Review of Ownership Structures and Banking Efficiency: Implication to ASEAN-5

Chan Sok Gee
Universiti Tunku Abdul Rahman
E-mail: sokgee@yahoo.com

Mohd Zaini Abd Karim
Universiti Utara Malaysia
Email: zaini500@uum.edu.my

Abstract

Ownership structure is known as the distribution of equity with relation to votes, capital and the identity of equity owners (Holderness et al., 1999). Ownership structure served as an important element in corporate governance by influencing the type of incentives managers receives from the firm. This paper reviews recent studies on the effect of ownership structure on banking efficiency in the developing countries with the focus on ASEAN countries. Review of previous studies clearly indicates that types of ownerships did exert some influences towards the performance of the banks in terms of efficiency. Even though publicly-owned banks operated in an economically inefficiency environment, it is undeniable that the existence of publicly-owned banks are needed especially in economically less stable countries. This is because the government-owned banks or the state-owned banks can act as a catalyst to ensure the development of certain priority sectors that are believed to contribute to the long run economic growth of the countries. Besides that, the existence of state-owned banks and government-ownership is crucial for the countries to have a balance social and economic objective. In addition, countries need to encourage the entry for foreign participants into the banking sectors to improve the quality and availability of the financial services towards the domestic financial market (Levine, 1996). The entry will encourage domestic banks to compete more efficiently in terms of costs and profits in order to survive in this environment. The spillover effects in terms of technology brought by the foreign participant will enable the creation of a more modern banking environment in the host countries. Not only that, with a balance combination of state-, privately-, and foreign-owned banks, it is believed that the banking industry in the developing countries will be able to survive in the competitive environment while helping the government effectively implement the macroeconomics policies in the long run.

Keywords: Ownership Structure, Bank Efficiency, ASEAN-5

1. Introduction

Ownership structure is known as the distribution of equity with relation to voting rights, capital and the identity of equity owners (Holderness et al., 1999). Ownership structure served as an important element in the corporate governance because they will affect the managers' performance by influencing the type of incentives receives from the firm. The classical theory of managerial firm highlighted that the management-controlled firm exhibit different results as compared to owner-controlled firm due to the differences in the interest between managers and owners [Baumol (1959), Galbraith (1967), Marris (1964), and Williamson (1964)]. The main objective of the owners is to maximize the market value of the share of the firms while the managers choose to maximize utility in terms of power, security, status and income.

On the other hand, the agency theory by Jensen and Meckling (1979) states that ownership structure served as a part of firm's production function, technology, and productive resources in determining the efficiency and possibilities of survival of different organization forms. Therefore, types of ownership structure are crucial in determining firm efficiency level especially in the banking industry. This is due to the fact that this industry is always characterized with the complexity due to information asymmetries and highly regulated by the regulatory authority as pointed out by Barth et al. (2004). Hence, it is crucial to determine the most suitable types of ownership structure in governing the banks performance of a particular country in order to avoid agency costs (Fama and Jensen, 1983a) and also to serve as a guideline for the policies implementation such as the act of privatization in boosting the firms' performance and the economy as a whole.

The ownership structure in the banking industry can be generally divided into public, private, and foreign ownership. Out of these structures, the ownership of the banks can also be broadly divided into dispersed and concentrated ownership based on the amount of shareholdings of the inside and outside shareholders. Up to date, many studies had been done in terms of the effect of ownership structure towards the performance of the banks especially on the area of corporate governance, namely the effect of insider and outside shareholders of the banks and the banks' performance. Nevertheless, there are still lacks of studies on the types of ownership structure in terms of publicly-owned, privately-owned and also foreign-owned banks [Among the studies done are documented in Shleifer and Vishny (1994), Buch (1997), Barth et al. (2004), Megginson (2005), Boubakri et al. (2005), Bonin et al. (2005a), Choi and Hasan (2005), Mohielding and Nasr (2007)]. Furthermore, studies on the effects of ownership structure towards the banking efficiency especially in the developing countries and the Asian in general are still inconclusive and need further attention especially when dealing with publicly-owned banks and privately-owned banks. There are still questions on the existence of government-owned banks in helping the development of an economy especially in the developing countries and Asian countries which mainly focus on the small and medium size enterprises. This served as the main justification of the existence of government-owned banks to ensure that the banking industry will not be dominated by foreign-owned banks in order to facilitate the credit allocation of the government to the small and medium size enterprises as well as the priority sectors in the developing countries (Vernon, 1979).

