

Ownership Structure, Monitoring Cost and Agency Theory Perspective: Evidence from Pakistan Stock Exchange

¹Iram Iqbal*, ²Shahab Ud Din, ³Naeem Akhtar

Article History:

Received:

12 Sep, 2022

Revised:

19 Oct, 2022

Accepted:

16 Nov, 2022

ABSTRACT

Purpose – The purpose of this study to investigate the association between ownership structure and monitoring cost in the presence of agency theory for Pakistani business environment. Additional the study also between firm performance and monitoring cost.

Research methodology – This study utilizes a sample of 97 companies listed on Pakistan stock exchange from the period of 2015-2019. Panel regression techniques is employed with fixed and random effect to estimate the association between pattern shareholdings and firm's financial performance listed at Pakistan Stock Exchange (PSX).

Findings – This study reveals that foreign shareholdings has positive significant impact on the the monitoring cost, while institutional, government and family shareholding are insignificant impact on monitoring cost in Pakistani institutional environment.

ownership, government and family ownership has not shown significant results

Limitations & Implications – The study mainly used the publically available date, hand collected from the annual reports of the sample companies. Therefore, sample size is small because data for certain variables was missing. In order to reduce the agency cost foreign shareholding should be decreased while employee shareholdings should be increased, as it will enhance commitment and motivation so productivity and performance will be enhanced.

Originality/Value – The present study will extend the body of existing literature on the corporate finance specifically the corporate governance literature by considering the monitoring cost, ownership structure and financial performance with respective an Asian emerging markets, more specifically Pakistan. The empirical findings of this study will provide guidelines to the policymakers and corporate managers to consider the quality of corporate governance with taking the corporate decisions, specifically ownership structure and agency cost.

Keywords: Agency Theory, Monitoring cost, Ownership structure, Pakistan.

1. Introduction

Modern day corporations are occupied with agency problems because of extended separation of ownership and control responsibilities, business diversification and investor's emphasis on returns. The impact of ownership structure on firm performance is a widely discussed area in the literature of finance theory. Ownership structure of firm is fundamental for analysing its corporate governance and performance (Shleifer & Vishny, 1997). In corporate world separation of ownership and control create asymmetric information problem among the shareholders and management of the firm and as a result shareholders are exposed to agency risk. (Panda & Leepsa, 2017). Corporate governance provides a set of mechanisms that are intended to reduce this agency risk and helps in managing the business activities in order to enhance shareholder's wealth (Mir & Nishat, 2004). Ownership structure is important but its relation with value of a firm differs across the globe due to differences in corporate governance systems (De Miguel, Pindado, & De la Torre, 2004). Asian financial crisis 1997 and global financial crisis 1998 have attracted public interest and emphasized on the importance of using corporate governance mechanisms (Rachagan, 2010).

The agency problem is prevalent in a variety of organizational kinds, making this theory one of the most significant theories in the literature of finance and economics (Panda & Leepsa, 2017). Separation of ownership and control tends to increase agency cost and this cost would become zero when owners become managers of the company (Farrer & Ramsay, 1998). The literature of corporate finance has highlighted various techniques to cope up with agency cost. Among them "Convergence of interest model" is famous and introduced by Jensen and Meckling (1976), argue that high managerial ownership aligns interest of the managers and they become reluctant to dissuade resources away from value maximization, thus work in the best interest of the shareholders wealth maximization.

Ang, Cole, & Lin (2000) examined agency cost and ownership using small firms in America and found that businesses having outsider managers have higher agency cost. Further, the study observed that the agency theory has major implication in the development markets but its implication in Asian emerging market is still unresolved. In Asian countries the impact of managerial ownership on agency cost in Malaysian business environment is examined by Mustapha and Ahmad (2011) find that managerial ownership in various sectors has negative association with monitoring cost as per agency theory predications. Numerous scholars have reported that ownership separation, interest conflict, risk aversion and asymmetric information are the major reasons of the agency problem. However, it was also discovered that the executive ownership, ownership structure, and governance mechanisms such board structure can help to minimize the agency cost (Panda & Leepsa, 2017). The levels of foreign direct investment in developing economies have increased during the past 20 years so Academics and policy makers have been interested in the impact of foreign ownership on corporate performance (Ongore, 2011).

