech, D. List, C. (2003). In defence of voting power analysis. *European Union Politics, 4* (4), 473-497.

Haskell, J. (2005). Racial Politics, Power and Dominant Party Autocracy in Malaysia, *Stanford Journal of International Relations, 6* (1).
Retrieved from http://www.stanford.edu/group/sjir/6.1.07_haskell.html

Heng, P. K. (1997). The New Economic Policy and the Chinese Community in Malaysia. *The Developing Economies, XXXV* (3), 262-92

Jomo, K.S. (2004). *The New Economic Policy and Interethnic Relations in Malaysia*. United Nations Research Institute for Social Development. Identities, Conflict and Cohesion Programme Paper Number 7. September

Juo, Y. L (2002). A Structural Analysis of the 1999 Malaysian General Election: Changing Voting Preference of Ethnic Chinese and Malay Groups and Party
Tamkang Journal of International Affairs, Spring
Retrieved from http://www.brookings.edu/fp/cnaps/papers/lin20021219.htm

Kauppi, H. and Widgren, M. (2006). Voting rules and budget allocation in the enlarged EU. *European Journal of Political Economy, 23*, 693-706.

Kuo, K. S. (2008). Racial conflict in Malaysia: against the official history. *Race & Class*, *49*(3), 33-53.

McKay, J. (2006). *Country Case Study: Malaysia*. Conference on Globalisation and Economic Success: Policy Options for Africa, 13-14 November, Cairo.

Milne, R. S. (1976). The Politics of Malaysia's New Economic Policy. *Pacific Affairs, 49* (2), 235-262.

Penrose, L. S (1946). Elementary Statistics of Majority Voting. *Journal of Royal Statistical Society, 109* (1), 53-57.

Yasuda, N. (1991). Malaysia's New Economic Policy and The Industrial Co-ordination Act. *The Developing Economies, XXIX* (4), 330-349.

Zuani, I. and Napier, C. (2006). Expropriation of minority interests and corporate diversification in Malaysia. *Asian Academy of Management Journal of Accounting and Finance, 2*. 85-113.

TABLE I*:* Shareholder's Voting Power

Shareholders	Corporate Equity	Voting Power — Requirement to pass a resolution: Simple Majority (50.1%)	Voting Power — Requirement to pass a resolution: Super Majority (66.7%)
Bumiputra	40%	0	0.5
Chinese	60%	1	0.5

TABLE II:
Malaysian Plc A: Pivotal Shareholders for Simple Majority Rule

	Winning Coalitions, Pivotal Shareholder (Underlined)		
1	<u>Bumiputra (65%)</u>		
2	<u>Bumiputra (65%)</u>	Chinese (26%)	
3	<u>Bumiputra (65%)</u>	Indians (9%)	
4	<u>Bumiputra (65%)</u>	Chinese (26%)	Indians (9%)

TABLE III:
Malaysian Plc B: Pivotal Shareholders for Simple Majority Rule

	Winning Coalitions, Pivotal Shareholder (Underlined)		
1	<u>Bumiputra (40%)</u>	<u>Chinese (40%)</u>	
2	<u>Bumiputra (40%)</u>	<u>Indians (20%)</u>	
3	<u>Chinese (40%)</u>	<u>Indians (20%)</u>	
4	Bumiputra (40%)	Chinese (40%)	Indians (20%)

TABLE IV*:*
Framework of Analysis: Corporate Equity and Control[1] (Operational Decision)

	Equity %	Voting Power (Penrose-Banzhaf Index)	Level of Control
<u>*Malaysian Plc A*</u>			
Bumiputra	65%	1	Absolute
Chinese	26%	0	None
Indians	9%	0	None
<u>*Malaysian Plc B*</u>			
Bumiputra	40%	0.5	Sharing
Chinese	40%	0.5	Sharing
Indians	20%	0.5	Sharing

TABLE V*:*
Illustration: Framework of Analysis on Corporate Equity versus Operational Control (Operational)

	Equity Percentage[1]	Absolute[2]	Sharing[2]
Bumiputra	62.7%	50% *(Malaysian Plc 'A')*	50% *(Malaysian Plc 'B')*

Chinese	27.3%	-	50% *(Malaysian Plc 'B')*
Indians	10.0%	-	50% *(Malaysian Plc 'B')*

Note:
1. Eg. Bumiputra: (65% x RM4billion) + (40% x RM0.4billion) = 2.76 billion. 2.76 billion / (RM4billion + RM0.4billion) x 100 = 62.7%
2. Percentage is calculated over two companies i.e. Malaysian Plc 'A' and Malaysian Plc 'B'.

TABLE VI:
Corporate Ownership Estimate versus Operational Corporate Control

	Equity Ownership	Absolute Decision	Shared Decision[1]
Bumiputra	18.3%	7.4%	13.3%
Government	21.7%	5.4%	10.3%
Chinese	35.8%	58.6%	13.3%
Indians	3.1%	1.0%	3.4%
Foreign Investors	21.1%	10.8%	13.8%

APPENDIX I: Analysis and Assumptions

Salient points on the analysis and assumptions are as follows:

a. Data required to identify the shareholders were available in the annual report mainly from the list of thirty largest shareholders, substantial shareholders direct and deemed interest, director's shareholding direct and deemed interest and director's background information. Bursa Malaysia Listing Requirement (2001) requires this information to be disclosed in the annual report.

b. From this annual report ethnicity or group of shareholders were identified.

   i. Individual shareholders were based on their name e.g. ethnic Bumiputra's and Chinese name. They were also assumed to be Malaysians unless clearly indicated otherwise in the annual report.
   ii. Institutional shareholders were based on their ultimate owner. This was particularly relevant for government and Bumiputra investment agencies.
   iii. Owner's of private limited company (i.e. *Sdn Bhd)*, was firstly determined from the annual report itself. The owners were assumed to be the directors representing this limited company. If the owners were of two ethnic groups the majority was the owner of the company, otherwise the ownership was apportioned accordingly. If information was not available in the annual report (e.g. they were not represented in the board of directors) online research was conducted to determine the identity of the owner. This study assumed ownership of private limited company is not easily traded as that of public listed companies, the information within the past four years was therefore assumed valid.
   iv. All shareholdings with words '*asing'* (foreign) were assumed own by foreign investors unless otherwise stated.
   v. On multiple ownerships, identification of shareholders and the allocation was based on the majority. An example, Company 'B' is 30 percent owned by company 'A', which is 60 percent owned by the Bumiputra. All the 30 percent in 'B' will be allocated to the Bumiputra. There were two rationales behind this assumption; first, this study was about control as much as ownership. It is worth noting that often it is only the controlling shareholders of company 'A' that can vote in company 'B' and not the minority shareholders. Secondly, was to improve manageability of the data.

c. On identifying the ethnicity of shareholders not within the top 30 shareholders, trend analysis was used to identify the remaining shareholders. In particular, the ratio of last ten shareholders was used to estimate the distribution of the remaining shareholdings. This estimate was then added to form the total equity ownership by each category of shareholders. This estimate form the basis for a) estimating equity ownership of each category of shareholder and b) calculating the voting power to determine the level of corporate control.

d. On value of ownership, it was based on issued capital at par value, as the focus of this study was percentage of ownership and not value of ownership. In any event, overall and across the companies either the use of par value or market value is not expected to influence the overall distribution of ownership. This was also the value used by the country's Economic Planning Unit.

e. On the majority required to pass an agenda, the total outstanding shares i.e. total issued share capital of the company was used as the basis.