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THE IMPACT OF MINORITY SHAREHOLDER WATCHDOG GROUP ACTIVISM ON THE PERFORMANCE OF TARGETED FIRMS IN MALAYSIA

Rashid Ameer* and Rashidah Abdul Rahman

Accounting Research Institute, Faculty of Accountancy,
Universiti Teknologi MARA, Shah Alam Campus,
40450 Selangor, Malaysia

*Corresponding author: rashidameer@salam.uitm.edu.my

ABSTRACT

This paper investigates the impact of the Minority Shareholder Watchdog Group (MSWG) activism on the performance of targeted firms in Malaysia. We find that MSWG-targeted firms earn statistically significantly higher stock returns than non-targeted firms in the long run. The results of various hypothesis tests involving firm performance measures show that MSWG-targeted firms experience significant increase in earnings relative to non-targeted firms in the first and second years after MSWG involvement. Our results imply that although the MSWG's approach to activism might not be comparable to the initiatives of independent activists in developed financial markets, this type of activism does make a difference by providing minority shareholders and institutional investors with resourceful solutions to reduce information asymmetries that have significant economic consequences.

Keywords: minority shareholders, corporate watchdog, corporate governance, Malaysia, performance

INTRODUCTION

Shareholder activism involves influencing the behaviour of companies using the power of ownership so that companies develop and implement successful strategies and high standards of governance, thereby maximising returns for owners (Hendrikse & Hendrikse, 2004). This paper examines the role of the Minority Shareholder Watchdog Group (MSWG) in promoting shareholder activism in Malaysia. This group was established on 30 August 2000 as a public company limited by guarantee.[1] The four founding members of the MSWG include the Armed Forces Fund Board[2], the National Equity Corporation[3], the Social Security Organization[4] and the Pilgrimage Board.[5] These founding members have played an important role in socio-economic development in Malaysia.

The MSWG was set up to create awareness among minority shareholders of their three basis rights to seek information, voice opinion and seek redress.[6] Although there have been no specific studies on the role of the MSWG, a few studies have indirectly argued for the greater involvement of institutional investors in promoting minority shareholders rights, which is related to the stated objectives of the MSWG (Abdul Wahab, How & Verhoeven, 2007; Thillainathan, 1998). Hawley and Williams (1997) argue that institutional investors are expected under the duty of care to exercise the voting rights of beneficiaries and vote according to their best interests. This is closely related to Yaron, Uri and Ahron (2007) argument that the benefits to mutual funds from attending a meeting and voting increase with increases in the expected damage of the proposal under consideration to its beneficiaries. Institutional investors should be more proactive monitors of firm performance, and they should intervene when necessary. These interventions may occur regarding a range of issues, including company strategy, operational performance, acquisition and disposal, inappropriate board structures, executive compensation and poor records of social responsibility. In this paper, we argue that the goals of the MSWG are closely aligned with the objectives of institutional investors, and it is thus plausible that the MSWG has similar fiduciary duties, such as the duty of care, as those of institutional investors. Thus, in the Malaysian setting, it is possible that the objectives of institutional investors and the MSWG may naturally converge, and given that its objective would presumably be to help shareholders maximise

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[1] MSWG commenced its operations in July 2001 and was funded by its founding members for a total of RM5.8 million for the initial three years, i.e., from 2001 to 2004, for start-up and development costs. The MSWG has since been funded by a capital market development fund and has received RM5.75 million from this fund (MSWG press statement, 9 January 2009).

[2] For instance, the Armed Forces Fund Board provides welfare and other benefits for retiring and retired personnel of the Armed Forces of Malaysia.

[3] The National Equity Corporation promotes share ownership in the corporate sector among the Bumiputera and has developed opportunities for suitable Bumiputera professionals to participate in the creation and management of wealth.

[4] The Social Security Organization ensures and guarantees the timely and adequate provision of benefits in a socially just manner and the promotion of occupational health and safety.

[5] The objectives of the Pilgrimage Board are (i) to enable Muslims to save gradually to support their expenditures during pilgrimage and other beneficial purposes; (ii) to enable Muslims to have active and effective participation in investment activities permissible in Islam through their savings; and (iii) to protect and safeguard the interests and welfare of pilgrims during pilgrimage by providing various facilities and services.

[6] As of 20 March 2009, the MSWG has purchased shares in 233 publicly-listed companies.

value from their investments, this coalition could produce superior economic returns. In South Korea, a similar organisation called the Participatory Economic Committee (PEC) has used shareholder rights to bring about substantial changes in the corporate governance practices of family-owned firms called *chaebol* (Jang, 2001).[7]

We investigate shareholder activism in Malaysia for the following reasons. First, Malaysian firms have been the focus of attention in various ownership and corporate governance studies (Dahya, Dimitrov & McConnell, 2008; Tam & Tan, 2007; Haniffa & Hudaib, 2006). Of particular focus has been on the issue of ownership concentration; that is, some shareholders have voting rights that far exceed their cash flow rights due to a pyramid structure of rights, and such controlling shareholders may employ private benefits from such control, which may include the expropriation of wealth from minority shareholders. According to La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998), Malaysia has a relatively low level of investor protection, which seems to suggest that non-substantial shareholders would be less protected in the event of corporate wrongdoings.[8]

Second, some scholars have suggested that the market characteristics that can serve to enhance corporate governance are not found in Malaysia (Guan, 2005); therefore, the large number of shareholders who do not work towards the maximisation of shareholder value can easily engage in wrongdoings without punishment. In the absence of an active market for corporate control, board independence can be viewed as another mechanism to stop the expropriation of minority wealth. Indeed, Bursa Malaysia's Listing Requirements requires that at least one-third of a board should be independent; however, several studies have found no significant relationship between board independence and firm performance (Abdullah, 2004; Che Haat, Abdul Rahman & Mahenthiran, 2008), and board independence has no effect in mitigating the earnings of management in Malaysia (Abdul Rahman & Mohamed, 2006).

The main objective of this paper is to investigate the market reaction to the MSWG's involvement in firms with potential agency problems and to gauge how the MSWG's involvement affects firm performance in the short term and over the long run. The Institutional Shareholders' Committee (ISC) states that institutional activism should help investors identify problems at an early stage and minimise the loss of shareholder value. The monitoring of firms can be

[7] This is an offshoot of the People Solidarity for Participatory Democracy (PSPD) that has joined with the Citizens' Collation for Economic Justice (Noland, 2000).

