International Journal of China Studies
Vol. 16, No. 2, December 2025, pp. 95–124 https://doi.org/10.22452/ijcs.vol16no2.4

Does Foreign Ownership from China and Hong Kong Decrease Investment Efficiency of Malaysia Firms? An Empirical Investigation

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Abstract

Foreign investment is becoming increasingly significant in emerging economies, but its effect on efficiency of domestic firms remains ambiguous. In Malaysia, foreign ownership is subject to regulatory restrictions and institutional frameworks. It remains unclear, however, whether foreign investors contribute to efficient capital allocation. Therefore, this study conducted an in-depth analysis on 455 public listed Malaysian firms, specifically on the relationship between foreign ownership and firm-level capital allocations, captured by sensitivity of investment expenditure to investment opportunities (investment-Q sensitivity). The findings indicate that foreign ownership has no significant impact on investment efficiency, and this is consistent across different ownership intervals. Nevertheless, the effect of foreign ownership varies by country of origin. Investments from Japan, Singapore and Western countries have had no significant impact on investment efficiency, while those from China and Hong Kong are associated with significant reduction. The findings, hence, suggest the importance of investor origin and fit when formulating investment policies and designing governance frameworks to facilitate efficient capital allocation.

Keywords: *Investment Efficiency, Countries of Origin, Foreign Ownership, Malaysia, China and Hong Kong.*

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1. Introduction

The determinants of a firm's capital allocation are an important area of research. In a frictionless setting, the firm's investment should be guided by opportunities as measured by Tobin's Q (Stein, 2003). However, a firm's investment decision is often distorted by imperfections in capital markets. Prior studies have identified information asymmetry (Chen et al., 2007) and agency problems (Jiang et al., 2011) as key determinants of the sensitivity of firm investment to stock price. Empirical studies have explored the relationship between ownership and sensitivity of firm investment to stock price (Chen et al., 2017; Rashed et al., 2018). They have noted that information asymmetry between managers and external investors can result in suboptimal capital allocation, while agency conflicts may prompt managers to pursue self-interests at the expense of company-wide value.

Agency theory advocates that ownership structure can mitigate these inefficiencies; for instance, concentrated ownership provides incentives for active monitoring and pressures managers to adopt transparent practices (Shleifer & Vishny, 1997; Panda & Leepsa, 2017). Similarly, managerial ownership reduces agency costs by aligning the interests of owners and managers (Jensen & Meckling, 1976; Mustapha & Che Ahmed, 2011).

Foreign ownership has received increasing attention in recent scholarship, especially in this era of rapid globalisation. As external investors, foreign shareholders are constrained by information asymmetries largely due to their unfamiliarity with local business practices and which have often prompted them to impose stricter governance rules as well as demand greater disclosure from their investee firms (Tsang et al., 2019). They may also transfer expertise in investment, technology, and management practices to improve investment efficiency (Chen et al., 2017). Resource-based theory (RBT) suggests that foreign investors provide unique assets, such as advanced technology, to improve production processes and organisational practices. These resources are expected to enhance the domestic firms' ability to access investment opportunities and improve their efficiency (Carney et al., 2019).

The benefits of foreign ownership depend on institutional conditions. Foreign shareholders typically have greater impact on firm efficiency where institutions are weak, but their influence is limited in robust institutional environments (Aggarwal et al., 2011). The investor's country of origin also matters. Investors from advanced economies typically possess superior

monitoring capabilities and expertise (Aggarwal et al., 2009; Lindemanis et al., 2022). Conversely, investors from developing economies may lack these skills (Jiang & Kim, 2020). In extreme cases, the latter tend to expropriate resources for self-interest, thereby negatively affecting investment performance (Greenaway et al., 2014; Makino et al., 2023).

In this context, Chinese investors have drawn significant attention since the 2013 announcement of the Belt and Road Initiatives (BRI). China's outward foreign direct investment (OFDI) global shares rose from 7.6 per cent in 2013 to 10.9 per cent in 2022. Its FDI flow increased from US$878 billion to US$1,631.2 billion over the same period, and its FDI stock (US$2.75 trillion) ranked third globally after US and Netherlands in 2022 (MOFCOM, 2023). In spite of this, Chinese companies are often associated with weak governance, limited board independence and prevalent political interference. This raise concerns that national objectives are prioritised over value creation (Bardhan, 2020; Sabbaghi, 2016; Lazzarini & Musacchio, 2018). Nevertheless, some findings challenge this view, pointing that legal reforms in developing countries have contributed to strengthening of their governance standards (Mohapatra & Ghosh, 2023). Chinese investors also contribute financial resources and infrastructure expertise that enhance investment efficiency of domestic firms in related projects (Li et al., 2020).

Malaysia presents a relevant case for examining the relationship between foreign ownership and investment efficiency. Although the Malaysian government actively promotes FDI through incentives, such as Pioneer Status and the Investment Tax Allowance, their participation is subject to significant sectoral restrictions. Foreign equity, for example, is capped at 30 per cent in commercial banking, 70 per cent in insurance and takaful, and 49 per cent in telecommunication (PwC, 2025; MITI, 2024). In distributive trade, foreign-owned companies must meet stringent requirements, including minimum capital thresholds, allocate 30 per cent equity to Bumiputera shareholders, appoint Bumiputera directors, and mandatory shelf allocations for local products (KPDN, 2020). Beyond these formal restrictions, bureaucratic hurdles, policy uncertainty, and overlapping approval processes together limit the potential efficiency gains (Tham & Jesuthasan, 2020; BNM, 2024).

