MANAGERIAL OWNERSHIP, INSTITUTIONAL OWNERSHIP, AUDIT QUALITY AND FIRM PERFORMANCE IN MALAYSIAN

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Abstract

The separation of ownership and management functions in modern corporations and the presence of information asymmetric produce the possibility of principal-agent conflict. This study investigates the relationship between ownership structure and company performance of public listed companies in Malaysia. The ownership is divided into two categories; managerial ownership and institutional ownership. Further, this study investigates the affect of audit quality towards the company performance.Panel data of 730 Malaysian public listed companies were examined. Normality check of the data was also carried out and some of the measures were transformed into logarithm to control the skewed nature of data. As multivariate regression is used to analyze the data in this study, assumptions of multicollinearity, hemoscedasticity and linearity are also tested. Furthermore, this study applied the F-test, Chow test and Hausman test to determine the best statistical method. The analysis utilizingGLSfix effects estimations technique is applied. The results showed that managerial ownership had negative and significant relationship with ROA and Tobin's Q. In contrast, institutional ownership showed positive and significant relationship with ROA and Tobin's Q. Further, audit quality affects positively to both of performance indicators. The involvement of institutional investors in monitoring and controlling activities and high quality auditor has the potential to reduce agency cost and as a result, the company performance increased.

Keywords: Corporate ownership, Audit quality, Performance, Malaysia

1.0 Introduction

The effect of ownership structure on company performances is an important subject and debatable in corporate finance and accounting literatures. Empirical studies have not reached a conclusive finding regarding the effect of ownership structure on company performance. The causal relationship utilised traditional agency theory which explain the ownership that consider significant determinant on company performance. This theory emphasizes the conflict between unmonitored manager and widely dispersed ownership. Majority of the previous studies are based on developed market such as United States (US) and United Kingdom (UK) where the ownership is widely dispersed. Recent literature questions the assumption of widely dispersed ownership and suggests more fundamental conflict of interest between majority and minority shareholders. La Porta, Lopez-de-Silanes, Shleifer and Vishny(1997) showed that the average of ownership in 49 countries by three largest shareholders is 46 percent. Further study by La Porta, Lopez-de-Silanes and Shleifer (1999) stated that the control is often concentrated within a family which is typically the founder of companies or their descendants. It is widely accepted that concentrated ownership has the potential to limit agency problem and reduce agency cost and therefore improves the company performance (Jensen and Meckling, 1976). This is due to efficient monitoring by higher concentrations shareholders through stronger incentives and more power by appointing directorship in order to monitor manager at lower cost. Shareholders with large ownership in the company showed more willingness to play an active role in corporate decision making since they realize the outcome of the monitoring effort. Shleifer and Vishny (1997) mentioned that the shareholders with large ownership monitor the management by informal conversation or formal proxy in company. They added that

when concentrated ownership exists, large shareholders have more incentives and resources to monitor management decisions and thus reduces the agency cost. Hence, this study attempts to investigate the relationship between ownership structure and company performance of public listed companies in Malaysia. The ownership is divided into two categorizes; managerial ownership and institutional ownership. Further, this study investigates the affect of audit quality to company performance.

2.0 Literature Review

The literature suggests that in concentrated ownership, the role of large shareholders and the absence of corporate control mechanism are dominant in developing economies. The research on ownership structure is interesting in Malaysia and other emerging countries since they are characterize by high ownership concentration which the shareholders are holding control in companies (Faccio and Lang 2002). High concentration ownership and less investor protection create the conflict between the majority and the minority shareholders (Sheilfer and Vishny 1997; La Porta et al. 1999). In concentration ownership companies, the Owner and the manager is usually the same person. This will significantly reduce the conflict of interest between the owner and the manager (La Porta et al. 1999). In addition, the role of business group and involvement of owner in supervising is consider as an important characteristic of corporate practices in the underdeveloped institutional framework in Malaysia.