[8] Doidge, Karolyi and Stulz (2007) argue that country characteristics such as legal protections for minority investors influence firm costs and benefits in implementing measures to improve corporate governance.

achieved by combining various measures, such as regular processes for reviewing annual reports, circulars and resolutions, attending company meetings, and writing letters to management regarding some aspect of a firm's operations or social policies (Kim & Nofsinger, 2005). Whether or not this shareholder activist group will ultimately be successful remains an empirical question.

Smith (1996) conducts an independent study of California Public Employees Retirement System (CalPERS) activism and find that the combined gains due to CalPERS[9] activities related to 34 targeted firms[10] amounted to USD19 million from 1987 to 1993. In a similar vein, Carleton, Nelson and Weisbach (1998) find positive market reactions to the announcement of shareholder activism.[11] In contrast, Song and Szewczyk (2003) examine the effects of targeting by Council of Institutional Investors (CII). The authors found no subsequent improvement for the targeted firms and little evidence of the efficacy of shareholder activism. Karpoff, Malatesta and Walkling (1996) found that the submission of proposals by shareholders did not lead to any obvious improvements in firm performance, even for those firms for which the proposals passed.

Kim and Nofsinger (2005) argue that there are two situations in which activism might not work. First, the regulatory and political environment might hinder large institutional shareholders from engaging in activism, and second, institutional investors might be interested in performance for the short term and then subsequently sell the stock to move on to other investments. Bainbridge (2005) argues that activism by investors cannot solve the principal-agent problem inherent in corporate governance, but rather merely shifts the locus of that problem. Furthermore, activism may undermine the role of directors and make corporate governance less effective. Murphy and Van Nuys (1994) question the incentives that public pension fund managers have to undertake such activities given the fact that gains from activism are dispensed upon both active and passive investors; thus, it makes little sense for cost-conscious money managers to incur the expenses entailed due to shareholder activism. Instead, they will remain passive in hopes of free riding on someone else's activism. In addition, certain important institutional investors such as banks are unlikely to emerge as activists; for example, banks often have or anticipate a commercial bank-lending relationship with the firms they will purportedly monitor. Thus, there are obvious

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[9] CalPERS has USD190 billion in assets and serves 1.4 million members (Kim & Nofsinger, 2007).

[10] Targeted firms are those problematic firm chosen by the MSWG for observation as well as those firms with shareholders subscribed to MSWG services.

[11] Carleton et al. (1998) examine the activism of the Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF), which monitors firms and makes numerous recommendations for reform.

caveats that must be taken into account when interpreting the outcome of any shareholder-led activism; in addition, determining whether activism bears positive results is difficult because more often than not, enhanced firm performance cannot be directly linked to increased activism.

We hypothesise that MSWG-targeted firms have significantly different performance measures than those of non-targeted firms. Kim and Nofsinger (2005) argue that by targeting companies through activism, improvements can be made that unlock hidden value. In addition to improvements such as the replacement of poorly performing boards or management within targeted companies, critical measures of firm performance may also noticeably improve. Gillan and Stark (2000) point out that activism focuses on the long term, and in so doing, may help management improve long-term performance. We assume that the key mechanisms through which targeted firm performance is improved include the advice and perspectives of institutional investors, which are fed back to the board in planning processes and then incorporated into firm missions and strategies.[12] Klein and Zur (2009) argue that hedge fund activists frequently demand that the target firm buy back its own shares, cut its CEO's salary or initiate dividends. Over subsequent years, a target firm may thus significantly increase its debt-to-assets ratio, double its dividends and decrease its cash and short-term investments. Mallin (2007) adds that after being put on the focus list, targeted companies receive often-unwanted attention from other investors that may seek changes in the ways companies are managed.[13] Opler and Sokobin (1995) argue that one possible way for institutions to reduce free-rider problems among themselves and to side-step political pressures is to create a third-party monitoring organisation; such an organisation can serve as a focal point for diffuse investors and perhaps provides investors with more credibility in challenging management than they could achieve on their own. Thus, using their notion of coordinated activism, it can be argued that institutional shareholders and other minority shareholders organised under the banner of the MSWG can exercise significant influence over targeted firms at fairly low costs because economies of scale exist in MSWG-style activism. Last but not the least, Klein and Zur (2009) pointed out that differences in firm performance after the targeted period also depend on the nature of the activism, i.e., whether the activism has been confrontational or non-confrontational. Since there is no way to establish whether MSWG activism has been confrontational or non-confrontational over the sample period, this is an obvious limitation of our research.

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[12] Authers and Wighton (2005) suggest that there is growing statistical evidence that this strategy delivers performance.

[13] Janowicz, Piaskowska and Trojanowski (2004) show that strategic investors are more likely to buy stakes in firms with higher labour productivity. This investor involvement has led to complete corporate restructuring after the seizing of significant control over firms in Poland.

We specifically hypothesise that being targeted by the MSWG leads to increases in the mean and median returns of firms targeted by the MSWG as compared to non-targeted firms.[14] We also test several hypotheses regarding significant increases in the mean and median sales, assets, market-to-book ratio, earnings, cash flows from operation and dividends of MSWG-targeted firms as compared to non-targeted firms both one year and two years after initial MSWG activism. We further hypothesise that there is a significant decrease in capital expenditure and cash holdings of MSWG-targeted firms as compared to non-targeted firms both one year and two years after initial MSWG activism.

We find that MSWG-targeted firms earn statistically significantly higher mean (median) returns as compared to the non-targeted firms in the short and long terms of 2.24% (2%) and 2.8% (1.5%), respectively. We find that when MSWG involvement in the targeted firms is during mergers and acquisitions or during disposal deals, targeted firms earn significantly higher returns as compared to when the MSWG seeks changes in the corporate governance of targeted firms. We find significant increases in the earnings and cash flows from operations in MSWG-targeted firms as compared to non-targeted firms one year after initial MSWG activism. Furthermore, our results suggest that MSWG-targeted firms remained profitable even two years after MSWG activism. Overall, our findings are in line with previous studies that suggest that shareholder activism creates value for shareholders in the long run.

The rest of the paper is organised as follows. First, the institutional background underpinning the corporate governance system in Malaysia is discussed; next, we describe the role of the MSWG and the impacts of MSWG involvement on the short-term and long-run performances of targeted firms using share returns and financial data. We conclude this paper by presenting the implications of our findings and suggestions for future research.