Therefore, how investors respond to these institutional frictions depends on their origin and capabilities. Investors from developed economies emphasise transparency, disclosure, and governance practices in efforts to

increase efficiency. In contrast, some emerging-market investors, particularly from China, may pursue state-linked objectives that distort decision making, even as their financial strength and infrastructure expertise generate efficiency gains in selected projects (Lazzarini & Musacchio, 2018; Makino et al., 2023; Li et al., 2020).

These contrasting tendencies highlight that the impact of foreign ownership on investment efficiency is likely to vary by country of origin. Malaysia's recent FDI profile reflect this dynamic. Malaysia is a regular recipient of FDI flows from developed economies, such as Singapore (from MYR 90.729 billion in 2014 to MYR 168.537 billion in 2021), Japan (from MYR 66.732 billion in 2014 to MYR 80.686 billion in 2021), the Netherlands (from MYR 43.196 billion to MYR 63.239 billion) and the US (from MYR 35.902 billion in 2014 to MYR 59.575 billion in 2021). It is important to note that FDI stock from developing countries, especially from China, has increased over the years (from MYR 2.137 billion in 2014 to MYR 25.471 billion in 2021). In fact, Malaysia is the top 13th recipient of China's outbound FDI amounting to US$14.3 billion in 2023 (MOFCOM, 2024a; 2024b) and it is also ranked as top five foreign investors in Malaysia in the same year (MIDA, 2023).

This convergence of investors from developed and emerging economies makes Malaysia a compelling setting to examine whether foreign ownership has distinct effects on firms' investment efficiency. This study in particular, explores how foreign ownership from different countries may influence investment efficiency, shedding light on the interaction between investor origin and institutional context in emerging markets.

The rest of the paper is organised as follows. Related literature and hypotheses development are presented in section 2. Sample and variables used in the study are described in section 3 and the findings presented in statistics. The results, findings and implications are discussed in sections 4 and 5. Section 6 concludes the paper.

2. Literature Review and Hypotheses Development

2.1 Determinants of Investment Efficiency

In the perfectly efficient market assumption of Modigliani and Miller (1958) presented in the form of theorem, investment opportunities (as measured by Tobin's Q) should be the only determinant for a firm's involvement.

However, frictions in the capital markets of the real world could deviate from optimal level investment. Investment-related literature have, among others, identified information asymmetry and agency problems as the main obstacles to achieve optimal investment (Stein, 2003; Jiang et al., 2011; McLean et al., 2012).

Information asymmetry models suggest that there are information gaps between managers and investors, creating under-investment issue (Myers, 1984; Myers & Majluf, 1984). Debt and equity securities financing are preferred by managers for instance, when they believe these securities are overvalued based on the private information. Recognising this pattern, investors discount the value of new issue securities resulting in the reluctance of managers to issue new securities when they have profitable project. The outcome is underinvestment.

In contrast to information asymmetry models that assume managers act in the interest of shareholders, agency models proposed by Jensen and Meckling (1976) suggest that managers prioritise their self-interest and may not pursue the interests of shareholders. Thus, the conflict of interest leads to investment inefficiency. One classic example is the Jensen (1986) free cash flow hypothesis which posits that availability of substantial free cash flow increases motivation of managers to invest in projects that benefit themselves (empire-building motive), which results in overinvestment. This is supported by empirical evidence that agency conflicts increase overinvestment issue (Richardson, 2006; Asadi et al., 2021).

2.2 Foreign Ownership, its Origin of Country and Investment Efficiency

Foreign ownership has been proposed as an effective instrument to address information asymmetry and agency problems. Foreign shareholders are subject to information disadvantages due to their unfamiliarity with local business practices (Tsang et al., 2019). In order to address these asymmetries, foreign shareholders are motivated to monitor and enhance the corporate governance mechanisms of domestic firms (Leuz et al., 2009). This pressures domestic firms to practice greater corporate disclosure transparency and quality (Balakrishnan et al., 2014). In short, intensified monitoring and implementation of strong corporate governance reduce agency problem and promotes investment efficiency (Aggarwal et al., 2011; Bimo et al., 2022). Greater corporate disclosure transparency and quality reduce information asymmetry between investors and managers (Dutta & Nezlobin, 2017).

Moreover, foreign shareholders' global investment experience enhances the domestic firm's information processing capabilities and evaluation techniques, thus improving investment efficiency (Chen et al., 2017). Some studies also argue that foreign investors are reluctant to invest in poorly governed companies (Doidge et al., 2009; Cheng et al., 2013). Hence, the presence of foreign investors indicates lesser information problems and thus, reduces investment inefficiency. Nevertheless, the proportion of foreign ownership may contribute to another agency problem. Although a larger proportion of foreign ownership aligns large shareholders interest with others (Shleifer & Vishny, 1986), it increases the potential for resources expropriation for self-interest (Johnson et al., 2000). Thus, the proportion of foreign shareholdings may affect the outcome of investment decisions.