This study examine that the impact of diversification of ownership on the agency cost of the firm, also the association between ownership structures affect and monitoring cost. The present study is unique as it provides empirical evidence on the relationship ownership structure and monitoring cost in the context of Asian emerging market like Pakistan with unique institutional background of high family owners companies. Further, the findings this study will supplement the findings piror researches in developing countries on ownership structure. We have subdivided the ownership structure and examined the impact of family ownership, institutional ownership, foreign ownership and government ownership on the monitoring cost of company. The present study provides fresh perspective on agency cost in order to improve corporate governance.

The remaining of paper structured as follow. Section 2 discuss the relevant literature on the ownership structure, monitoring cost and agency theory. This section also contain the research hypothesis of the study. Section 3 presents the date and measurements of the variables, while section 4 discusses the research methodology and empirical findings in section 5. Section 6 discuss the conclusion, limitation of the study and future research.

2. Literature Review

Patterns of corporate governance and control differ significantly across the globe due to variations in ownership structure and board composition (Roe, 1990). Corporate governance is the process that involves managing relationships between management, shareholders, board of directors and stakeholders of the company with sense of accountability having an ultimate objective of enhancing shareholder's wealth.

This section reviews previous research based on agency theory and corporate governance. Seminal contribution of Jensen and Meckling (1976) on agency theory highlighted the social and private costs of an agent's action. This theory analyses the relationship between shareholders (owners) and managers (agents) who act on the behalf of owners. Owners give preference to maximize their wealth while managers have other priorities like high compensation, low effort level, job security and prestige (Thomsen & Pedersen, 2000). Therefore, the agency problem arises due to conflict of interest between both managers and shareholders. Managerial discretion manifests itself either as cost-augmentation or self-interested strategizing that result in reduced profitability (Gedajlovic & Shapiro, 1998).

In today's competitive world, modern firms are characterized by a separation of ownership and control. The absence of monitoring mechanism and diffused ownership structure are the major cause of the divergent of interest between the owners and agents. This misalignment of interest named in literature as principal-agent conflict. According to Jensen and Meckling (1976) when manager is a sole shareholder the agency cost of that firm is zero and is known as zero agency cost firm. To cope up with agency cost firms adopt the strategy of diffused ownership structure and management shareholdings. (Chinelo & Willi, 2018) opined that corporate governance systems

should be put in place to safeguard shareholders' interests and maintain order in the organization due to the conflict of interest experienced between the agents and the principals, as well as to reduce the agency problem and costs associated with them.

2.1 Monitoring cost

The supporter of agency theory brought forward the role of managerial decisions and various internal and external monitoring and bonding mechanisms for theoretical discussion and empirical research. Corporate performance depends on ability of owners to effectively monitor and control managers. Jensen and Meckling (1976) argue that active monitoring strategies can mitigate the conflict of interest between principals and agents. The active monitoring strategies include executive compensations must linked with performance (i.e profit) and shrink the powers managers in allocation of resources of the firm.

In order to control the conflict of interest between managers and shareholders firms decide to hire external auditors (Chow, 1982). It is claimed that there are less agency conflicts and thus lower monitoring cost when majority of management has ownership rights (Rashid, 2016). This is due to the fact that insiders require low board, a costly monitoring activity (Vafeas, 1999). Jensen and Meckling (1976) recommend that intensive audit can reduce the conflict of interest between the shareholders and managers of the firm. the interest of principles and agents can aligned by involving the managers in the ownership.

2.2 Ownership structure

One of the key corporate governance mechanisms that influences the firm's agency cost is ownership structure (Jensen & Meckling, 1976). Ownership structure, a device that can reduce agency cost determines the profitability of the firm enjoyed by different stakeholders. The monitoring objective, skills and incentives are different for different categories of shareholders (Demsetz & Lehn, 1985). Agency problems can be reduced by strong ownership concentration. Three broad types of mechanisms that exist in world economies as identified by Shleifer and Vishny (1997) are: Dispersed ownership structure prevalent in UK and USA, where firms substantially rely on legal protection of investors. Large investors and bank are more relied in Europe and Japan and there is less confidence on legal protections. Ownership is on average heavily concentrated in families in the rest of the world and there is very weak legal protection.