INSTITUTIONAL BACKGROUND

The Malaysian Companies Act of 1965 provides minority shareholders with the right to participate and vote at company meetings on matters such as the election of directors, amendments of articles of associations, particularly when an insider has an interest in the sale of company assets or a merger and acquisition deal. In the case of a violation of these rights, shareholders may invoke legal remedies

[14] According to one study commissioned by CalPERS to investigate 42 firms targeted for reform by CalPERS, the aggregate stock returns of these 42 firms over a five-year period were 52.5% higher than the returns of the S&P 500 Index. Prior to being targeted, these same firms had under-performed the S&P 500 by 66% over a five-year period.

under the Section 181 or Section 218 of the Companies Act. Section 181 covers arbitrary and capricious conduct by the board, unjustifiable failure to pay dividends, or a director's neglect of the duty of care, skill and diligence. The court has discretion to choose from a wide range of remedies that include prohibiting, cancelling, and altering a transaction or resolution; regulating the future conduct of affairs; providing for the purchase of common shares by other shareholders; altering the memorandum or articles of association; and providing for the winding up of the company.

The principal authorities involved in regulating the capital market are the Bank Negara Malaysia (the Central Bank), the Companies Commission of Malaysia (CCM), Bursa Malaysia (formerly known as the Kuala Lumpur Stock Exchange [KLSE]), and the Securities Commission (SC). Given this emphasis on corporate governance, SC has initiated criminal cases covering offences such as market manipulation, insider trading, non-disclosure, and fraud involving the directors and management. Table 1 shows statistics on the enforcement actions carried out by SC.

Table 1
Offence and prosecution statistics.

This table reports the number of offences prosecuted by the SC in Panel A and the number of enforcement actions taken against publicly-listed companies, directors, advisers and sponsors as well as the fines imposed by Bursa Malaysia for the financial years ending 31 December 2002 to 2008 in Panel B.

Panel A	2002	2003	2004	2005	2006	2007	2008
Offences							
Criminal prosecutions initiated	15	16	9	12	9	11	6
Cases compounded	6	6	8	6	3	3	4
Administrative actions	4	1	2	2	1	2	8
Panel B							
Caution and impress	n/a	37	1	130	223	206	–
Private reprimand	n/a	70	49	49	55	82	40
Public reprimand	n/a	55	35	24	61	74	66
Public reprimand and fines	n/a	39	30	75	55	109	54
Total	**n/a**	**201**	**115**	**278**	**394**	**471**	**160**

Source: Securities Commission Malaysia and Bursa Malaysia Annual Report, 2003–2008.

Note: n/a = not available.

As argued in this paper and supported by Liew (2007), the rights and protection of shareholders appear to be both comprehensive and well defined in Malaysia. The corporate offences in Malaysia are investigated by separate regulators rather than a single regulator. The SC is the enforcer of securities laws, but it does not have the judicial power of a court. For instance, securities laws regarding director duties and their obligations come under the Companies Act, which is enforced by the CCM. Meanwhile offences involving a criminal breach of trust cases come under the Penal Code, which is under the jurisdiction of the police. Often, there is a web of interlocking offences, each of which is related to the other. Thus, when the SC investigates for potential breaches of securities laws, it may uncover potential breaches of laws that are under the Penal Code and the Companies Act, which are under the jurisdiction of police and CCM. Thus, although there might be a number of negligence and criminal cases, there are few convictions due to the haphazard regulatory infrastructure. We argue that this situation calls for forceful shareholders activism.

Rubach (1999) point out that pressuring companies for the removal of under-performing boards as well as filing proposals[15] covering corporate governance and financial reporting issues with or without the help of institutional investors[16] are common forms of activism. The latter approach implies more active, direct involvement on the part of the shareholders. For instance, in the US, a main driving force behind increased activism is the Securities and Exchange Commission (SEC). The SEC's Shareholder Proposal Rule 14a-8 allows shareholders to submit issues for inclusion in proxy materials and the subsequent presentation of these issues at a company's annual general meeting (AGM). If such issues are properly presented at the AGM, these issues will be voted on. The use of shareholder proposal resolutions is often an expedient way by which activist shareholders can pursue their agendas. The proxy process provides these shareholders with a formal mechanism through which they can address their concerns about corporate governance and corporate performance.

The shareholder activism phenomenon has been commonly associated with developed financial markets such as the US[17] and UK.[18] Most studies have used a classification scheme distinguishing confrontational and non-

15 The earliest gadflies began submitting shareholder resolutions on corporate governance topics such as executive compensation, cumulative voting and the location of the annual meeting. Public pension funds, union pension funds, sponsored resolutions have extended to social policy issues.

16 In the shareholder activism literature, besides shareholder proposals, the development of a so-called "focus list" of poor performers, letter writing, and other types of private negotiations are also typical forms of shareholder activism.

17 See Brav, Jiang, Partnoy and Thomas (2008); English, Smythe and McNeil (2003); Gillan and Starks (2000); Del Guercio and Hawkins (1998); Hawley and William (1997); Smith (1996); Walsh and Kosnik (1993); Barclays and Holderness (1991); Holderness and Sheehan (1985); and Hirschman (1971).

18 See Becht, Franks, Mayers and Rossi (2007), Leech (2003), and Faccio and Lasfer (2000) for a discussion of incentives for activism in the UK; in addition, see Stapledon (1996) for a comparison of institutional shareholder involvement in Australia and the UK.

confrontational activists owning more or less than 5% of the targeted firms, while others have exclusively focused on the activists that have targeted poorly performing firms (Gillan & Starks, 2000). Rehbein, Graves and Graves (2004) show that activists target companies with shareholder resolutions in order to demand change in management behaviour. These companies are also targeted for poor employee and community-related practices. Klein and Zur (2009) report that hedge funds target more profitable firms as compared to other private activists, and these activists address agency costs of free cash flows after acquiring 5% in the target firms. We argue that the evolution and effectiveness of shareholder activism may hold massive dividends for financial markets in developing countries. For instance, Hacimahmutoglu (2007) discusses a proposed recommendation from the International Institute of Finance for an adequate legal and regulatory framework for minority shareholder and investor protection in Turkey. Similarly, Wack (2006) critically analyses minority shareholder rights under Russian law. We argue that there is dearth of exploratory studies on such activism in non-US settings; therefore, this study aims to fill this gap.