However, the impact of foreign ownership on investment efficiency may vary depending on the foreign investors' country of origin. Investors from different countries may have different characteristics in legal systems and governance structures, which may affect their monitoring capabilities to promote investment efficiency (Ilyas et al., 2024; Med Bechir & Jouirou, 2024).

Extant literature suggests that differences in the economic status of the shareholders' home country could affect the relationship between foreign ownership and firm performance. It is theorised that foreign ownership from developed countries access to advanced resources and extensive investment experiences improves domestic firm performance, whereas those from developing economies do not, as they lack these capabilities (Phung & Mishra, 2016). Therefore, owners from developed countries are expected to improve financial reporting quality and corporate governance of domestic firms (Biddle et al., 2009). In contrast, investors from developing countries are exposed to weaker corporate governance structures in their home countries (Al-ahdal et al., 2020). Nonetheless, empirical evidence suggests that benefits of foreign ownership from developed economies (Driffield et al., 2018) are limited. Findings also challenge the traditional view of weak governance in developing economics, as some countries have enhanced governance quality through legal reforms (Goel, 2018; Mohapatra & Ghosh, 2023). This suggests that the investor's country of origins may affect the way they deal with information asymmetry and agency problems.

Moreover, the effectiveness of foreign ownership may be affected by leadership style and organisational culture. Differences between management

approaches of foreign investors and local executives affect decision-making and collaboration (Dinesen et al., 2020). Shared culture and social norms build trust and improve knowledge exchange (Tan & Meyer, 2011). Ethnic – linked investors may better understand the local market which boosts investment efficiency (Abraham et al., 2010; Mao & Yang, 2016).

Studies have also suggested that investors from different countries pursue distinct objectives in their investment decision (Razzaq et al., 2021). These divergent motives are further shaped by institutional environments, cultural norms and technology gaps between home and host economies (Ford et al., 2008). Moreover, studies that have used RBT suggest that foreign investors from different countries possess distinct, firm-specific advantages that vary based on their home-country environments (Barney, 1991). Japanese firms, for example, leverage their strength in lean manufacturing and R&D intensity to enhance productivity and investment performance in their cross-border acquisition (Inoue et al., 2013). US investors' risk-taking culture (individualism) and capabilities (developed from their strong network resources and organisational slacks) may promote risk-taking investment behaviour (Mihet, 2013; Frijns, 2022). Thus, impact of foreign investors on the domestic firm's investment decision may be explained by their resource availability and cultural differences.

Therefore, the following hypotheses are proposed:

H1: There is a significant relationship between the level of foreign ownership and the investment efficiency of Malaysian firms.

H2: The country of origin of foreign ownership has a significant impact on the investment efficiency of Malaysian firms.

3. Research Design

3.1 Samples

The study analysed secondary data obtained from the published annual reports of all Malaysian firms listed on the main board of Bursa Malaysia between 2013 and 2019. A total of 455 firms was analysed after the exclusion of financial services sectors. This is because they are subject to distinct regulatory and higher systematic risk that directly constrain investment decisions to avoid systemic collapse (Diamond & Rajan, 2001; Brunnermeier & Sannikov, 2014). Moreover, their investment efficiency is also more sensitive to macroeconomic cycles and volatile compared

with non-financial sectors (Claessens et al., 2012). Table 1 depicts a sector distribution of the sample.

Table 1. Sectoral Distribution of Sample Firms

Sectors	No. of Sample Firms
Consumer Products & Services	85
Construction	39
Energy	18
Health Care	13
Plantation	33
Industrial Products & Services	136
Property	60
Technology	28
Telecommunications & Media	13
Transportation & Logistics	19
Utilities	11
Total	455

Source: Compiled by authors

3.2 Regression Models and Variables

Investment models developed by Fazzari et al., (1987), Baker et al., (2003), McLean et al., (2012) and Chen et al., (2017) are used to examine the effect of foreign ownership on investment efficiency. The sensitivity of investment-to-investment opportunities (Tobin's Q) are selected as the proxy for investment efficiency. The foreign ownership effects are formulated as:

$$I_{j,t} = \alpha_j + \alpha_t + \beta_1 \cdot CF_{j,t-1} + \beta_2 \cdot Q_{j,t-1} + \beta_3 \cdot FOWN_{j,t} + \beta_4 \cdot FOWN_{j,t} \times Q_{j,t-1} + \varepsilon_{j,t} \quad (1)$$

In specific, equation (1) is estimated using firm (α_j) and year (α_t) fixed effects to capture unobserved firm- and year-specific effects. Where dependent variable, $I_{j,t}$ is firm j's investment expenditure in year t, which is calculated as the sum of the yearly growth in property, plant, and equipment, add growth in inventory, add R&D expenditure, all deflated by lagged book value of assets.