Large shareholders in concentrated ownership companies, could play an important role in monitoring the manager. The existence of large shareholders will help to monitor the managerial decisions. As a result, the agency conflict will be reduced and the company performance will be improved (Lehman and Weigand 2000; Sheilfer and Vishny 1986). The involvement of shareholder as a member of the board of director will increase the degree of monitoring toward the manager. The underlying assumption is to realign the ownership and corporate control in order to enhance the company performance. Lehman and Weigand (2000) stated that the incentive to monitor increase in ownership concentration as well as improving the control in companies.

The convergence-of-interest and the efficient monitoring hypothesis propose that the existence of large shareholders and concentrated ownership influence the level of agency cost and companies performance. The important issue in agency theory is to solve the agency problem and reduce the asymmetric information between the shareholders and the manager. The nature of company ownership structure will affect the agency problem between the shareholders and the manager. Problem arises when the company ownership dispersed is different compared to a company with concentrated ownership. Dispersed ownership is typical for US, UK and Japan companies. Most of the conflicts in the companies in these countries are between managers and shareholders (Jensen and Meckling, 1976). However, in concentrated ownership especially among companies in Western Europe and the most of Asian countries, conflict arises between controlling shareholders and minority shareholders (Fan and Wong, 2002).

Ownership structure determines the nature of agency conflict as well as distribution power and control in company (Jensen and Warner 1988). Sheilfer and Vishny (1997) stated that majority shareholder as a control mechanism to solve agency conflict. This opinion supported by Kabir, Cantrijn and Jeunink (1997) where they found that more concentrated ownership provide an effective monitoring toward the manager. Controlling shareholders with large ownership concentration have incentive and power to acquire necessary information in order to supervise the

manager. Higher ownership concentration is expected to reduce agency cost and to improve the company's performance as well.

Finding by Claessens, Djankov and Lan (2002) indicated that controlling of single shareholder is prevalent in more than two-third of the firm in Asian countries where separation of ownership and control is rare. Therefore, the owner has significant power to pursue their own interest with the expense of minority shareholders. Shleifer and Vishny (1997) stated that controlling shareholders might not have a convergence of interests with minority shareholders. With the effective control of company, the owner is able to determine daily operation and profit sharing among shareholders. The minority shareholders are entitle to cash flow rights of their share. However, they will face uncertainty which entrenched control owner may opportunistically deprive them of their right. This creates an 'entrenchment effect' (Morck et al., 1998).

3.0 Hypothesis Development

3.1 Managerial Ownership and Companies Performance

According to Jensen and Meckling (1976), the managerial ownership has a potential to align the interest between the manager and the shareholders. Recent studies had examined the relationship between managerial ownership and corporate performance. Jensen (1983) stated that the most powerful link between shareholders wealth and executive wealth is direct ownership of shares by manager. This statement supported by Porter (1992) who believed that outside owner should be encouraged to hold larger shares and to take a more active and constructive role in companies. Academic and researchers that underwent the study of the clash between the motivations of investors and managers found that the simplest way to resolve this conflict is to have a significant ownership commitment from corporate managers. Assuming that manager's objectives parallel with shareholders' objectives, conflict between the shareholder and the manager can be resolved when manager holds ownership in companies. Fama and Jensen (1983) and Morck et al. (1988) asserted that when a manager owns low level of company equity, they tend to have higherincentives to keep their strategies in line with the preferences of other owners since their bonding to firm's outcome is high. However, when managerial ownership reaches at a certain point, they would allocate the firm resources for their own interest (McConnell and Servaes, 1995).

Researches that focus on relationship between managerial ownership and company performance showed an inconclusive result. Morck et al. (1988) found Tobin's Q to increase and decrease with managerial ownership. McConnell and Servaes (1990) found an inverted U-shaped relation between Tobin's Q and managerial ownership, with an inflection point between 40 percent to 50 percent ownership. Hermalin and Weisbach (1991) found a positive relationship between Tobin's Q and management ownership up to 1 percent, a negative relation for ownership between 1 percent to 5 percent, becoming positive again in the ownership range 5 percent to 20 percent, and turning negative for ownership exceeding 20 percent. Short, Zhang and Keasey (1999) in their studies found non-linear relationships between directors' shareholding and company performance. Therefore, empirical evidences on the relationship between managerial ownership and company performance suggests that the size of insider ownership does matter and the effect can be either both positive and negative. The positive relation at low level of managerial ownership suggests the incentive alignment while the negative relation at high levels of managerial ownership provides the evidence that managers become entrenched and can indulge in non-value-maximizing activities without being disciplined by the shareholders (Himmelberg et al., 1999).