Prior studies on shareholder activism in Malaysia has examined but not tested the impact of cultural factors on the lack of shareholder activism in Malaysia. For instance, Saktunasingam and Shanmugam (2006) highlight the role of respect for status as well as power embedded in the cultures of various races in Malaysia is probably the main reason why shareholders do not take legal action against company directors. With holdings lower than those of other companies, it might seem that minority shareholders have a minuscule presence and therefore a low level of influence so that they would be likely to simply 'nod their heads' to the decisions of management.[19]

Malaysians as a whole are not rights-conscious due to reasons associated with Malaysian culture (Satkunasingam & Shanmugam, 2006). Malaysian society is conditioned to accept inequality in power as the norm, and Malaysians do not question or challenge those in power. As individuals in collective societies, they are not comfortable with confrontations, especially in public and against their social superiors. Furthermore, legislature is very much subject to the power of executives and politicians, and therefore, conditions in Malaysian society tend to allow powerful individuals to have rights to certain privileges because of their status (Satkunasingam & Shanmugam, 2006). Indeed, Kwok and Tadesse (2006)

[19] Malaysia is a melting pot of nationalities, including Chinese, Moslems, and Hindus. The Malays and Chinese form the majority of population in Malaysia, but the Chinese dominate industrial enterprises. Malay culture places great importance upon the status of a person, which has a political history in which Malay rulers have traditionally wielded absolute power. Similarly, Chinese culture has a strong sense of hierarchical power. The Chinese accept decisions handed down and are cautious about how they present their own ideas to superiors (Crookes & Thomas, 1998).

argue that countries characterised by higher uncertainty avoidance such as Malaysia encourage high levels of orientation towards the law and regulations in order to reduce the amount of uncertainty. Given the high power distance and collective culture of Malaysia, a watchdog is an ideal solution; that is, shareholders need not fear the controversial issues raised by confronting authority, as they have a watchdog to represent their interests. The establishment of the Minority Shareholders Watchdog Group (MSWG) has been a watershed in terms of shareholder activism in Malaysia.

The Role of the MSWG in Shareholder Activism

In Malaysia, the explicit connection between the MSWG and minority shareholders originates from the fact that the MSWG provides proxy-voting services to dispersed shareholders and raises issues on behalf of individual shareholders at the annual general meetings. According to the European Corporate Governance Institute, private discussions and public communication with corporate boards and management are methods through which shareholders can assert their power as owners of a company. The MSWG has a subscriber service that allows investors proxy advisory and proxy voting services at a nominal fee.[20] These subscribers are given advice on how to ask questions and raise issues at AGMs or EGMs. The *modus operandi* of the MSWG is to write letters known as MSWG letters to corporate secretaries in targeted firms to highlight major issues for clarification or to solicit the details from the board in forthcoming AGMs or EGMs. These meetings with the board provide an opportunity for minority shareholders to appoint the MSWG as a proxy to raise concerns rather than raising issues directly. The number of AGMs and EGMs attended by the MSWG are shown in Table 2.[21] We observed that the MSWG has attended meetings in the same company more than once from 2006 to 2008, and in many AGMs and EGMs, more than one issue it is raised by the MSWG. Therefore, the total numbers reported in Panel A and B exceed the number of firms reported in Panel C. Panel B shows that frequency of these meetings according to the nature of issue, which seems to suggest that most of these meetings are dominated by issues such as the reporting of annual accounts and corporate governance. Of particular importance among corporate governance issues has been the remunerations of directors, ratification of the personal transactions of directors, and due diligence. We also tabulate the industries of

[20] In this regard, the MSWG is trying to mimic the Australian Shareholder Association (ASA), which is funded by member subscription fees, but the MSWG is also funded by the government, unlike the ASA. At present, there are a total of 114 individual subscribers and 46 corporate subscribers.

[21] The general meetings attended by the MSWG are by invitation either (i) from the PLCs, (ii) those PLCs with issues raised by minority shareholders, or (iii) PLCs subject to action by regulatory authorities.

targeted firms in Panel C. The industries in which MSWG involvement has been the strongest are industrial products and trading and services.

Apparently, the MSWG as a mechanism of shareholder activism may not be comparable to those mechanisms documented in developed markets such as the US; in the US, activists such as pension funds and hedge funds are independent of the government, and so these funds are accountable to their members. In contrast, the MSWG has connections with the government and is sponsored by institutional investors, and therefore, there is no straightforward way to verify its claims of independence.[22] This also raises an important question regarding the compatibility of the incentives of the MSWG and those of the minority shareholders it represents. For instance, the chairman of the MSWG is from a government-sponsored institutional investor; hence, will the board members of the MSWG be willing to act against the very corporation that nominated them to the MSWG? Therefore, it might not be easy for a skeptical observer to believe that the MSWG can mitigate the principle-agent problem, information asymmetry and other conflicts of interests. In other words, how can the MSWG assure the public that it really seeks the interests of minority shareholders?

At first, one possible solution to these questions might be to interview some of the minority shareholders or the members of the MSWG who have sat on the AGM of targeted firms, which could address the question of incentive compatibility. However, this research design is not the focus of the current study, though it could be a potential area for future research.[23] Given these constraints and the socio-cultural argument presented earlier (Saktunasingam & Shanmugam, 2006), we can assume that the MSWG might not be the best watchdog. Rather, it might simply be a sub-optimal solution in a developing financial market. In contrast, we believe that the MSWG is seen by minority shareholders as an ideal platform for expressing their views at company general meetings.

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[22] The directors of large companies in Malaysia are usually wealthy people of very high status and often carry royal titles or titles bestowed through various state rules. As such, their views are not likely to be challenged (Saktunasingam & Shanmugam, 2006).

[23] Other problems that we foresee using this approach would be self-reporting bias and memory recall problem.

Table 2
Number of meetings attended by the MSWG for targeted firms.

This table reports the total number of annual general meetings (AGMs) and extraordinary general meetings (EGMs) attended by the MSWG over the period of 1 January 2005 to 31 December 2008 in Panel A; the stated reasons for attending these meetings are tabulated in Panel B. All data were obtained from the MSWG website.

Panel A: Overall Statistics

	2005	2006	2007	2008
Annual General Meetings (AGM)	60	168	183	106
Extraordinary General Meetings (EGM)	21	50	65	39
Total	81	218	248	145

Panel B: Stated Reasons for Attending the Meetings by the MSWG

	2005	2006	2007	2008
Annual accounts	66	179	196	104
Corporate governance	15	39	42	20
Acquisitions or disposals	–	–	10	21
Total	81	218	248	145

Panel C: Industry Affiliation of Firms Targeted by the MSWG

	2006	2007	2008	Total
Construction	8	9	9	26
Consumer products	12	13	12	37
Hotel services	2	2	2	6
Industrial products	34	34	33	101
Infrastructure projects	2	2	2	6
Plantation	4	5	5	14
Property	11	11	11	33
Technology	11	11	11	33
Trading and Services	42	45	45	132
Total number of firms	126	132	130	338

Source: http://www.mswg.org.my.

