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Firm efficiency and corporate performance: the moderating role of controlling shareholders

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Abstract

Purpose – This study analyses the effects of firm efficiency on firm performance and how controlling shareholders moderate the link between the two variables.

Design/methodology/approach – This study employs data envelopment analysis to estimate firm efficiency and the panel regression method to assess the hypothesised relationships among 1,295 firm-year observations of publicly listed firms in Malaysia from 2015 to 2019.

Findings – The results indicate that firm efficiency (technical efficiency, pure technical efficiency and scale efficiency) has mixed relationships with firm performance (return on assets, market-to-book ratio and operating cash flows), all of which are being moderated by controlling shareholdings.

Practical implications – This study highlights the importance of assessing firm efficiency as the key success factor for improving firm performance. Industrial managers should manage efficiently their resources or operating costs in achieving their corporate financial goals. Moreover, this study notes the presence of controlling shareholders, who can be either self-interested or company goal aligned.

Originality/value – This study suggests becoming efficient in transforming inputs into outputs is a prerequisite before investigating accrual-based and cash-based firm performance measures, and the presence of controlling shareholders matters in these regards.

Keywords Firm efficiency, Firm performance, Controlling shareholders, Data envelopment analysis

Paper type Research paper

1. Introduction

Firms that optimise their value creation cycle can reduce production costs, thus improving firm performance (Cabrita *et al.*, 2016; Talapatra and Uddin, 2019). In rapidly changing business environments, managers are concerned about efficiently converting inputs to outputs (Cetindamar *et al.*, 2009). However, prior studies reveal several hindrances to achieving efficiency in production operations. These issues encompass defects, scraps, overprocessing, excessive time and motion and rework (Cabrita *et al.*, 2016; Shahriar *et al.*, 2022). In addition, Aletras *et al.* (2007) argued that enhancing efficiency may enhance the performance of a limited number of decision-making units (DMUs) while deteriorating the performance of a greater number of DMUs. In other words, improved efficiency reflects adjustments in the efficiency frontier rather than changes in technical or scale efficiency. Although Baik *et al.* (2013) examined the relationship between firm efficiency and firm

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