The independent variables are cash flow (CF), Tobin's Q (Q), FOWN (foreign ownership) and interaction terms between FOWN and Q. Where,

CF is counted as earnings before extraordinary items plus depreciation and amortisation deflated by lagged book value of asset. Q is measured as sum of market value of stocks and the book value of debt divided by the book value of total assets (Bennouri et al., 2018). FOWN refers to foreign ownership which is proxy by percentage of shares (Chen et al., 2017; Tran, 2020). As discussed in previous section, while concentration of ownership is aligned with the interests of shareholders, a relatively large proportion of ownership might increase their intention to expropriate the resources from firms (Johnson et al., 2000). Hence, this study further examines the effects of proportion of FOWN on investment efficiency. This study divides FOWN into three groups, namely FOWN<20 (foreign shareholdings more than 0 per cent but less than 20 per cent), 20≤FOWN<33 (foreign shareholdings equal or greater than 20 per cent but less than 33 per cent) and FOWN≥33 (foreign shareholdings equal or greater than 33 per cent). This follows Chu and Cheah (2006) definition that shareholdings less than 20 per cent is considered as disperse structure and Bursa Malaysia's (2023) definition which is any person who is or a group of persons who together entitled to 33 per cent of shares and are therefore, considered as controlling shareholders. This study asserts that the impact of FOWN on investment efficiency could be different depending on the country of origin. The analysis hence, focuses on the largest foreign investment in Malaysia during the sampling period. They are identified as Singapore (F_SG), Japan (F_JPN), Netherlands and US.

There has been a steady flow of Chinese investment since 2013 (MOFCOM, 2023). Hong Kong is the key investment route for mainland China's investment, accounting for 56 per cent of China's cumulative outward investment stock as of end-2020 and 57 per cent in 2021 (Hong Kong Monetary Authority, 2024). Hong Kong is also considered as the key gateway of mainland China's investment with other countries; this based on its national 14th five-year plan (Choo & Xu, 2023). Hence, this study combines investment from China and Hong Kong in the analysis termed as (F_CNHK). Similarities in economic, political and culture of US and Europe make it appropriate to combine shareholders from Netherlands and US into one region termed Western investors (F_Western) (Demirbag et al., 2007). Additionally, several control variables such as firm size (SIZE), leverage (LEV) and firm age (AGE) are included in the model to account for firm-specific characteristics that may influence investment decisions as

a robustness check. They are measured as "total assets", "total liabilities divided by total assets" and "natural logarithm of firm's operating years" respectively. Lastly, this study takes natural logarithm of the variables in eq. (1) to reduce the influence of outliers. Table 2 below describes the variables.

Table 2. Summary of Variables

Variable Short Form	Variable Name	Definition and Description
$I_{j,t}$	Investment Expenditure	Firm *j*'s investment expenditure, calculated as the sum of the yearly growth in PPE, inventory, and R&D expenditures, are deflated by lagged book value of assets. This is the primary measure of investment efficiency.
CF	Cash Flow	Measured as earnings before extraordinary items plus depreciation and amortisation, deflated by lagged book value of assets. It serves as a proxy for internal financing to control for financial constraints.
Q	Tobin's Q	Measured as sum of the market value of stocks and book value of debt, divided by the book value of total assets. This variable represents investment opportunities.
FOWN	Foreign Ownership	The percentage of shares owned by foreign entities.
FOWN x Q	Foreign Ownership x Tobin's Q	The interaction between FOWN and Q.
FOWN<20	Foreign ownership < 20%	Foreign shareholdings more than 0% but less than 20%. It is used to examine if the effect of foreign ownership varies with its concentration.
20≤FOWN<33	20% ≤Foreign ownership<33%	Foreign shareholdings equal or greater than 20% but less than 33%.
FOWN≥33	Foreign ownership ≥33%	Foreign shareholdings equal or greater than 33%
FOWN<20 x Q	Foreign ownership < 20% x Tobin's Q	The interaction between FOWN<20 and Q.
20≤FOWN<33 x Q	20% ≤Foreign ownership<33% x Tobin's Q	The interaction between 20≤FOWN<33 and Q.
FOWN≥33 x Q	Foreign ownership ≥33% x Tobin's Q	The interaction between FOWN≥33 and Q.
Variable Short Form	**Variable Name**	**Definition and Description**

F_Western	Foreign ownership from Western countries	Foreign shareholdings by investors originating from Western countries.
F_CNHK	Foreign ownership from China and Hong Kong	Foreign shareholdings by investors originating from China and Hong Kong
F_JPN	Foreign ownership from Japan	Foreign shareholdings by investors originating from Japan.
F_SG	Foreign ownership from Singapore	Foreign shareholdings by investors originating from Singapore.
F_Western x Q	Foreign ownership from Western countries x Tobin's Q	The interaction between F_Western and Q.
F_CNHK x Q	Foreign ownership from China and Hong Kong x Tobin's Q	The interaction between F_CNHK and Q.
F_JPN x Q	Foreign ownership from Japan x Tobin's Q	The interaction between F_JPN and Q.
F_SG x Q	Foreign ownership from Singapore x Tobin's Q	The interaction between F_SG and Q.
SIZE	Firm Size	Measured by the firm's total assets. It is included as a control variable to account for potential differences in investment behaviour across firms of varying scale.
LEV	Leverage	Measured by the ratio of a firm's total debt to its total assets. It is included as a control variable to account for the impact of a firm's capital structure on its investment decisions.
AGE	Firm Age	Measured by the natural logarithm of firm's operating years. It is included as a control variable to capture the effects of firm maturity on investment patterns.