Hence, this paper reviews recent studies on ownership structure effect on banking efficiency in the developing countries to provide an insight for the best combination of ownership structures in the developing countries with the focus on ASEAN countries.

Section 2 reviews theoretically the roles played by different types of ownership structure towards the performance of a country's banking industry. Section 3 and 4 then review the studies of types of ownership structure by focusing on the effect of public-, private-, and foreign-owned banks towards banking efficiency in the developing countries in Section 3 and 4. Section 5 present some statistics on the types of banking ownership structure in the ASEAN-5. Finally, Section 6 provides some implications of the ownership structures on bank efficiency in the ASEAN-5 countries.

2. Ownership Structure and Banks' Performance

The ownerships of the firm are broadly divided into six categories, namely the personal or family majority ownership, dispersed ownership, dominant minority ownership, subsidiaries of foreign multinationals, government ownerships, and cooperatives (Thomsen and Pedersen, 1998)

Personal or family majority ownership refers to a person or a family owns a majority voting rights of the company. Hart (1988) pointed out that it is best to transfer the residual rights of control to the manager of an activity because the manager would have better access to the information as compare to the outside owners based on their involvement in the daily operation of the firm. Therefore, personal, and managerial ownership is crucial to curb information asymmetries between the company managers and outside owners.

Foreign ownership is defined when foreigners owns a voting majority of the company. This kind of ownership structure is mainly found in the research development-intensive industries with large economies of scale. This is mainly due to the policies of the government to encourage foreign investment to bring in the new technology into a particular sector such as the manufacturing sector and banking sector in order to develop the activities in these sectors.

Public ownership refers when the local or national government owns the majority voting of the company. It is mainly meant to overcome market characterized with market failures such as monopoly power, externalities, or large economies of scale (Shepherd, 1989).

The other type of ownership structure is cooperatives in which the company registered as a cooperative and normally available in the agricultural sector characterized by low income earning. This type of arrangement helps the farmers to increase their earnings by lowering the input prices and reduce the supply to the end market (Tirole, 1992).

Concentration of Ownership

The forms of concentration take place in terms of large shareholders, takeovers, and large creditors. The concentrated ownership exhibits superior in monitoring the managers' performance in maximizing the shareholder value. It is believed that the higher concentration or large shareholders resulted in substantial voting control that exert pressure on the management or even to drive out the management through fight or takeover (Shleifer and Vishny, 1986). Hence, large shareholders are manipulated to address the agency problem since they have enough control over the assets of the firm. Besides that, they also served as the sources of external financing for the firm (Shleifer and Vishny, 1997).

Nevertheless, according to Demsetz and Lehn (1985) large shareholders are not diversified and ended up bearing excessive risk. Moreover, large shareholders might result in conflict of interest between the firms, employees and managers when they pursued their own interest at the expense of other investors and employees. Hence, it might not serve as the best way to curb the agency problem and increase firm performance. Furthermore, the performance of the firms also depends on the share owned by the outside shareholders and inside shareholders.

Inside versus outside shareholders

The managers choose to maximize utility in terms of power, security, status and income and therefore they act to harm the benefits of the shareholders in the firms. This eventually affects the firms' performance since the managers pursue their own self-interest to maximize utility. Hence, it is argued that incentives should be given to the manager so that they will adopt investment and financing policies in line with the managers and owners' benefits. However, this will reduce the payoff to outside stockholders as the incentives will reduce as the portion of ownership increases by making the managers a part of the shareholders.