Large empirical literature investigates the relationship between managerial ownership and firm's performance and provides mixed result. Jensen and Meckling (1976) argue that agency cost and managerial ownership are negatively related and have positive relationship between managerial ownership and firm's performance. The convergence of interest hypothesis suggests a positive relationship between managerial ownership and firm's performance due to lower agency cost. While a negative relationship between managerial ownership and firm's performance is suggested by entrenchment hypothesis which explain that managerial ownership above a certain threshold will have destroying effect due to conflict between large block holders. A manager owning the large fraction of the shares in the firm bears the consequences of managerial action that either create or destroy the firm performance. Therefore, managerial shareholders are likely to work hard and create better investment decision and high managerial ownership firms should perform better. This study utilized the agency theory framework and the following null hypothesis is proposed:

H_{01}: The higher concentrated managerial ownership exhibit the higher company performance.

The performance measure for this study included ROA and Tobin's Q. Therefore, the hypotheses for each performance indicators are:

H_{01a}: The higher concentrated managerial ownership exhibit the higher company's ROA.

H_{01b}: The higher concentrated managerial ownership exhibit the higher company's Tobin's Q.

3.2 Institutional Ownership and corporate Performance

The role of institutional ownership in economy is a debatable subject. As one of the owners of companies, institutional shareholders have the certain rights, including the right to elect the board of directors. The board has the responsibility to monitor corporate managers and their performance. If institutional shareholders dissatisfied with the company performance they will choose either to sell their shares, hold their shares and voice their dissatisfaction or hold their shares and do nothing. Hirschman (1971) characterized these alternatives as exit, voice and loyalty.Institutional investors normally hold large equity ownership. Therefore, institutional investors have the potential to influence management's activities directly through their ownership and indirectly by trading their shares (Gillan and Stark, 2003a). Many authors argued that the involvement of large shareholders in monitoring or controlling activities has the potential to limit agency problems (Shleifer and Vishny, 1986; Admati, Pfleiderer and Zechner, 1994; Huddart, 1993; Maung, 1998; and Noe, 2002). Study by Han and Suk (1998) found that stock return has a positive relationship with institutional ownership. These authors have further argued that only large shareholders have incentive to monitor company activities. This initiative will lead to improvement in the company performance.

According to Thomsen and Pedersen (2000) Institutional ownership is likely to imply advantages in terms of finance, low risk aversion and a relatively long time horizon. Therefore, institutional investors are characterized by portfolio investments and normally they have strong relationship with the company that they invested in. Thomsen and Pedersen (2000) added that institutional ownership that relatively specialized as owner, their performance is often measured in terms of financial success, and their objectives can be described as shareholder value liquidity. It is believed that institutional investors have positive effect with firm performance. Consistent with above argument, the null hypothesized is proposed:

H_{02}: The higher the concentrated institutional ownership in a company the higher could be the company performance.

The performance measure for this study included ROA and Tobin's Q. Therefore, the hypotheses for each performance indicators are:

H_{02a}: The higher the concentrated institutional ownership in a company the higher could be the ROA.

H_{02b}: The higher the concentrated institutional ownership in a company the higher could be the Tobin's Q.

3.3 Audit Quality and Corporate Performance

The demand for quality audit has also been motivated by the need to manage agency conflict. Information asymmetry between shareholder and manager creates a moral hazards problem. According to Jensen and Meckling (1976) and Watt and Zimmerman (1983) managers will pursue their self interest at the expense of shareholders. Agency theory predicts that agent and principals will recognise that it can be mutually beneficial to reduce the moral hazard and will devise arrangement to align their self-interest. Independent audit will provides a monitoring device designed to improve information about company performance and reduce information asymmetry. The greater the agency conflict between manager and shareholders, the greater agency cost, and the greater the demand for audits identified as high quality (Palmrose 1986; Francis and Wilson 1988; De Fond 1992; Creswell et al. 1995). Assuming that quality audit might reduce agency cost where auditor provide an indicators about the credibility of financial statement information. As a consequence, lower monitoring cost could lead to better performance of corporation. This leads to the following hypothesis in the null form:

H_{03}: Companies with higher quality auditorare associated with higherperformance.