4. Results

4.1 Descriptive Statistics and Pearson Correlation Matrix

Statistics of the major variables are presented in Table 3. The average foreign ownership is relatively low (11.83 per cent). This may be due to political instability and frequent change of policy which decrease the confidence of foreign investors (Baker, 2020). Following this, foreign equity from various country of origin is also relatively low. Nonetheless, maximum value of overall FOWN is 81.1 per cent, with individual country contribution ranging between 52.03 per cent and 78.91 per cent. This explains that foreign shareholders prefer to hold concentrated ownership when they invest in Malaysia. Tobin's Q (TQ) mean value of 1.2982 and the median value of 0.8713 suggest that while on average, investors are confident on prospects, they lack confidence in most sampled firms, leading to a slight undervaluation.

The Pearson correlation matrix in Appendix A shows that the correlation coefficients of most explanatory variables are low, with one exception that FOWN is highly correlated with its interval and origin variables. This is expected as they are components derived from FOWN. However, this does not create a multicollinearity problem because FOWN and its component variables are examined in separate models. In addition, a variance inflation factor (VIF) test was conducted for all models. The VIF values range between 1.01 to 1.08 (see Appendix B). This confirms the absence of multicollinearity problem (Din et al., 2022).

Table 3. Descriptive Statistics

Variables	Mean	Median	Min	Max	Std. Dev.	Obs.
Investment Expenditures (RM'000) (I)	0.0835	0.0096	-8.3987	120.8618	2.2577	3,078
Cash flow (RM'000) (CF)	0.0757	0.0661	-1.3023	2.3209	0.1187	3,069
Tobin's Q (Q)	1.2982	0.8713	0.1264	21.3636	1.6354	3,125
Foreign Ownership (FOWN)	11.8729	4.0	0	81.1	17.6337	3,177
Foreign Ownership from China & Hong Kong (F_CNHK)	1.8367	0	0	72.2	8.2928	3,177
Foreign Ownership from Netherlands & United States (F_Western)	1.6050	0	0	61.82	5.3059	3,177
Foreign Ownership Singapore (F_SG)	4.0121	0.16	0	78.91	10.2476	3,177
Foreign Ownership from Japan (F_JPN)	0.7267	0	0	52.03	5.0390	3,177
Total Assets (Size)(million)	3,733.24	645.988	8.233	179,000	11,200	3,134
Leverage (LEV)	0.9501	0.3920	0.0043	73.294	5.1189	3,134
Natural logarithm of Firm Age (AGE)	3.5532	3.4340	0	14.8777	1.4843	3,183

4.2 The Relationship of Foreign Shareholdings with Investment Efficiency

Panel A of Table 4 contains the results of regressing investment (I) on cash flow (CF), investment opportunities (Q), FOWN and the interaction between FOWN and Q. In model 1, the results reveal that coefficient on FOWN x Q is positive but insignificant. This suggests that foreign ownership is not significantly associated with higher investment efficiency.

Models 2 to 4 are analysed to examine whether different proportions of foreign ownership affect domestic firm investment efficiency. The results indicate that the coefficients of FOWN<20 x Q, 20≤FOWN<33 x Q and FOWN≥33 x Q are not significant. Thus, hypothesis 1 is not supported. This explains that FOWN is not associated with less information asymmetry or better corporate governance irrespective of its proportions. In order to perform a robustness check, additional control variables are added into the model. Models 5 to 8 included firm size (SIZE), leverage (LEV) and firm age (AGE) as these firms' characteristic variables might potentially affect the investment decision of managers (Pindado et al., 2010; Owusu-Ansah et al., 2023). Results of equation (1) estimation concludes that overall FOWN and its proportion have no significant relationship with domestic firm investment efficiency.

In respect to countries of origin, Panel B of Table 4, namely models 1 to 4 show that coefficients of foreign ownership from Netherlands and US and Q (F_Western x Q), foreign ownership from Japan and Q (F_JPN x Q) and foreign ownership from Singapore and Q (F_SG x Q) are not significant. This suggests that foreign investors from these countries are not associated with domestic firm investment efficiency. However, the significant negative interaction of foreign ownership from China and Hong Kong and Q (F_CNHK x Q) suggest that with more investment opportunities (measured by Q), F_CNHK could have a negative impact on investment efficiency. Given the mixed results, hypothesis 2 is supported. The results of interaction of F_Western x Q, F_CNHK x Q, F_JPN x Q and F_SG x Q remain the same when the control variables are added into the estimation (model 5 – 8).

In sum, this result suggests that foreign ownership does not promote optimal investment decisions in Malaysian firm. In a worst-case scenario, foreign ownership from China and Hong Kong could deviate the investment decision of a domestic firm from optimality.