According to the theory of firm, Alchian and Demsetz (1972), partnerships create free-rider problems which resulted in the undersupply of productive inputs. Even by providing the managers with the shares of the companies it is believed that the managers who are also known as the insider shareholders will augment the cash flow of the firms by consuming additional non-marketable resources. Therefore, it is vital for the outsiders to solve the distributional of conflict by monitor the activities of the insiders (Muller and Warneryd, 2001). This justified the existence of outside ownerships or shareholders in the firms in order to increase the firms' performance.

In this case, outsiders which priority is the residual claims on the firms' earnings will force the insiders to distribute the produced surplus by provide evidence that the existence of the surplus. Furthermore, the outsider acts as the catalyst to correct the incentives with their entitlement to the firm's residual income. In equilibrium, the outsiders is said to be able to extract at least part of the surplus due to their right for residual claimant, therefore, less resources will be wasted due to the distributional conflict between the insiders.

Nevertheless, the proper percentage of shareholding are largely depends on the nature of the firms and therefore, it is crucial to study the firms' structure in terms of government-owned, privately-owned and foreign-owned.

Public versus private ownership

Economic theory states that institutions exist when it is efficient to do so that is when the social benefits of building the institutions exceed the transaction costs (Demsetz, 1967). Therefore, the government involves in the corporate governance of the firms in order to enhance the efficiency of the firms. The government involvement in governing the operations of a particular institution can be broadly divided into public interest theory and political interest theory.

Public interest theory claims that the institutions are developed based on public interests and the costs of maintaining the institutions are borne by the public (Pigou, 1920). Thus, the existence of market failures, negative externalities, and distributional issues are believed to hurt the public interest. Consequently, politician comes into the picture to improve the efficiency in the market by controlling the decisions of firms in order to maximize the social welfare, and improve on the decisions of private enterprises when monopoly power or externalities exert the divergence between private and social objectives (Shleifer and Vishny, 1994; Atkinson and Stiglitz, 1980).

According to Stiglitz (1989) market failures are usually found in less-developed economies. In the banking sector, the government is expected to take the leading role in ensuring that the national industry will not be dominated by foreign-owned enterprises. This is because government is able to assume larger risks as compared with private institution as well as to provide capital on the favorable terms to the banking industry (Vernon, 1979). Hence, it is undeniable that the role played by the government in banking sector of the developing countries is still pronounce and vital by enforcing direct regulation and comprehensive explicit deposit insurance in promoting the efficiency in the banking industry. Therefore, the state-owned banks played an important role to boost the economy in these countries.

Consequently, the public interest theory conform to the development views in which, government ownership is crucial to stimulate economic growth of the country. This is because the privately-owned banks are not fully developed in the economic institutions and thus unable to meet with the financing needs (Mohielding and Nasr, 2007). Therefore, the development of state-owned banks served as a catalyst to provide funding for the businesses in developing the economy of these countries. Bichsel and Spielmann (2004) pointed out that the state-owned enterprises are more consumer-friendly pricing and they are able to reduce the competing profit maximizing firm's ability to extract consumer surplus and hence reduce their monopoly power. However, cross-country experience pointed out that the need to achieve the government policy objectives had eventually affected the performance of the state-owned banks.

On the other hand, the political interest theory suggests that institutions are created for the benefit of the politicians and to facilitate the control of those in power. In this context, the cost is borne by the politician (Buchanan and Tullock, 1962; Shleifer and Vishny, 1994). The political view states that the state-owned banks are forced to pursue non-economic objectives such as maintaining excess employment, engaging in subsidies such as building factories in politically desirable locations and other benefits for social as well as political stability such as pricing output at below market clearing prices (Shleifer and Vishny, 1994). Therefore, the political interest theory is focus on wealth redistribution rather than efficiency by controlling the assets and converts them into wealth (Marx, 1982; Olson, 1993).