The performance measure for this study included ROA and Tobin's Q. Therefore, the hypotheses for each performance indicators are:

H_{03a}: Companies with higher quality auditorare associated with higherROA.

H_{03b}: Companies with higher quality auditorare associated with higherTobin's Q.

4.0 Model for Ownership Structure, audit quality and performance

The econometric model developed comprises two equations. The first model utilizes ROA as performance indicator and second model utilize Tobin's Q as performance indicators. These equations are tested in the current paper and are formally presented below:

Model 1: Ownership structure, audit quality and ROA

$$ROA = \alpha_0+\beta_1LMAN +\beta_2LINST +\beta_6AQ +\beta_8LSIZE +\beta_9GROW +\beta_{10}LEV +\beta_{11}LPRO +\beta_{12}AGE +\beta_{13}PR +\beta_{14}IP +\beta_{15}CP +\beta_{16}CON +\beta_{17}PLAN +\beta_{18}IPC +\beta_{19}TECH +\beta_{20}TRAD +\varepsilon \quad (1)$$

Notes:

ROA	Return on Asset of company
α_0	Intercept/constant term.
LMAN	Log of managerial ownership
LINST	Log of institutional ownership
AQ	Audit quality
LSIZE	Log size (log of total assets)
GROW	Growth
LEV	Leverage

LPRO	Log of profitability
AGE	Company age
PR	Properties (1 for the firm operated in PR sector, otherwise 0)
IP	Industrial Product (1 for the firm operated in IP sector, otherwise 0)
CP	Consumer Products (1 for the firm operated in CP sector, otherwise 0)
CON	Construction (1 for the firm operated in CON sector, otherwise 0)
PLAN	Plantations (1 for the firm operated in PLAN sector, otherwise 0)
IPC	Infrastructure Project Companies (1 for the firm operated in IPC sector, otherwise 0)
TECH	Technology (1 for the firm operated in TECH, otherwise 0)
TRAD	Trading and services (1 for the firm operated in TRAD sector, otherwise 0)
ε	Error term
	th firm
	th period

Model 2: Ownership structure, audit quality and Tobin's Q

$$Q = \alpha_0 + \beta_1 LMAN + \beta_2 LINST + \beta_6 AQ + \beta_8 LSIZE + \beta_9 GROW + \beta_{10} LEV + \beta_{11} LPRO + \beta_{12} AGE + \beta_{13} PR + \beta_{14} IP + \beta_{15} CP + \beta_{16} CON + \beta_{17} PLAN + \beta_{18} IPC + \beta_{19} TECH + \beta_{20} TRAD + \varepsilon \quad (2)$$

Notes:

Q	Tobin's Q
α_0	Intercept/constant term.
LMAN	Log of managerial ownership
LINST	Log of institutional ownership
AQ	Audit quality
LSIZE	Log size (log of total assets)
GROW	Growth
LEV	Leverage
LPRO	Log of profitability
AGE	Company age
PR	Properties (1 for the firm operated in PR sector, otherwise 0)
IP	Industrial Product (1 for the firm operated in IP sector, otherwise 0)
CP	Consumer Products (1 for the firm operated in CP sector, otherwise 0)
CON	Construction (1 for the firm operated in CON sector, otherwise 0)
PLAN	Plantations (1 for the firm operated in PLAN sector, otherwise 0)
IPC	Infrastructure Project Companies (1 for the firm operated in IPC sector, otherwise 0)
TECH	Technology (1 for the firm operated in TECH, otherwise 0)
TRAD	Trading and services (1 for the firm operated in TRAD sector, otherwise 0)
ε	Error term
	th firm
	th period

5.0 Data

Data of this study was collected from secondary sources. Accounting information was collected from Osiris database. Ownership data was collected from the list of thirty largest shareholders in annual report which is downloaded from Bursa Malaysia website. After considering the incomplete information, there were 730 usable samples covering three periods from the 2007 to 2009. Therefore, the study comprises 2190 observation (730 companies x 3 years). However, the companies classified under the finance sector were excluded in this study because of their unique features and business activities, as well as differences in compliance and regulatory requirement. Normality check of the data was also carried out and some of the measures were transformed into logarithm to control for skewed nature of data. As multivariate regression is used to analyze the data in this study, assumptions of multicollinearity, hemoscedasticity and linearity are also tested.