5. Discussion and Implications

Table 4. The Impact of Foreign Ownership on Investment Efficiency

Panel A: The role of foreign ownership (Basic model)					**Additional controls**			
I	FOWN	FOWN <20	20≤ FOWN <33	FOWN ≥33	FOWN	FOWN <20	20≤ FOWN <33	FOWN ≥33
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CF	-0.0228	-0.0384	-0.0389	-0.0413	-0.2944	-0.0516	-0.0523	-0.05791
	(-0.77)	(-0.56)	(-0.57)	(-0.61)	(-0.85)	(-0.63)	(-0.64)	(-0.72)
Q	0.0216	0.01766*	0.0214	0.01866	0.0191	0.0170	0.0191	0.0157
	(1.64)	(1.65)	(1.57)	(1.31)	(1.53)	(1.57)	(1.47)	(1.17)
FOWN	-0.0034*				-0.0043**			
	(-1.73)				(-2.08)			
FOWN x Q	0.00132				0.0020			
	(0.53)				(0.82)			
FOWN<20		-0.0047				-0.00288		
		(-1.02)				(-0.66)		
FOWN<20 x Q		0.00378				0.0016		
		(0.78)				(0.36)		
20≤FOWN <33			0.0070				0.0103	
			(0.47)				(0.69)	
20≤FOWN <33 x Q			-0.0039				-0.0069	
			(-0.31)				(-0.55)	
FOWN≥33				-0.0151				-0.01658
				(-0.72)				(-0.81)
FOWN≥33 x Q				0.0096				0.01082
				(0.57)				(0.66)
SIZE					0.0119*	0.0111*	0.0114*	0.0118*
					(1.82)	(1.75)	(1.74)	(1.86)
LEV					0.0055	0.0083	0.0090	0.00414
					(0.37)	(0.52)	(0.55)	(0.31)
AGE					0.0019	0.0021	0.0035	0.0027
					(0.16)	(0.19)	(0.31)	(0.24)
Intercept	2.2314***	2.2627***	2.2588***	2.2657***	2.06542***	2.1159***	2.1036***	2.1127***
	(258.20)	(43.72)	(45.61)	(45.50)	(20.80)	(42.05)	(40.96)	(40.88)
Within R-squared	0.0069	0.0063	0.0067	0.0077	0.0093	0.0085	0.0090	0.0101
Observation	3024	3024	3024	3024	3024	3024	3024	3024

*This table reports fixed effect regression estimates of Eq.(1). Model 1 to 4 is the basic model. Model 5 to 8 adds SIZE, LEVERAGE, AGE to the control variables. The full samples include 455 firms and 3,024 firm years. All t-statistics (in parentheses) are based on robust, firm-clustered standard errors. Years dummies and industries dummies are included in all specifications. ***,** and * denote statistical significance at the 1%, 5%, and 10% level respectively.*

Panel A: The role of the countries of origin of foreign ownership (Basic model)					**Additional controls**			
I	F_ Western	F_CNHK	F_JPN	F_SG	F_ Western	F_CNHK	F_JPN	F_SG
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CF	-0.03939	-0.0379	-0.0406	-0.0395	-0.0526	-0.05242	-0.0534	-0.0537
	(-0.58)	(-0.55)	(-0.60)	(-0.58)	(-0.64)	(-0.64)	(-0.65)	(-0.65)
Q	0.0203	0.0209	0.02027	0.0202	0.01792	0.01836	0.0178	0.0177
	(1.53)	(1.61)	(1.56)	(1.55)	(1.41)	(1.49)	(1.44)	(1.44)
F_Western	-0.00176				-0.00278			
	(-0.70)				(-1.12)			
F_Western x Q	0.00227				0.0023			
	(0.93)				(0.99)			
F_CNHK		0.00523				0.0057		
		(1.63)				(1.86)		
F_CNHK x Q		-0.0042**				-0.0047***		
		(-2.15)				(-2.61)		
F_JPN			0.00070				-0.0001	
			(0.32)				(-0.05)	
F_JPN x Q			0.00430				0.0044	
			(1.37)				(1.48)	
F_SG				0.0627				0.0632
				(1.13)				(1.16)
F_SG x Q				-0.0757				-0.0761
				(-1.17)				(-1.20)
SIZE					0.01121*	0.0117*	0.0110*	0.0112*
					(1.74)	(1.84)	(1.71)	(1.74)
LEV					0.0080	0.0071	0.0094	0.0065
					(0.49)	(0.45)	(0.58)	(0.43)
AGE					0.00245	0.0005	0.0019	0.0001
					(0.22)	(0.05)	(0.17)	(0.00)
Intercept	2.2609***	2.2640***	2.2609***	2.2635***	2.1123***	2.1182***	2.1166***	2.1256***
	(45.32)	(45.38)	(45.19)	(45.17)	(41.32)	(42.93)	(41.91)	(43.45)
Within R-squared	0.0063	0.0070	0.0064	0.0071	0.0085	0.0093	0.0086	0.0099
Observation	3024	3024	3204	3204	3024	3024	3024	3024

*This table reports fixed effect regression estimates of Eq. (1). Model 1 to 4 is the basic model. Model 5 to 8 adds SIZE, LEVERAGE, AGE to the control variables. The full samples include 455 firms and 3,024 firm years. All t-statistics (in parentheses) are based on robust, firm-clustered standard errors. Years dummies and industry dummies are included in all specifications. ***,** and * denote statistical significance at the 1%, 5%, and 10% level respectively.*

The findings of this study do not support the traditional and prevalent view that foreign ownership promotes investment efficiency. Thus, it can be surmised that foreign investors may not always possess superior information processing and monitoring capabilities. They may also lack the motivation to participate in domestic investment decisions even if they do possess such capabilities. One possible reason is the generally low proportion of foreign ownership in Malaysian firms. Given the disproportionately high cost of monitoring relative to the potential benefits, smaller shareholders often have little incentive to engage in governance improvement and decision – making (He et al., 2022).