In addition, Shleifer and Vishny (1994) also highlighted that the economist view on the public enterprises in curing the market failures failed to work as the firms are highly inefficient due to political pressures as well as the pursuance of the politicians' interests which provide employment, subsidies, and other benefits to supporters to encourage votes. Besides that, the firms also produce goods desired by the politicians rather than consumers as well as charge prices significantly below marginal cost in order to win the political support from the public. Thus, this had created an impair ability for the state-owned banks to operate on the commercial terms because it had to financed the government policy objectives hence, distorting resources from profit maximization and led to inefficiencies in term of the overall operations of the banks. In addition, the protection given to state-owned banks by the government has created a culture in which managers are less diligent in maximizing revenues and minimizing the costs of the banks as a whole (Megginson, 2005). As a result, the state-owned banks are usually characterized with lower profit.

In this era of liberalization and globalization, countries tend to move towards privatization of the banking sector in order to boost the efficiency of the banking industry in order to equip them to compete with the foreign counterparts. Kemal (2000) pointed out that the privatization process is used to foster competition, ensuring greater capital investment, competitiveness, and modernization when the government-owned firms failed to work. This is because privatization replaces the political control by concentrate on private cash flow ownership with the creation of more efficient ownership structure (Megginson et al., 1994). This eventually helps to develop factor and product markets as well as security markets due to greater competition level. In addition, it helps the government by reduce fiscal deficit with the sales of state-owned enterprises.

However, as pointed out by Boubakri et al. (2005), if the privatization turned out to be a failure this will create loss to depositors and a liability to the tax payers and consequently lead to banking crisis in the particular country. According to the welfare theory, the effect of privatization depends on the degree of market failure and thus a careful choice of policy for privatization should be done in order to boost the competition and efficiency of the banking sector (Megginson and Netter, 2001). Therefore, further analysis need to be done before the government decided to privatize the bank. This is because the ownership structure of the banks and their institutional roles in the national economy served as a crucial variable in the process of financial deepening and economy growth (Levine, 1997).

Foreign ownership

In addition to government ownership and private ownership of the banks, the role of foreign ownership in the banking sector also played an important role as a catalyst to the domestic banking sector to operate efficiently and indirectly contributed to the development of the economy as a whole. Most studies, among others, Buch 1997, Bonin et al. (2005a), as well as Choi and Hasan (2005) highlighted the important role played by the foreign counterparts in boosting the banking sector of the host country.

According to Buch (1997), foreign investors brought in better technology and human capital to the domestic banks. This is because foreign-owned banks normally rely on the advancement of the modern technology and human capital from their parent banks which are believed to operate better than the domestic government-owned or privately-owned banks (Bonin et al., 2005a). Brimmer, and Dahl (1975), Fieleke (1977), Allen and Giddy (1979), Khoury (1980), Goldberg and Saunders (1986), and Giddy (1983) also argued that the foreign banks contributed different kind of entrepreneurial resources such as technology, organizational and marketing knowledge as well as commercial intelligent to the domestic banks. Therefore, foreign investment in the domestic banking industry will helps boost the efficiency of the domestic banks in general because the domestic banks able to learn from the foreign counterpart in order to further develop themselves to compete with the foreign banks and to sustain in the competitive environment. Furthermore, as pointed out by Mathieson and Schinasi (2000), greater foreign participants will contributes to a more stable banking system and a less volatile supply of credit if the parent bank has a strong financial position and committed to the medium-term strategy in strengthening the local market position.

Nevertheless, the contribution and the important roles played by the foreign-owned banks in the domestic banking sector especially in the developing countries are unclear because most of the foreign-owned banks practiced cherry-pick creditworthy customer. In this context, most of the lending was channeled out to the households rather than to the small and medium-sized enterprises. This practice will make it difficult for the priority sector to get funding from the foreign-owned banks and eventually deteriorate the economy of the developing country with the main objective to develop the small and medium-sized industry if the banking system is dominated by foreign-owned banks.

3. Review of Empirical Studies

Public versus private ownership and bank efficiency

The literature on public versus private ownership effect on bank performance still give inconclusive results. Cornett et al. (2000) examined the performance differences between privately-owned and publicly-owned banks in five selected countries in Asia, namely South Korea, Indonesia, Malaysia, the Philippines and Thailand from 1994 to 997. The results of the analysis indicates that publicly-own banks are relatively inferior in terms of their performance and it worsens during the Asian financial crisis in 1997. Similarly, Karim's (2003) study on Malaysian banking found that publicly-own banks are less efficient than private banks.