6.0 Result

6.1 Result of data Stationary Normality Test

The result of data stationary normality test using data mean, medium, standard deviation, skewness and kurtosis are shown in table 1. According to Tabachnick and Fidell (2001), to use of the analysis of variance for the population or samples of observation is assumed to be normally distributed and it is important where to conduct parametric statistical techniques. Population or sample assumed normally distributed when mean of variables similar to value of medium, skewness value is zero and kurtosis value equal to 3. Skewness and kurtosis are two components in determining normality (Pallant, 2005). The diagnostic test showed that no variables have the value of mean equal to value of median. In addition the skewness value of variables are mix both positively and negatively indicating that their distributions are skewness to the right side as well as to left side of the curve. Sample assumed normally distributed if skewness value is zero. The kurtosis value of variables range from 1.026 (AQ) to 578.334 (ROA) and no variable showed the value of 3. Therefore, it indicates that the result violates the assumption of normally distribution.

Utilizing SK test to evaluate the normality for all variables also showed it significant at 1 percent ($P<0.01$) and these means all the variables are failed to fulfill the normality test. Since the data distribution is not normally distributed, the estimation method of ordinary least square (OLS) to analyse the sample data would produces bias and inefficient estimators. Therefore, the generalized least square (GLS) method of estimation is more appropriate and it is expected to yield a much better result (Gujarati 2003). The issue which involves the variables of non-normal distribution is quite common in research that involves a large sized sample (Pallant, 2005). In fact, this argument is agreed by Norusis (2000) and Kleinbaum, Kupper, Muller, and Nizam (1998), who explain that variance analysis is not heavily dependent on the assumption of normality since the data is large. As a result, the assumption of normality is not seriously offended since this study covers a large sample size.

Table 1: Results of normality test

	ROA	TQ	LMAN	LINST	AQ[a]	LSIZE	GRW	LEV	LPRO	AGE
Mean	0.064	0.617	1.178	0.979	0.540	5.531	1.422	0.188	4.239	15.396
Median	0.060	0.330	1.540	1.190	1.000	5.480	0.710	0.060	4.192	13.000
Maximum	11.08	38.000	1.990	2.190	1.000	7.850	14.900	16.174	6.962	50.000
Minimum	-21.94	-1.350	-2.000	-2.700	0.000	0.780	0.010	-0.062	1.041	0.000
Std. Dev	0.698	1.638	0.854	0.779	0.498	0.661	1.940	0.877	0.782	11.242
Skewness	-15.280	12.668	-1.796	-1.372	-0.161	-0.324	3.014	13.292	-0.022	1.312
Kurtosis	578.334	233.686	5.584	6.051	1.026	7.998	13.876	203.880	3.868	3.984
SKtest	4378.97	3932.55	711.18	571.81	-	284.39	1413.49	3992.05	28.27	428.90
Probability	0.00*	0.00*	0.00*	0.00*	0.00*	0.00*	0.00*	0.00*	0.00*	0.00*

Notes:

1. The * denotes p-value significance at 1 percent level (P<0.01).
2. ROA = Return on assets, TQ = Tobin's Q Ratio, LMAN = Log Managerial ownership, LINST = Log institutional ownership, AQ = audit quality, LSIZE = Log total assets, GRW = market value of share divided by book value of share, LEV = total debt divided by total assets,LPRO = log profit or loss, AGE= year of listing.
3. [a] Denotes dummy variable.