CHARACTERISTICS OF FIRMS TARGETED BY THE MSWG

What types of companies are targeted by the MSWG? To address this question, we initially examine the characteristics of MSWG-targeted companies between 1 January 2005 to 31 December 2008. We compare firm-specific characteristics, such as size (*SALES, ASSETS*), profitability (*EBITDA, CFO, MTB*), capital expenditure (*CAPEX*), cash balances and short-term investments (*CASH, CST, LIQ*), debt ratio (*DEBT*) and dividends (*DPS*), of targeted firms for a year before they are matched to a sample of firms. We define the control sample as follows. Each MSWG-targeted firm is matched with a control firm in the same industry based on total assets at the end of year $t - 1$.[24] Since the MSWG plays a representative role of minority shareholders, we provide some descriptive statistics on the ownership structure of MSWG-targeted firms and compare them with non-targeted firms in Table 3.

Table 3
Descriptive statistics of the ownership structures of MSWG-targeted firms.

This table reports the means and medians of the family, institutional, and foreign shareholdings in percentages for MSWG-targeted firms in Panel A and for non-targeted firms in Panel B.

Panel A

	MSWG-targeted firms, N = 112		
	Family	Institutional	Foreign
2005	9.1996	54.6328	9.5120
2006	11.4188	50.7600	8.3123
2007	11.6023	52.5512	7.0785
2008	10.2535	53.5005	6.0254
Mean	10.6185	52.8611	7.7320
Median	10.83615	53.0285	7.6954

Panel B

	Non-targeted firms, N = 112		
	Family	Institutional	Foreign
2005	26.1103	25.4225	9.6008
2006	25.9703	23.5718	11.4571
2007	24.5062	23.3821	13.4274
2008	26.3257	22.6587	13.2548
Mean	25.7281	23.7578	11.9350
Median	26.0403	23.4769	12.3559

The mean and median shareholdings of institutional investors are significantly higher in MSWG-targeted firms than in non-targeted firms; alternatively, the mean and median shareholdings of family and foreign investors are significantly higher in non-targeted firms than in MSWG-targeted firms. This preliminary finding supports our earlier argument that the MSWG and other types of institutional investor activism may form a coalition that reduces the costs of monitoring for both parties, and this is more likely, since a number of institutional investors are corporate clients of the MSWG. The lack of MSWG involvement in family firms might be due to the low number of individual

[24] These firm-specific characteristics have been used to study activists in the US (Klein & Zur, 2009).

minority shareholder members. We report univariate tests on the mean and median values of the firm characteristics identified above in Table 4. Columns 1 and 2 present the mean and median of the stylised financial variables of MSWG-targeted firms and non-targeted firms, whereas column 3 reports the test statistics on the significance differences in the financial variables of MSWG-targeted and non-targeted firms.

Table 4
Characteristics of targeted firms prior to MSWG activism.

This table reports the means and medians of firm sales, assets, market-to-book ratio, earnings before interest, taxes, depreciation and amortisation, cash flows from operations, capital expenditure, cash holdings, liquidity, debt and dividends for MSWG-targeted firms (see Column 1) and non-targeted firms (see Column 2). Column 3 shows *t*-statistics and Z-statistics for the difference between the mean and medians reported in Column 1 and 2. The means and medians are calculated using accounting data obtained from the Datastream and Worldscope databases. The sample consists of 112 MSWG-targeted firms and 112 non-targeted.

	MSWG-targeted mean [Median] (1)	Non-targeted mean [Median] (2)	*t*-statistics [Z-statistics] for difference between columns 1 and 2 (3)
SALES (million)	1341.6942 [347.1300]	487.2535 [179.0300]	5.3380*** [5.1570]***
MTB	1.3262 [0.9100]	1.3662 [0.8800]	–0.3936 [0.5180]
EBITDA	0.0770 [0.0834]	0.0915 [0.0950]	–1.7048 [–1.7834]
CFO	0.0527 [0.0647]	0.0646 [0.0735]	–1.4801 [–1.2701]
CPEX	4.4411 [2.3450]	5.2528 [2.7900]	–1.7404 [–1.2253]
CST	431.1673 [57.9300]	171.6600 [21.0800]	3.4890*** [6.4612]***
CASH	32.6194 [24.9900]	26.8074 [19.3900]	19.3702*** [3.6723]***
LIQ	3.3388 [1.8100]	3.0006 [1.8800]	0.9554 [–0.3179]
DEBT	0.2311 [0.2093]	0.2264 [0.2039]	0.3631 [0.7069]
DPS	0.0645 [0.0200]	0.0585 [0.0100]	0.5035 [–2.941]***

Note: *** indicates significance at the 0.01 level; ** indicates significance at the 0.05 level; * indicates significance at the 0.10 level.

The *t*-statistics and *Z*-statistics show that the mean and median *SALES* of MSWG-targeted firms are higher than those of non-targeted firms at the 1% level of significance. Regarding cash holdings, *t*-statistics and *Z*-statistics show that the mean and median *CASH* of MSWG-targeted firms are also significantly higher than those of non-targeted firms. According to Jensen's (1986) free cash flow argument, firms targeted by activists should have relatively higher levels of cash holdings and relatively lower amounts of debts on their balance sheets. Thus, our findings suggest that the MSWG targeted those firms in which managers have incentives to grow companies beyond their optimal size and therefore hoard cash to facilitate purchases aimed at growth. There are no statistical differences in *EBITDA, MTB, CPEX, CST,* and *DEBT* for MSWG-targeted firms versus non-targeted firms.

MARKET RESPONSE TO MSWG ACTIVISM IN TARGETED FIRMS

Raw and Industry-adjusted Market Returns

In this section, we test the hypothesis that MSWG-targeted firms earn significantly higher positive returns as compared to non-targeted firms. Thus, we examine the reactions of share prices. We define the announcement date as reported on the MSWG Webpage (http://www.mswg.org.my) as day 0. Our event window begins on day –30 and ends on day +5 to determine the impact over a short event window, while this window is extended to day +30, day +60 and 1 year to gauge impacts over a longer event window. We compute raw buy-and-hold returns as well as market-adjusted returns, the latter of which is the difference between the buy-and-hold returns of targeted firm and the value-weighted KLCI Index returns over the respective event windows.

Table 5 shows that the mean and median returns for MSWG-targeted and non-targeted firms. Panel A shows the stock returns and significance levels for the shorter event window from day –30 to day +5 for MSWG-targeted firms and non-targeted firms, and Panel B reports the market-adjusted returns and significance levels for the day –30 to day +60 and day –30 to 1 year longer event windows for MSWG-targeted firms and non-targeted firms. Of particular importance are the *t*-statistics and *Z*-statistics for the differences in the mean and median returns of MSWG-targeted firms and non-targeted firms for the shorter and longer event windows; see column 3.