Nonetheless, the current findings also reveal that the interaction of FOWN≥33 x Q is insignificant, suggesting that even higher proportions of foreign ownership do not necessarily promote investment efficiency in Malaysian listed firms. Foreign investors may pursue objectives that do not maximise financial performance of their investee firms (Aguilera & Jackson, 2003). In extreme cases, they may even expropriate resources from domestic firms, as suggested by Johnson et al. (2000). These factors may jointly divert investment decisions away from the optimal level.

The findings also confirm that the country of origin of foreign ownership can have different impacts on the domestic firm's investment efficiency. Specifically, foreign ownership from Netherlands, United States, Japan, and Singapore does not significantly influence investment decisions, while those from China and Hong Kong negatively affect investment efficiency. This supports the argument that foreign investors from different countries possess varying monitoring capabilities, shaped by the governance structures of their home countries. Li and Hao (2015) argue that cultural practices of 'personal relationship' (私人关系 *siren guanxi*) in Chinese community can undermine formal governance mechanism by prioritising personal connections over legal and regulatory framework. Other cultural factors such as 'face' (面子 *mianzi*), 'Confucianism' (儒家思想 *rujia sixiang*) and 'collectivism' (集体主义 *jiti zhuyi*) also reduce the effectiveness of corporate governance. Hence, board independence of Chinese companies is often subject to criticism. This is because their independent directors are typically appointed by large shareholders and they may hesitate to express professional opinions to preserve relationships with these shareholders (Peng et al., 2021). The significant negative coefficient of F_CNHK x Q suggests that investors from China and Hong Kong may prioritise social and political objectives

instead of profit maximisation (Estrin et al., 2016; Lazzarini & Musacchio, 2018). In fact, this finding aligns with that of Chen et al. (2011) who suggest that Chinese firms are routinely subject to government intervention which reduces their investment efficiency. In the specific sectoral analysis, it is also found that Chinese firms investment efficiency in new energy industry is low (Zeng et al., 2018).

In contrast, investors from other countries show insignificant effect on investment efficiency. One possible explanation is that their influence depends on the compatibility of local leadership styles and organisational culture. According to Kennedy (2002), leadership in Malaysia typically depends on connection, hierarchy, and reaching consensus. These practices are greatly different from other countries; for instance, it is found that Japanese companies prioritize collective decision-making (Konings, 2000) while, Singaporean firms prioritise efficiency and meritocracy backed by a strong performance-driven bureaucracy system (Jones, 2016; Cordeiro, n.d.). Similarly, Western investors often promote shareholder value, financial discipline, and innovation over the day-to-day resource allocation (Krugov & Shaw, 2024; Shin, 2013). Therefore, these foreign investors' contributions are more obvious in governance, capital access, or institutional reforms than improving firm-level resource allocation or investment efficiency. Malaysia, for example, has implemented corporate governance reforms modelled after Western practices (Al-Hiyari, 2017). These discrepancies highlight that even well-resourced foreign investors may not enhance investment efficiency if their leadership style and cultural practices do not match local norms.

The current findings provide some insights for policymakers and business owners. The generally low level of foreign equity participation is likely to affect their willingness to engage in local governance. This highlights the need for policy reforms that attract foreign investment while ensuring alignment with domestic development priorities.

Furthermore, foreign investors from developed countries with strong corporate governance systems may not necessarily promote investment efficiency domestically. More importantly, the compatibility of foreign investors with domestic corporate governance practices, leadership styles, and cultural norms should be the primary concern when accepting foreign investment.

Policymakers should also evaluate the underlying objectives of foreign

investors to verify that they are consistent with domestic efficiency and economic goals. This is particularly relevant for Chinese and Hong Kong investment, as they may have political goals in addition to financial objectives. Chinese investors in the construction sector for example, often claim that Malaysian workers lack skills leading them to hire workers from China (Todd & Slattery, 2018). Similarly, in Indonesia, Chinese investors tend to favour hiring Chinese migrant workers instead of locals (Sitorus et al., 2023). This is not only destructive for the local labour market but also raise concerns whether this action is meant to decrease the pressure of high unemployment rate in China at the expense of domestic firm investment performance. It is worth noting that China's overall unemployment rate is 5.1 per cent while youth unemployment is 15.23 per cent in 2024 (Statista, 2024; Trading Economics, 2025).

The negative coefficient of CF, though not statistically significant, may indicate that internal funding is not necessarily cheaper than external funding. This suggests a high opportunity cost of retained earnings in Malaysian financial market (Myers & Majluf, 1984) and potential agency problem in managing internal fund. This structural factor may also affect the effectiveness of foreign ownership in promoting investment efficiency.

6. Conclusion

This study concludes that foreign ownership does not promote investment efficiency in Malaysian listed firms, irrespective of its interval of shareholdings. Therefore, foreign ownership alone does not guarantee superior monitoring, governance, or operational improvements.

Moreover, Chinese and Hong Kong shareholdings negatively affect domestic firms' investment efficiency. This reflects the potential influence from political or social objectives and home-country governance and cultural practices (Estrin et al., 2016; Lazzarini & Musacchio, 2018). Given the fact that Chinese and Hong Kong investment is important for the growth of the Malaysian economy, policymakers should design investment approval schemes that align foreign ownership interests with domestic development priorities. The effects of foreign investment are generally insignificant, reflecting perhaps the misalignment with Malaysian management styles, organisational culture and priorities, although they can still contribute through capital access or technology transfer.