6.2 Results of Multicollinearity Test

This study must ensure that the data must be independent of one another. It means that observations or independent variables must not be influenced by other independent variables (Pallant, 2005). According to Steven (1996), it is very serious if this assumption is violated. He added that each study must ensure that all observations are independent. This study is based on Pair-wise Pearson correlation matrix for the variables and the results are provided in tables 2. It indicates that multicollinearity is not a problem, as the correlations between all variables are relatively low. According to Gujarity (2003), multicollinearity could be a problem when the correlation exceeded 0.80. The low intercorrelation among the explanatory variables used in the regression indicates no reason to suspect serious multicollinearity.

Table 2: Result of multicollinearity test using Pearson Correlation matrix

	ROA	TQ	LMAN	LINST	AQ[a]	LSIZE	GRW	LEV	LPRO	AGE
ROA	1.000									
TQ	0.049*	1.000								
LMAN	-0.036**	-0.175*	1.000							
LINST	0.019	0.091*	-0.467*	1.000						
AQ[a]	0.064	0.031	-0.197	0.122*	1.000					
LSIZE	-0.30*	-0.021	-0.274*	0.340*	0.217*	1.000				
GRW	0.062*	0.187*	-0.366*	0.308*	0.201*	0.460*	1.000			
LEV	0.126*	0.255*	-0.023	0.008	0.007	-0.107*	0.003	1.000		
LPRO	0.093*	0.242*	-0.297*	0.353*	0.231*	0.657*	0.547*	0.025	1.000	
AGE	0.018	0.015	-0.277*	0.174*	0.134*	0.322*	0.273*	0.020	0.255*	1.000

Notes:

1. The * and ** indicate correlation are significant at the 0.01 (2-tailed) and 0.005 (2-tailed) levels, respectively.
2. ROA = Return on assets, TQ = Tobin's Q Ratio, LMAN = Log Managerial ownership, LINST = Log institutional ownership, AQ = audit quality, LSIZE = Log total assets, GRW = market value of share divided by book value of share, LEV = total debt divided by total assets, LPRO = log profitability, AGE = year of listing.
3. [a] Denotes dummy variable.

6.3 Results of Regression Analysis on ROA

The analysis begin with the report of the regression using generalized least square (GLS) estimations technique on ROA in model 1 and Tobin's Q in Model 2. The F-statistic for model 1 and model 2 are statistically significant at 1 % level. The R^2 for models 1 and model 2 indicated the value 0.18 and 0.29 respectively. The adjusted R^2 for model 1 recorded the value 0.16 and 0.28 for model 2. The regression analyses using GLS estimation technique on ROA and Tobin's Q reported in table 3.

6.3.1 The Effect of Ownership and ROA

The regression utilizing GLS estimation technique reported in table 5.6 showed that the managerial ownership coefficient is negative and statistically significant at 5 percents level. The coefficient of man ownership (LMAN) is -0.012 and this explained that if 1 percent increase in managerial ownership would lead to 0.012 percent decreased percent in ROA. This is consistent with studies by Morck et al. (1988), Demsetz and Lehn (1985), Shleifer and Vishny (1997) and Himmelberg et al (1999). Another studies by Loderer and Martin (1997) and Demsetz and Villalonga (2001) found no relationship between managerial ownership and ROA. The result is statistically failed to support hypothesis H_{01a}.The result is consistent with entrenchment hypothesis which suggests a negative relationship betweenmanagerial ownership and firm's performance. The entrenchment theory emphasizes that the manager of the firm uses the resources for their personal benefit, and decrease the firm's performance. The finding contradicts with the agency theory which proposed that the increases of managerial ownership willincrease the firm performance. In contrast, institutional ownership shows the positive and statistically significant at 10 percents level ($P<0.10$). The coefficient of institutional 0.018, therefore one percent increase in institutional ownership would lead to increase of 0.018 percent in RAO. This finding support H_{02a} which proposed that the higher the concentrated institutional ownership in a company the higher could be the company performance. This is consistent with finding by Han and Suk (1998). Institutional ownership is likely to take advantage in term of finance, low risk aversion and relatively long time horizon. Audit quality shows a positive relationship with ROA. The coefficient of audit quality 0.013 explain that company with big four auditor had 0.013 percent higher in ROA compared to company with non big four auditors. This finding supports the H_{03a} which stated that companies with higher quality auditor are associated with higher corporate performance. This is due to the quality audit might reduce agency cost where auditor provide and indicators about the credibility of financial statement information.