2.3 Institutional ownership

Shareholdings by financial and non-financial corporations is defined as institutional ownership. It includes both the public-owned as well as privately owned institutions like pension funds, insurance companies, investment companies, banks etc. Institutional investors can be

divided into two categories grey institutional investors, who protect their relationship with firms by not challenging management decision and independent institutional investors who do not bother about relationships with firm (Chen, Harford, & Li, 2007). As institutional investors are, determine by the portfolio investments as compared to other ownership structure measurements. Instructional investors are the major owners and they consider the financial success of the firm as performance. They are advantageous in terms of low risk aversion, less finance and a relatively elongated time span (Thomsen & Pedersen, 2000). Institutional owners can play monitoring role on the board and help in protecting the minority shareholder's right (Agrawal & Mandelker, 1990). Banks require firm's managers to disclose the financial results honestly and to utilize the resources efficiently in order to generate profit thus banks monitoring of managers complements the shareholders monitoring and net result is decrease in agency cost (Ang, Cole, & Lin, 2000). Similarly Woidtke (2002) studied institutional monitoring of pension fund and concluded that institutional monitoring is linked with valuation effect. Chen et al. (2007) Studied that large institutional shareholding reduces total monitoring cost by providing easy access to management and board. In order to reduce agency cost and to ensure improved business performance the institutional investors can discipline the managerial discretionary behavior (Dawar 2014). Sajid, Muhammad, Nasir, and Farman (2012) Studied that institutional ownership reduces the level of agency cost in Pakistan by ensuring the efficient monitoring.

The longer the institution has investment in the firm, the better it has knowledge about the firm and its management. Thus, we can hypothesize that monitoring cost decreases when the institutional investors are independent having larger stake and have long-term investment in the firm.

H₁: Institutional ownership has significant negative impact on monitoring cost.

2.4 Family ownership

In family ownership, the family performs not only role of owners but also of managers of the firm. It is percentage of share held by husband, wife, son and daughter and other family members having the same surname as family. Minority shareholder's rights are often violated (expropriation) by families in order to gain private benefits in normal course of business (Fama & Jensen, 1983). In economic terms, families are reluctant to give up control because they make firm-specific investments in human capital (Maug, 1996). Ang et al. (2000) Studied agency problem of small corporations and conclude that non managerial shareholdings tend to increase the agency cost while increase in managerial shareholdings tends to decrease this cost. Long-term commitment to company is created as family owners of large corporations are expected to be relatively wealthy. Family owned companies are relatively risk averse and capital concentrated than other companies as they do not attract equity from stock market and prefer to reinvest their own share of wealth (Thomsen & Pedersen, 2000). Berger and Yermack (1997) report that agency

cost is lower in the family owners firms (more than 50% equity holding by family members) due to the active monitoring role of the family members. Further, when managers are owners they are more concerned to make value maximizing decisions about capital structure due to higher ownership stake (Berger, Ofek, & Yermack, 1997). However in older businesses with larger families there is diffused ownership, monitoring by family members is to some extent less effective as the interests of members may vary (Ang et al., 2000).

An alternate perspective is given by Schulze, Lubatkin, Dino, and Buchholtz (2001) that agency problems are more obvious in family managed private held firms due to reduced external governance and increased self-control problems so they do not have minimum agency cost.

In Pakistan, most listed companies are family owned particularly in textile and sugar sectors (Cheema, Bari, & Saddique, 2003). Zaidi and Aslam (2006) Argued that eighty percent of all listed firms on Pakistan Stock Exchange are directly owned by a family or affiliated to large business family. They have concentrated ownership and insider control as family members are managers or members of board of directors. Hence, distinction cannot be made between managerial ownership and family ownership. Therefore, in case of concentrated family shareholding there is less need for extensive monitoring activities. Thus, we can hypothesize that:

H₂: Family ownership has negative impact on monitoring cost.