The portfolios of MSWG-targeted firms earned mean (median) returns of 1.4% (1.3%) over the [–30, +5] window, 4.5% (3.2%) over the [–30, +60] window, and 7.3% (4.3%) over the [–30, +1 year] window; see Panel A. The portfolios of the non-targeted firms earned mean (median) returns of 1.3% (1.0%) over the [–30, +5] window, 2.3% (1.2%) over the [–30, +60] window and 4.5% (2.8%) over the [–30, +1 year] window. The *t*-statistics and *Z*-statistics show that MSWG-targeted firms earn statistically significantly higher mean (median) returns of 2.24% (2%) and 2.8% (1.5%) as compared to non-targeted firms over the event windows of [–30, to +60 days] and [–30 days, to 1 year], respectively. These results are consistent with previous findings (Barclays & Holderness, 1991; Karpoff, 2001). We believe that our findings are a new contribution to the corporate governance literature that analyses the role of shareholder activism in emerging markets.

Table 5
Raw and market-adjusted stock returns of targeted firms.

This table shows the stock return of firms targeted by the MSWG during the period of 1 January 2006 to 31 December 2008. The raw returns are simple buy-and-hold returns (see Panel A) over the [–30, +5], [–30, +60] and [–30, 1 year] windows. The market-adjusted returns (see Panel B) are the differences between the buy-and-hold returns of the targeted firms and the value-weighted KLCI Index returns over the respective event window. Column 3 shows *t*-statistics and Z-statistics for the difference between Columns 1 and 2. The *t*-statistics indicate differences in means, assuming unequal variances, and *Z*-statistics are based on a Wilcoxon signed ranked test. The sample consists of 112 MSWG-targeted firms and 112 non-targeted firms.

Panel A: Simple buy-and-hold returns

Event window	MSWG-targeted mean (median) 1	Non-targeted mean (median) 2	*t-statistics* [*Z*-statistics] 3
Short window			
Days –30 to +5	0.0148	0.0134	0.4201
	(0.0132)	(0.0100)	[0.3452]
Long window			
Days –30 to +60	0.0455	0.0231	1.9890**
	(0.0320)	(0.0120)	[2.0980]**
Days –30 to 1 year	0.0734	0.0456	1.6850*
	(0.0432)	(0.0283)	[1.7854]*

Panel B: Market-adjusted returns

Event window	MSWG-targeted mean (median) 1	Non-targeted mean (median) 2	*t-statistics* [*Z*-statistics] 3
Short window			
Days –30 to +5	–0.0011	–0.0140	–1.0301
	(–0.0003)	(–0.0150)	[–1.4321]
Long window			
Days –30 to +60	0.0224	0.0102	1.3291
	(0.0110)	(0.0191)	[1.4201]
Days –30 to +1 year	0.0313	0.0190	1.8242*
	(0.0147)	(0.0111)	[1.9456]*

Note: *** indicates significance at the 0.01 level; **indicates significance at the 0.05 level; *indicates significance at the 0.10 level.

Panel B present the results using market-adjusted returns. We find that MSWG-targeted firms earn negative mean (median) returns of –0.11% (–0.3%) over the [–30, +5] window, 2.2% (1.1%) over the [–30, +60] window and 3.1% (1.4%) over the [–30, +1 year] window. The portfolios of non-targeted firms earned mean (median) returns of –1.4% (–1.5%) over the [–30, +5] window, 1.0% (1.9%) over the [–30, +60] window and 1.9% (1.1%) over the [–30, +1 year] window. The *t*-statistics and *Z*-statistics show that MSWG-targeted firms earn statistically significantly higher mean (median) returns of 1.2% (0.4%) as compared to non-targeted firms over the [–30, +1 year] window. These findings suggest that when market-adjusted returns are used, activism does not result in an immediate increase in the valuation of MSWG-targeted firms. However, in the long run, when management proceeded with strategies suggested by the MSWG for improvements in firm performance, the market reacted positively to the MSWG's involvement.

Raw and Market-adjusted Returns According to the Purpose of MSWG Activism

In this section, we test the hypothesis that MSWG-targeted firms earn significant positive returns as compared to non-targeted firms when categorised according to the stated activism purpose of the MSWG (Klein & Zur, 2009). As shown in Table 2 above, there are large numbers of firms that were targeted for clarification regarding group accounts, contingent liabilities, and good will in the final annual accounts; we believe these are common issues that emerge in company meetings. However, corporate governance issues and MSWG involvement in acquisition and disposal deals hold great importance to minority shareholders; therefore, we focus only on these two issues in our analysis. While Schedule 13D in the US allows activists to clearly state the reasons for taking action against a firm's management or board, our data shows that the MSWG sought to make changes in the boards of targeted companies, cut the salary or compensation of directors, and confront the board of directors on party transactions during EGMs. We do not focus on each of these issues separately as this would reduce our sample size; instead, we aggregate these issues under the heading of corporate governance in our analysis. Consequently, the sample of firms is reduced to 50 from 112 firms.[25] Prior studies on management turnover suggest that the market reacts to management turnover as a sign of corporate improvement and reductions in agency costs (Warner, Watts & Wruck, 1988; Denis & Denis, 1995). We hypothesise that if the purpose of MSWG-initiated activism is to bring about changes in a corporate governance system, then the stock market will react positively to the announcement. Likewise, if MSWG

[25] There are 35 firms in which the MSWG have tried to initiate board changes and 15 firms in which the MSWG stopped merger and acquisition deals.

intervention involves questioning the rationale of proposed mergers, acquisitions and disposals, then the stock market will react positively to the announcement.

The *t*-statistics and *Z*-statistics reported in Table 6 show that MSWG-targeted firms earn significantly higher mean (median) returns of 2.1% (1.6%) in the [–30, +5] window as compared to non-targeted firms when the MSWG seeks changes in the corporate governance of the targeted firms. However, in those cases in which the MSWG intervened in mergers and acquisitions or disposal deals, MSWG-targeted firms earn significantly higher mean (median) returns of 3.5% (1.1%) than those of non-targeted firms in the [–30, +5] window; see Panel A. In sum, when MSWG involvement in the targeted firms is during a merger and acquisition or a disposal deal, there is a significantly higher positive response from the market as compared to when the MSWG seeks changes in the corporate governance of targeted firms. These findings are in contrast to those of Klein and Zur (2009), which suggest that when hedge fund activists aim to change directors, targeted firms earned higher size-adjusted returns as compared to those instances when hedge fund activists aim to oppose a merger in the targeted firms. The results for the longer windows of [–30, +60] and [–30, +1 year] show significant positive (negative) mean (median) returns for non-targeted firms as compared to MSWG-targeted firms.