6.3.2 The Effect of Ownership and Tobin's Q

Model 1 on table 3 report the managerial ownership coefficient on Tobin's Q is negative and significant at 5 percents level ($P<0.05$). The coefficient of LMANrecorded the value-0.086 shows that 1 percent increase in managerial ownership will lead to decrease 0.086 percent in Tobin's Q, and therefore the result reject the hypothesis H_{01b}. This is not surprising since the result may be attributed to the managerial entrenchment which results in a decrease of firm performance for increasing of managerial ownership (Ming and Gee, 2008). However, institutional ownership shows the positive and statistically significant at 5 percents level ($P<0.05$). One percent increase in institutional ownership would lead to increase of 0.063 percent in Tobin's Q. This finding supports the hypothesis H_{02b} which proposed that the higher the concentrated institutional ownership in a company the higher could be the company performance. This is consistent with the finding by Shleifer and Vishny (1986) and Han and Suk (1988) where they found that the presence of institutional investor will have a positive effect on the market value of the firm because of the more effective monitoring. Many other authors proposed that the involvement of institutional investors in monitoring and controlling activities has the potential to reduce agency cost (Shleifer and Vishny, 1986; Admati et al., 1993; Barclay and Holderness, 1990; Huddart, 1993; Maung, 1998; Noe, 2002). The relationship between audit quality and Tobin's Q is positive and significant at 1 percent ($P<0.01$). The company with big four auditor had 0.095 percent higher in Tobin's Q compared to company with non big four auditors. This finding supports the hypothesis H_{03b} which stated that companies with higher quality auditor are associated with higher corporate performance. This is due

to the quality audit might reduce agency cost where auditor provide and indicators about the credibility of financial statement information.

Table 3: Regression for GLS estimation

Independent variables	**Hypotheses**	**ROA**		**Tobin's Q**	
Constant		1.015	0.160	1.724	0.424
LMAN	$H_{01a\&b}$	-0.012**	0.014	-0.086**	0.039
LINST	$H_{02a\&b}$	0.018***	0.023	0.063**	0.062
AQ	$H_{03a\&b}$	0.013	0.021	0.095*	0.059
Control variables					
LSIZE		-0.288*	0.021	-0.429*	0.054
GROW		0.008	0.006	0.181*	0.016
LEV		0.089***	0.010	0.342*	0.025
LPRO		0.165***	0.017	0.151*	0.045
AGE		0.001**	0.001	0.001	0.002
PR		-0.062	0.117	0.198	0.313
IP		-0.075	0.114	0.177	0.306
CP		-0.017	0.116	0.288	0.311
CON		0.041	0.113	0.313	0.301
PLAN		-0.072	0.120	0.589**	0.324
IPC		-0.016	0.157	1.407***	0.430
HTL		-0.059	0.189	1.405***	0.005
TECH		-0.084	0.128	0.282	0.344
TRAD		-0.544	0.114	0.513**	0.307
R^2		0.18		0.29	
Adjusted R^2		0.17		0.28	
F-statistics		366.85*		623.83*	
Durbin-Watson stat		Na		1.512	
Baltagi-Wu LBI (Locally best in variance)		Na		2.390	

Notes:

1. The * indicates significant at 1 percent (P<0.01), ** indicates at 5 percent (P<0.05) and *** indicates at 10 percents (p<0.1).
2. LMAN = Log Managerial ownership, LINST = Log institutional ownership, AQ = audit quality, POL = politically connected company, LSIZE = Log total assets, GRW = market value of share divided by book value of share, LEV = total debt divided by total assets, LPRO = log profitability, AGE = year of listing, LIQ = total current assets divided by total current liability.