2.5 Government Ownership

Those businesses that have large employee bases and considerable government ownership show higher level of diversification because they have political objective of reducing unemployment (Zhao, 2010). In literary circles the government ownership has a reputation of being bureaucratic and inefficient (Ongore, 2011). Government ownership is less efficient than private ownership because on the top level people with political affiliations are appointed by the government who usually are less efficient (Boone, Colombage, & Gunasekarage, 2011). Moreover government ownership may lower the monitoring intensity and cost because government seldom tracks the performance of firms in which it has significant ownership position (Lu & Yao, 2006). Lower governance quality is characterized with government ownership (Borisova, Brockman, Salas, & Zagorchev, 2012). Based on this we can hypothesize that

H₃: Government ownership has negative impact on monitoring cost.

2.6 Foreign Ownership

In newly liberalized economies foreign ownership has significant impact on corporate governance and tends to increase firm's performance (Boone et al., 2011). Companies having considerable foreign ownership have superior financial, technological and organizational resources (Khanna & Palepu, 2000).

Moreover, the foreign shareholders are influential investors as compared to domestic investors. The foreign shareholders are active monitor the firm investment decisions and are in better position to observe the imperfections of the capital market (Chhibber & Majumdar, 1999). Foreign investors invest in the high companies of the stock market, equities of these companies are actively traded on the market and they sell the shares of underperforming companies in order to minimize their risk (Douma, George, & Kabir, 2006). In emerging economies, foreign ownership reduces agency conflict by actively taking part in monitoring and controlling activities, as a result agency cost is increased (Jusoh, 2016). Based on above studies following hypothesis is developed

H₄: Foreign ownership has positive impact on monitoring cost.

3. Data and Measurement of Variables

3.1 Data

This study used sample 97 non-financial companies listed at Pakistan Stock Exchange (PSX) for the period of 2015-2019. This study excluded firms in the financial sector because of difference in capital structure and disparity in compliance and regulatory requirements (Ali & Saeed, 2011). The ownership structure data is hand collected from the annual reports of the selected firms. The firm's specific variables are extracted from the State Bank of Pakistan (SBP) publications that is, balance sheet analysis of Joint Stock Companies. Further, firms were also excluded from the study for which the desired data was unavailable. Data was checked for normality and outliers were removed. In order skewness of data logarithmic function is used for some measures. The present study employed total asset turnover ratio to measure monitoring cost.

3.2 Measurement of Variables

Monitoring Cost: Monitoring cost is the dependent variable in this study, which captures the agency cost. Researchers measured this variable by using different proxies. Ang et al. (2000) measured the monitoring cost through expense ratio and asset utilization ratio. The asset utilization ratio calculated by total annual sales divided by total assets. Similarly, the agency cost measured by selling & administrative to sale ratio and total asset turnover ratio (Singh & Davidson III, 2003). Mustapha and Ahmad (2011) measured monitoring cost through the remuneration and other financial benefits of non-executive directors plus the auditing cost of internal and external auditors. The present study employed total asset turnover ratio to measure monitoring cost. As asset turnover ratio explains how efficiently the managers are utilizing assets.

Institutional ownership: Institutional ownership is calculated as percentage of shares owned by Pakistani domestic legal entities including mutual funds, insurance companies, banks, pension funds, investment companies and other enterprises.

Government ownership: % age of the shares held by the government entities and government agencies.

Family Ownership: The Family ownership is measured by dummy variable, which takes the value of “1” for family owned firm otherwise “0”.

Firm size: is the logarithm of total assets to account for size differences across companies (Wei, Xie, & Zhang, 2005).

Inventories and receivable turnover: is measured by dividing inventories and receivables by total assets.

Risk: Risk level of the company is measured by using a dummy, which takes value 1 if company incurred a loss in a given year and zero otherwise.

ROA: Return on assets and it is measured by dividing earnings before interest and tax with total assets.