Similar results are result also found by Matousek and Taci (2002) in their study of the banking industry in Czech Republic from 1993 to 1998, Isik and Hassan (2002) on Turkish banking, Kumbhakar and Sarkar (2003) on Indian banking, and Micco et. Al. (2007) on both developing and industrial countries.

On the other hand, there are quite a number of studies that found otherwise. Study by Zaim (1995) on Turkish commercial banks found that in 1990, the state-owned banks performed better than the privately-owned and foreign-owned banks and this had been supported by following study by Yildirim (2002). Other studies that found similar results are Bhattacharyya et al. (1997) on Indian banking, Kraft and Tirtiroglu (1998) on Croatian banking during the period of 1994 to 1995, Isik and Hassan (2003), Boubakri et al. (2005) also found that state-owned banks to be more efficient in 22 developing countries under analysis from 1986 to 1998.

Foreign versus local-own banks

Studies on foreign entry towards the domestic banks mostly found a positive impact towards banking efficiency. Denizer (1999) studied on the effect of foreign entry on the Turkish banks found that foreign entry reduced the domestic bank in terms of profitability and overhead expenses which are the signal for improvement in efficiency. This results is supported by Hao et al. (2001) on the productive efficiency of 19 Korean banks from 1985 to 1995 which also found that on average, banking efficiency is positively correlated with foreign entry ownership.

Claessans et al. (2001) compares the performance between domestic and foreign banks in 80 countries both in developed and developing economy from 1988 to 1995. The conclusion obtained in his study is similar to Denizer (1999) in that foreign entry reduced the profitability and overhead expenses of domestic banks and thus lead to improvement in efficiency in the domestic banks. The results conclude that foreign entry contributed to increase efficiency of national banking market and hence create positive welfare implications towards the domestic economy.

Drakos (2003) study on the performance of banks in 11 transitions countries in 1993 to 1999 found that foreign entry increases the performance of the banking sector in terms of net interest margin. Chantapong (2005) found that the foreign participants in the banking industry seem to improve the domestic banks performance in terms of cost efficiency. Similar results is also found by Williams and Nguyen (2005) study in the South East Asia region.

However, Unite and Sullivan (2002) study on commercial banks from 1990 to 1998 found that the entry of foreign banks in the Philippines banking industry increase the operating expenses of banking system in the country.

Comparison between the efficiency of foreign-owned banks and domestic banks is performed by Jemric and Vujcic (2002). They found that foreign-owned banks appear to be more efficient. The results is also supported by Weill (2003) on banks in Czech Republic and Poland in 1997 in which foreign-owned banks were found to be more efficient than the domestic banks, Bonin et al. (2005a) found that foreign-owned banks appeared to be more cost efficient than the public- and privately-owned banks. The banks with majority foreign ownership are found to outperform the other types of banks in these countries. Study by Karim (2003) on Malaysian banks found similar results.

On the other hand, Okuda and Rungsomboon (2004) study on 27 commercial banks in Thailand from 1990 to 2002 found no significant differences in term of performance between the foreign and domestic banks in the Thailand banking system. The results is supported by Chantapong (2005). He found that foreign banks appeared to be more efficient than domestic banks in terms of capitalization and lower levels of nonperforming loans but no significant difference in cost efficiency.

However, there are a couple of studies (Zaim, 1995 and Yildirim, 2002). that indicate state-own banks are efficient than the privately-owned and foreign-owned banks.

5. Ownerships structure in ASEAN-5 banking industry

This section will reviews briefly the regulatory framework on ownership in the ASEAN-5 countries in general and their trends towards the government-owned and foreign-owned banks over the year 2001 to 2006.