7.0 Conclusions

Agency theory proposed that the concentrated ownership would contribute to a more effective monitoring process. Utilizing panel data of listed companies for the year 2007-2009 covering 730 listed companies on Bursa Malaysia showed that the managerial ownership failed as a controlling and monitoring mechanism to neutralize the agency conflict and optimize the company performance. There is a negative effect of managerial ownership on firm performance. The findings showed that managerial ownership exhibited negative associationswith ROA and Tobin's Q. Therefore, the results are inconsistent with the convergent interest hypothesis by Jensen and Meckling (1976), which proposed that more equity ownership by the managers would increase corporate performance. However, these findings are consistent with the study by Demsetz (1983), which proposed the divergence of interest hypothesis (entrenchment hypothesis) where the increment of managerial ownership will reduce the corporate performance. Demsetz (1983) suggested that providing managers with shares to align their interests with the owners may not solve the agency problems or reduce agency costs and thus fails to improve company performance. The results are also consistent with the study by Perrini, Rossi, and Rovetta (2008) who stated that managerial ownership is beneficial only in non-concentrated firms. They also suggested that the controlling owner may use his or her position in the firm to extract private benefits at the expense of the other shareholders by appointing the managers that represent their own interests. In addition, the finding is also similar with the study by Ming and Gee (2008) who proposed that the managerial ownership does not influence stock returns and dividend yields among Malaysian companies. The findings suggest that greater managerial ownership can lead to greater agency problems due to an entrenchment effect. In particular, the managers with sufficient ownership have control rights, and therefore they have the ability to influence the firms to commit the self-serving transactions and thereby expropriate wealth from outside shareholders (Shleifer&Vishny, 1986). When the managers hold a relatively large equity stake, their concentrated control allows them to use corporate disclosures for personal interests, rather than for the best interests of outside shareholders. As a conclusion, managerial ownership does not influence corporate performance in Malaysia and the principal agent problems cannot be solved through anincrease of managerial ownership. This finding supports the view that the managerial ownership can lead to more severe agency problems.

Institutional investors are considered the key players in most of the financial markets and they are expected to influence the corporate ownership because of the privatization policy adopted by various countries. It should be noted that the results on institutional ownership demonstrate a positive and significant relationship with ROA and Tobin's. Therefore, in Malaysia, institutional investors are believed to play an active role in monitoring the management. These efforts contribute to the realignment of the manager and shareholders' interests and reduced agency conflicts as well as reduced the agency costs. As a result, the company performance improves. The results are consistent with the studies by Shleifer and Vishny (1986), Admati et al. (1993), and Agrawal and Knober (1996) who investigated the relationship between firm performance and control mechanism and found a significant, positive relationship between institutional investors and corporate performance.The results also suggest that institutional ownership can enhance firm performance in countries with a weak legal protection for shareholders such as Malaysia. The reason for the positive results could be that the Malaysian capital market is financially and managerially not as competitive as those in more developed countries and therefore the institutional investors may have an incentive to monitor the managers, thereby mitigating the agency problem and improving the firm performance. Further, the institutional investors have much stronger incentives to monitor the

companies that they invest in, especially when they have larger ownership and exit is costly. Many authors argued that the involvement of large shareholders in monitoring or controlling activities has the potential to reduce agency problems since they have the expertise and resources (Shleifer&Vishny, 1986; Huddart, 1993; Admati, Pfleiderer, &Zechner, 1994; Maung, 1998; Noe, 2002). In addition, the institutional investors normally hold large equities. Therefore, they have the potential to influence the management directly through their ownership or indirectly by trading their shares (Gillan& Stark, 2003a).

Audit quality exhibited the positive and significant relationship with all performance indicators; ROA and Tobin's Q. The results indicate that companies with the Big Four auditors have better performance compared to companies with non-Big Four auditors. Financial statement auditing is an important external monitoring mechanism to verify the validity of financial statement information as well as to reduce information asymmetries and agency costs between the manager and shareholders (Watts & Zimmerman, 1993). External audit provides the monitoring device to reduce information asymmetry between the managers and the shareholders. The quality audit provided by the Big Four auditors is expected to reduce the agency costs as well as enhance the credibility of financial statements. Therefore, the lower monitoring costs would lead to better company performance. The greater expertise provided by the Big Four auditors enhance the audit quality. In addition, reputable audit firms are expected to produce high quality audit work. Most shareholders recognize the importance tochoose the reputable auditors (Palmrose, 1986) since they have more incentives to produce high quality audit work and maintain their independence (Craswell& Taylor, 1991).

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