However, using market-adjusted returns, we do not find any significant differences between the mean and median returns of MSWG-targeted versus non-targeted firms at any conventional level of significance; see Panel B. The finding that no significant differences exist between MSWG-targeted firms and the control sample in the short-term and long-term windows seems to suggest that the market has a poor memory of the changes in the operating environments of firms. Another plausible explanation could be that our data may be contaminated because some of the merger and acquisition transactions were unsuccessful during the sample period. Furthermore, most of the merger and acquisition transactions occurred at end of the sample period, and therefore, a clustering of the data into a single year might have produced the observed results.

Table 6

Raw and market-adjusted stock returns of targeted firms with respect to the reason stated by the MSWG in meetings.

This table shows the mean stock returns of the firms targeted by the MSWG during the period of 1 January 2006 to 31 December 2008. The raw returns are simple buy-and-hold returns (see Panel A) over the [–30, +5], [–30, +60] and [–30, 1 year] windows. The market-adjusted returns (see Panel B are the differences between the buy-and-hold returns of target firms and the value-weighted KLCI Index returns over the respective event window. Column 3 shows *t*-statistics and Z-statistics for the difference between Columns 1 and 2. The *t*-statistics indicate differences in means, assuming unequal variances, and *Z*-statistics are based on a Wilcoxon signed ranked test.

Panel A: Simple buy-and-hold returns

Event window	MSWG-targeted mean (median) 1	Non-targeted mean (median) 2	*t-statistics* [*Z*-statistics] 3
Short window	(Days –30 to +5)		
Corporate governance, *N = 35*	0.0210	0.0011	2.9090**
	(0.0160)	(0.0061)	[2.2049]**
Mergers/acquisition/disposal, *N = 15*	0.0350	0.0010	2.1452**
	(0.0111)	(0.0031)	[3.4232]***
Long window	(Days –30 to +60)		
Corporate governance, *N = 35*	0.0130	–0.0080	1.2040
	(0.0022)	(–0.0011)	[1.3425]
Mergers/acquisition/disposal, *N = 15*	0.0170	–0.0120	0.5910
	(–0.0150)	(–0.0110)	[1.0665]
	(Days –30 to 1 year)		
Corporate governance, *N = 35*	0.0011	0.0221	2.4290*
	(0.0013)	(0.0301)	[3.3425]***
Mergers/acquisition/disposal, *N = 15*	–0.0032	–0.0123	–1.6453*
	(–0.0045)	(–0.0192)	[–2.4567]**

Panel B: Market-adjusted returns

Event window	MSWG-targeted mean (median) 1	Non-targeted mean (median) 2	*t-statistics* [*Z*-statistics] 3
Short window	(Days –30 to +5)		
Corporate governance, *N = 35*	0.0090	0.0012	1.0503
	(0.0040)	(0.0030)	[1.0940]
Mergers/acquisition/disposal, *N = 15*	0.0030	0.0140	0.8902
	(0.0020)	(0.0090)	[1.4190]
Long window	(Days –30 to +60)		
Corporate governance, *N = 35*	0.0050	–0.0009	0.4635
	(0.0066)	(–0.0023)	[0.9000]
Mergers/acquisition/disposal, *N = 15*	–0.0021	–0.0011	–0.5434
	(–0.0045)	(0.0034)	[0.3456]
	(Days –30 to 1 year)		
Corporate governance, *N = 35*	0.0019	0.0012	1.0435
	(0.0034)	(0.0010)	[1.0876]
Mergers/acquisition/disposal, *N = 15*	–0.0021	–0.0190	–0.2342
	(–0.0031)	(–0.0192)	[–0.2222]

Note: *** indicates significance at the 0.01 level; **indicates significance at the 0.05 level; *indicates significance at the 0.10 level.

Changes in the Financial Characteristics of Firms One Year After Initial MSWG Activism

In this section, we report the results from testing the hypothesis that there are significant differences in the means and medians of Δ*Sales*, Δ*Assets*, Δ*MTB,* Δ*EBITDA,* Δ*CFO,* Δ*CAPEX*, Δ*CST,* Δ*CASH,* Δ*LIQ,* Δ*DEBT* and Δ*DEBT* for MSWG-targeted firms and non-targeted firms one year after initial MSWG activism. We calculate changes between the first year (i.e., t + 1) subsequent to the initial MSWG activism at time t.

The t-statistics and Z-statistics show significant changes in *EBITDA* and *CFO* for MSWG-targeted firms as compared to non-targeted firms in the first year after MSWG activism at the 1% significance level (Table 7). This result is similar to Shome and Singh (1995), who also report an increase in operating the income-to-total-assets ratio of targeted firms between years –3 and +2. When examining changes in *CASH* and *DPS*, we do not find significant differences in the mean or median cash holdings and dividends of MSWG-targeted firms versus non-targeted firms. According to agency theory, the intervention of activists should increase dividend payments as an indication that management is returning cash in excess of their required investment needs to shareholders. However, we do not observe such trends in MSWG-targeted firms. Overall, these findings seem to suggest that MSWG activism has a stronger and immediate impact on firm profitability and cash flows, but cash holdings, capital expenditures and dividends remain relatively unaffected by MSWG initiatives. It is possible that targeted firms have stable or fixed dividend policies and that most of their investments are oriented either towards replacement or maintenance, which may require continuous spending.

Changes in the Financial Characteristics of Firms Two Years After Initial MSWG Activism

We further investigated whether findings related to the performance of MSWG-targeted firms in the short run are reversed in the second year after MSWG activism. Specifically, we report the results from testing the hypothesis that there are significant differences in the means and medians of Δ*Sales*, Δ*Assets*, Δ*MTB,* Δ*EBITDA,* Δ*CFO,* Δ*CAPEX*, Δ*CST,* Δ*CASH,* Δ*LIQ,* Δ*DEBT* and Δ*DEBT* between MSWG-targeted firms versus non-targeted firms two years after MSWG activism. We calculate changes between the second year (i.e., t + 2) and initial MSWG activism at time t.

Table 7
Changes in MSWG-targeted firm performance after one year after activism.

This table summarises changes (Δ) in firm sales, assets, market-to-book ratio, earnings before interest, taxes, depreciation and amortisation, cash flows from operations, capital expenditure, cash holdings, liquidity, debt and dividends between the second fiscal year following and prior to MSWG involvement in MSWG-targeted firms (Column 1) and non-targeted firms (Column 2). Column 3 shows *t*-statistics and Z-statistics for the differences between means and medians, respectively, as reported in Columns 1 and 2. The *t*-statistics indicate the differences between means, assuming unequal variances, and *Z*-statistics are based on a Wilcoxon signed ranked test. The means and medians [i.e., the figures in square brackets] are calculated using financial data in nominal terms. The sample consists of 112 MSWG-targeted firms and 112 non-targeted firms.