The financial system in Thailand is mainly dominated by the commercial banks, capital markets, government-owned specialized financial institutions and non-bank financial intermediaries. Due to the Asian financial crisis in July 1997, the banking system had converted seven out of 15 commercial banks back to state-owned banks in order to help the country to gain control over the channel for monetary policy transmission.

In addition to that, the authorities planned to sell the existing state-owned banks only in the medium term and long term because the needs for government intervention is crucial in order to build a stronger banking system after the effects of financial crisis (Hawkins and Mihaljek, 2001). Nevertheless, the public-owned banks are being run on commercial lines in which they will sign MOUs with the Ministry of Finance and the banks' board of directors. This is to create a performance orientation banks rather than solely depends on the government to safeguard their operations.

The privatization process in Thailand is more cautious where it is stated that the foreign banks are allow to hold more than 25 percent of the domestic bank's shares up to ten years and thereafter the foreign investors are not allow to take up any additional equity unless their equity share is below 49 percent. This was clearly illustrated by the data in Table 1 in which there was a decreasing trend in the number of foreign banks in Thailand after the financial crisis that is from 25 foreign banks in 1999 to 18 foreign banks at the end of 2005. This might due to the reasons that the government needs to have more control over the domestic banking system in order to have a more effective implementation of monetary policy after the financial crisis.

In Indonesia, due to the financial crisis, the country nationalized four banks in 1998 and seven banks in 1999 as a result of the take over process by the Indonesian Bank Restructuring Agency (IBRA) due to the injections of public capital into the private banks. However, the owners of the banks are given the priority to keep managing the banks should inject 20 percent of new capital requirements after writing down their doubtful and bad loans and were given the first right to buy back the government shares within three years. In addition, the foreign banks also seem to exhibit a decrease in number after the Asian financial crisis and this had been clearly presented in Table 1.

On the other hand, the Malaysian government came out with a special agency called Danamodal in order to recapitalize and strengthen the banking industry after the Asian financial crisis in 1997. The banking sector in Malaysia is more on privately-owned domestic commercial banks instead of wholly government-owned entity. Nevertheless, the entry requirement of the foreign banks is limited to equity participation in local commercial or merchant banks with an aggregate share holding not more than 30 percent. Only the Labuan offshore financial institutions are allowed to have cross-border supply and consumption abroad.

Whereas, in Singapore, the local banks retain at least half of the market and this had been accomplished even though Singapore appears to have more foreign banks operating in the country as compared to locally-owned banks.

In the Philippines, the commercial banks are mostly family-owned in which the family corporate groups have large portion of corporate assets and have significant ownership in large commercial banks (Unite and Sullivan, 2002). However, the Philippines government had taken a step further to liberalize the banking industry by the implementation of Republic Act No. 7721 or "An act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines" as well as the enactment of various acts and policies issues to provide incentives for the foreign counterpart to enter into the banking industry. Thus, the numbers of foreign-owned banks started to increase since 1999 from 11 banks to 14 banks at the end of 2006. Nevertheless, the market share of foreign-majority owned banks shall not exceed 30 percent of the banking industry. This might be the reason of relatively low number of foreign-owned banks in the country as compared to others country in the ASEAN (refer Table 1).

Liberalizing the market for foreign entry seems to be consistent with the theoretical views that the foreign banks will be able to boost the country economy and efficiency of the domestic-owned banks. This was supported by Unite and Sullivan (2002) in which they found that the foreign entry will have direct positive effects towards the domestic banking industry in the Philippines. Nevertheless, this only works for the banks that are able to respond to the competition from the foreign counterpart and thus, government control over the banking market is still needed in order to strengthen the domestic banking industry in order to compete with the foreign counterparts.

In general, it can be seen from Table 1 that the numbers of banks seem to decline after the Asian financial crisis. This might be due to the merger and acquisition program going on in the recent years in most of the ASEAN-5 countries in order to strengthen up the banking industry before the banking market fully opens up for foreign entry. In addition to that, the numbers of foreign-owned banks also seems to decrease in numbers after the Asian financial crisis due to tight control of foreign entry into the market. Only the Philippines market seems to have increase in the number of foreign banks (Table 1).