Lastly, these findings highlight practical implications that policymakers

and domestic firms should consider when exploring foreign ownership, especially in the area of proportion of foreign ownership, country of origin, objectives, and cultural fit which together contribute to increase investment efficiency. Nonetheless, further investigations are crucial to generalise these findings. Future studies could include a large and more diverse sample from many countries. In addition, the effects of foreign ownership may be affected by local government and regulatory intervention. These factors could be further explored to better understand the relationship between foreign ownership and investment efficiency.

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Appendix A. Pairwise Correlation Coefficients

Variable	I	CF	Q	FOWN	FOWN<20	20≤FOWN<33	FOWN≥33
I	1.0000						
CF	0.0108	1.0000					
Q	0.0129	0.2467***	1.0000				
FOWN	0.0008	0.1410***	0.1776***	1.0000			
FOWN<20	-0.0221	0.0127	-0.0105	0.1771***	1.0000		
20≤FOWN<33	0.0429**	0.0327*	0.0091	0.3280***	-0.2823***	1.0000	
FOWN≥33	-0.0101	0.1093***	0.1776***	0.6507***	-0.3902***	-0.1006***	1.0000

Variable	I	CF	Q	FOWN	FOWN<20	20≤FOWN<33	FOWN≥33
F_Western	-0.0108	0.2809***	0.2706***	0.3516***	0.2529***	0.0440**	0.1321***
F_CNHK	-0.0079	-0.0743***	-0.0058	0.3821***	-0.0606***	0.1253***	0.3443***
F_SG	0.0104	0.0512**	0.0202	0.5673***	0.0361**	0.2546***	0.3736***
F_JPN	-0.0024	0.0446**	0.0176	0.2422***	-0.0463***	0.0926***	0.2158***
SIZE	-0.0090	0.0691***	0.0639***	0.1215***	0.1760***	-0.0017	-0.0098
LEV	0.0112	-0.0322	0.0122	-0.0237	0.0132	-0.0228	-0.0188
AGE	-0.0027	0.0053	-0.0948***	0.0147	0.0133	-0.0286	0.0228

Variable	F_Western	F_CNHK	F_SG	F_JPN	SIZE	LEV	AGE
F_Western	1.0000						
F_CNHK	-0.0107	1.0000					
F_SG	-0.0147	-0.0297	1.0000				
F_JPN	0.0265	0.0125	0.1213***	1.0000			
SIZE	0.0435***	0.0484***	-0.0084***	-0.0364***	1.0000		
LEV	0.0035	-0.0414**	0.0025	0.0792***	-0.5038***	1.0000	
AGE	-0.0300	-0.0404**	0.0868***	0.0707***	-0.4779***	0.5080***	1.0000

****,**, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.*

Appendix B. Multicollinearity Diagnostics (VIF) – Panel A

Panel A: The role of foreign ownership on investment efficiency (Basic model)					**Additional controls**			
I	FOWN (1)	FOWN<20 (2)	20≤FOWN<33 (3)	FOWN≥33 (4)	FOWN (5)	FOWN<20 (6)	20≤FOWN<33 (7)	FOWN≥33 (8)
CF	1.01	1.01	1.01	1.01	1.10	1.10	1.10	1.10
Q	1.01	1.01	1.01	1.01	1.04	1.04	1.03	1.04
FOWN	1.01				1.03			
FOWN x Q	1.01				1.01			
FOWN<20		1.01				1.01		
FOWN<20 x Q		1.01				1.01		
20≤FOWN <33			1.01				1.01	
20≤FOWN <33 x Q			1.01				1.01	
FOWN≥33				1.01				1.01
FOWN≥33 x Q				1.01				1.01
SIZE					1.14	1.14	1.14	1.14
LEV					1.11	1.09	1.09	1.09
AGE					1.10	1.09	1.10	1.10
Mean VIF	1.01	1.01	1.01	1.01	1.08	1.07	1.07	1.07

Note: The table displays the Variance Inflation Factor (VIF) for the independent variables in each model.

Appendix B. Multicollinearity Diagnostics (VIF) – Panel B

Panel B: The role of foreign ownership origins on investment efficiency (Basic model)					**Additional controls**			
I	F_ Western (1)	F_ CNHK (2)	F_JPN (3)	F_SG (4)	F_ Western (5)	F_ CNHK (6)	F_JPN (7)	F_SG (8)
CF	1.01	1.01	1.01	1.01	1.10	1.10	1.10	1.10
Q	1.03	1.01	1.01	1.01	1.05	1.04	1.04	1.04
F_Western	1.03				1.06			
F_Western x Q	1.01				1.01			
F_CNHK		1.00				1.01		
F_CNHK x Q		1.00				1.00		
F_JPN			1.01				1.01	
F_JPN x Q			1.01				1.01	
F_SG				1.01				1.02
F_SG x Q				1.02				1.02
SIZE					1.15	1.14	1.14	1.14
LEV					1.10	1.09	1.09	1.09
AGE					1.10	1.10	1.10	1.10
Mean VIF	1.02	1.01	1.01	1.01	1.08	1.07	1.07	1.07

Note: The table displays the Variance Inflation Factor (VIF) for the independent variables in each model.