	MSWG-targeted mean [Median] (1)	Non-targeted mean [Median] (2)	*t*-statistics [*Z*-statistics] for the difference between columns 1 and 2
ΔSales (million)	280.0003 [1.0500]	71.1594 [–2.3050]	1.0180 [–1.1354]
ΔAssets (million)	763.8796 [–0.1050]	169.2156 [1.6200]	1.1541 [–1.5298]
ΔMTB	0.1496 [0.1100]	0.2236 [0.0700]	–0.4060 [–0.1463]
ΔEBITDA	0.0308 [0.0177]	–0.0041 [–0.0024]	2.1422** [–2.3538]**
ΔCFO	0.0095 [0.0065]	–0.0048 [–0.0028]	2.4421** [–2.2088]
ΔCAPEX	0.05113 [–0.0250]	–0.1758 [–0.0150]	0.3021 [–0.1312]
ΔCST	94.4033 [0.8100]	47.6081 [0.6000]	0.7801 [–1.0660]
ΔCASH	0.6820 [0.8954]	0.1392 [0.3950]	0.2165 [–0.3052]
ΔLIQ	–0.2609 [0.0150]	0.0739 [0.0250]	–0.5331 [–0.4223]
ΔDEBT	0.0028 [–0.0004]	0.0015 [0.0000]	0.0781 [–0.5098]
ΔDPS	0.0100 [0.0000]	0.0063 [0.0000]	0.2241 [–0.4415]

Note: *** indicates significance at the 0.01 level; **indicates significance at the 0.05 level; *indicates significance at the 0.10 level.

Table 8
Changes in MSWG-targeted firm performance two years after activism.

This table summarises changes (Δ) in firm sales, assets, market-to-book ratio, earnings before interest, taxes, depreciation and amortisation, cash flows from operations, capital expenditure, cash holdings, liquidity, debt and dividends between the second fiscal year following and prior to MSWG involvement in MSWG-targeted firms (column 1) and non-targeted firms (column 2). Column 3 reports the *t*-statistics and *Z*-statistics for the differences between the means and medians reported in Columns 1 and 2. The *t*-statistics indicate the differences between means, assuming unequal variances ,and *Z*-statistics are based on a Wilcoxon signed ranked test. The means and medians (i.e., the figures in square brackets) are calculated using financial data in nominal terms. The sample consists of 112 MSWG-targeted firms and 112 non-targeted firms.

	MSWG-targeted mean [Median] (1)	Non-targeted mean [Median] (2)	*t*-statistics [*Z*-statistics] for the difference between columns 1 and 2
ΔSALES	233.6207	113.3675	–0.6170
(million)	[20.1300]	[33.7850]	[–0.4470]
ΔASSETS	718.5642	103.5660	–0.1459
(million)	[10.0300]	[28.1100]	[–0.9449]
ΔMTB	0.2747	0.4240	–0.7321
	[0.1600]	[0.1800]	[–0.3090]
ΔDEBT	–0.0003	–0.0081	0.2571
	[0.0010]	[–0.0015]	[–0.3421]
ΔCAPEX	–0.0769	–0.2553	0.0932
	[–0.0900]	[–0.0100]	[–0.2660]
ΔCST	138.2558	32.7203	0.8190
	[3.7800]	[3.5400]	[–0.9976]
ΔCASH	1.4617	0.4892	0.1564
	[1.3000]	[–0.1450]	[–0.3432]
ΔEBITDA	0.0188	–0.0061	2.3459***
	[0.0132]	[0.0052]	[2.7190]***
ΔCFO	0.0179	–0.0064	1.4421
	[0.0125]	[–0.0025]	[–0.6745]
ΔDPS	0.0148	0.0140	–0.1865
	[0.0000]	[0.0000]	[–0.4653]
ΔLIQ	–0.4056	0.3206	–0.9190
	[0.0700]	[0.0650]	[–0.0834]

Note: *** indicates significance at the 0.01 level; **indicates significance at the 0.05 level; *indicates significance at the 0.10 level.

The *t*-statistics and *Z*-statistics show a significant difference only for *EBITDA* for MSWG-targeted firms as compared to non-targeted firms at the 1% significance level (Table 8). This result suggests that MSWG-targeted firms remained profitable even in the second year after initial MSWG activism. It is apparent that short-run performance improvements (i.e., the 1-year change reported earlier) are not reversed in the second year. This result is similar to earlier studies (Bethel, Liebeskind & Opler, 1998; Klein & Zur, 2009). Bethel et al. (1998) also find a modest increase in the targeted firm's ROA the second and third years after a blockholders-activist targets a firm. We find that there is an increase in *ΔMTB* for MSWG-targeted firms, but this is not significantly different from non-targeted firms. Meanwhile there are reductions in *CAPEX, DEBT* and *LIQ* for MSWG-targeted, but these variables are not significantly different from those of non-targeted firms at any conventional level of significance.

CONCLUSION

This paper examines the impact of MSWG activism on the performance of MSWG-targeted firms in Malaysia. We find that the MSWG has targeted those firms that have relatively higher levels of institutional shareholdings. MSWG-targeted firms have high levels of cash holdings and relatively lower amounts of debts on their balance sheets. This finding is consistent with the predictions based on free cash flow and agency cost theories. Using equity returns data, we find that MSWG-targeted companies earn statistically significantly greater returns in the short term and over the long run as compared to non-targeted firms, and MSWG-targeted firms are able to sustain their positive operating performance two years after initial MSWG activism.

Our findings imply that the MSWG has played an important role in addressing agency problems in Malaysian firms. In particular, its involvement has provided consistent improvements in the profitability of firms as well as increases in shareholder wealth. These results seem to indicate that though the MSWG's approach to activism might not be comparable to the approaches of independent activists found in the developed financial markets, the MSWG does make a difference in providing minority shareholders with a resourceful solution to information asymmetries. We propose that in addition to quantitatively evaluating the impact of the MSWG impact on firm performance, future research should look into qualitative aspects as well. In this regard, a survey on investor perceptions of the MSWG's role in promoting shareholder rights would be a good starting point. In addition, future studies can contribute a greater level of analysis if they are able to draw on the entire population of MSWG-targeted firms. Furthermore, there is also a need to explore avenues with respect to how the MSWG can achieve complete financial independence from government donors to become a truly activist group for shareholders.

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