6. Implications for Banking Policy

As pointed out by discussion in Section 3 and 4, it is clearly indicated that the types of ownerships did exert some influences towards the performance of the banks in terms of bank efficiency. di Patti and Hardy (2005) highlighted that changes in management and ownership are likely to change the banks' productivity in general. In this context, it is shown that the impacts brought by state-owned banks are still inconclusive and thus more research need to be done in this area especially the comparison between the state-, private-, and foreign-owned banks in the developing countries.

Even though government-owned banks operates in an economically inefficient environment, it is undeniable that the existence of government-owned banks are needed especially in the countries with less stable economies features. This is because the government-owned banks or the state-owned banks can act as a catalyst to ensure the development of certain priority sectors that are believed to contribute to the long run economic growth of the countries. Besides that, the existence of state-owned banks and government-ownership is crucial for the countries to have a balance social and economic objective.

Besides that, government-owned banks did play a vital role in carrying out the monetary and fiscal policies implemented by the government especially when come to redistribution of wealth and income in order to create a balance economy for the countries. Thus, the existence of government ownership in the banking sector will enable the government to have a more direct control over the monetary policies being implemented (Megginson (2002).

Nevertheless, one cannot only focus on the economic development and forgoing the important for the banks to operate economically in terms of profit and cost in order to compete with the foreign counterparts as we are moving towards the world of globalization and liberalization. It would be an ideal situation if a country able to balance up the development between government-owned banks as well as privately-owned banks and foreign-owned banks.

This is because privatization is crucial in boosting the performance of banks as it will frees the government to subsidies to loss making of the state-owned enterprises and at the same time encourages the restructuring of unprofitable firms (Megginson and Netter, 2001). Therefore, policy makers would need to consider privatizing some of the government-owned banks in order to improve the financial performance of the bank in order to compete globally. This is supported by Boehmer et al. (2005) that highlighted those state-owned banks privatization was used to increase the financial performance of the countries with lower quality banking sectors.

In addition, countries need to encourage the entry for foreign participants into the banking sectors in order to boost the economy of the country. This is because foreign-ownership enables the banks to improve the quality and availability of the financial services towards the domestic financial market (Levine, 1996). Besides that, it will encourage the domestic banks to compete more efficiently in terms of costs and profits in order to survive in this environment. The spillover effects in terms of technology brought by the foreign participant will enable the creation of a more modern banking environment in the host countries.

Furthermore, with a balance combination of state-, privately-, and foreign-owned banks, it is believed that the banking industry in the developing countries will be able to survive in the competitive environment while helping the government to effectively implement macroeconomics policies in the long run. Therefore, it is suggested that state-owned banks still have it value for existence in terms of economic development especially in the developing countries, provided efficient allocation of resources, besides promoting privately-owned banks to ensure competition in the banking sector.

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Table 1: Domestic Banks and Foreign-Owned Commercial Banks in ASEAN-5

Country	**Thailand**		**Indonesia**		**Singapore**		**Malaysia**		**Philippines**	
Year	**Domestic Banks**	**Foreign Banks**	**Domestic Banks**	**Foreign Banks**	**Domestic Banks**	**Foreign Banks**	**Domestic Banks**	**Foreign Banks**	**Domestic Banks**	**Foreign Banks**
1997	14	21	178	44	12	140	22	13	37	17
1998	12	23	164	44	12	142	27	8	38	12
1999	9	25	124	40	9	133	20	13	41	11
2000	9	25	112	39	8	132	17	14	32	13
2001	9	22	111	34	8	125	11	14	31	13
2002	13	18	108	34	6	114	11	13	28	14
2003	13	18	107	31	5	112	10	13	28	14
2004	12	18	103	31	5	110	10	13	28	14
2005	16	18	102	29	5	106	10	13	28	14
2006	N/A	N/A	102	28	5	103	10	12	28	14

*Note: Domestic banks include all the state-owned banks and privately-owned banks

Sources: Central Banks Annual Reports from individual country