Growth: In order to analyze future growth capabilities, a market based measure of performance Tobin’s Q is used. It is computed as sum of market value of equity and book value of debt divided by replacement cost of firm’s assets. Lang and Litzenberger (1989) gave a valid reason for using Tobin’s Q as a measure of growth opportunities by suggesting that Tobin’s Q above 1 show that the firm can go for investment and maximize its value while Tobin’s Q below 1 depict that firm has no growth opportunity and there exist agency problem. It has been widely used as proxy for company’s growth opportunities. However, in Pakistan we cannot use the formula because replacement value of firm’s asset is not available. So in line with Ali and Saeed (2011) and Wei et al. (2005) we used total asset instead of replacement value. So the formula for measuring Tobin’s Q is sum of market value of equity and book value of debt divided by total assets.

4. Methodology

The present study utilized panel regression to explore the association between ownership structure and monitoring cost. The ownership structures measured through institutional ownership, family ownership and government ownership. Panel data entail of observations on the same cross-sectional units over numerous times. Thus, panel data analysis helps to analyze time series and cross sectional data simultaneously. Panel data analysis has been used in both fixed and random effect setting with an assumption of constant coefficients.

We have used a balanced panel; each cross sectional unit has same number of time series observations. First, Constant coefficient model is used which assumes that slope and intercept

terms are constant across time and space. In order to analyze the impact of ownership structure on monitoring cost, the following model is used:

$$M_{it} = \beta_0 + \beta_1 INS_{it} + \beta_2 FI_{it} + \beta_3 GOV_{it} + \beta_4 FM_{it} + \beta_5 IRT_{it} + \beta_6 SIZE_{it} + \beta_7 ROA_{it} + \beta_8 RISK_{it} + \beta_9 Growth + \mu_{it}$$

(1)

Where M_{it} natural logarithm of monitoring is the cost of company “i” for year t. β_0 is the intercept. IRA_{it} is inventories and receivable turnover ratio, ROA_{it} is return on assets. Size tells about financial health of company and Risk tells whether company has incurred loss or is profitable at time t. Growth is assessed through Tobin’s Q.

In order to overcome the restricted assumptions of common effect method, fixed and random effect models are used for estimation. In fixed effect, the model individuality of each cross section is taken into account by assuming different intercept for each section. The Restricted F test is used to check the applicability of model. The null hypothesis of F test is

$H_0 =$ All the intercepts (constants) are same so common effect model can be used.

$$F = \frac{(R_{FE}^2 - R_{CE}^2) / N - 1}{(1 - R_{FE}^2) / (NT - NK)} \quad (2)$$

The decision rule is that if the calculated F value is greater than its critical value then we reject the null hypothesis and conclude that constants are not same. Dummies are used to capture the effect of cross sections.

$$M_{it} = \beta_0 + \beta_1 INS_{it} + \beta_2 FI_{it} + \beta_3 GOV_{it} + \beta_4 FM_{it} + \beta_5 IRT_{it} + \beta_6 SIZE_{it} + \beta_7 ROA_{it} + \beta_8 RISK_{it} + \beta_9 Growth + \Sigma D_i + \mu_i$$

(3)

Here D_i represents the companies. We assume that each company differs in its constant term. The problem with fixed effect model is that it is expensive in terms of degree of freedom. Further, the random effect is assumed that the selected companies are differs in error term and intercepts are random. It is also known as the error component model.

$$M_{it} = \beta_0 + \beta_1 INS_{it} + \beta_2 FI_{it} + \beta_3 GOV_{it} + \beta_4 FM_{it} + \beta_5 IRT_{it} + \beta_6 SIZE_{it} + \beta_7 ROA_{it} + \beta_8 RISK_{it} + \beta_9 Growth + (V_i - \mu_i)$$

(4)

Hausman (1978) Used a test to choose the best between fixed effect model and random effect model. The null hypothesis of Hausman test is that the estimators of fixed effect model and random effect model do not differ substantially.

$$H = (\beta^{FE} - \beta^{RE}) * [(Var(\beta^{FE}) - Var(\beta^{RE})) - 1(\beta^{FE} - \beta^{RE})] \approx \chi^2(K) \quad (5)$$

If the H value is large then null hypothesis is rejected and it is concluded that difference between estimates is significant, thus random effect model is not appropriate and we should use fixed effect model. If value of H statistic is small, then random effect model is most suitable.

5. Empirical Results and Discussion

Table 1: Common effect Model Results

Variable	Coefficient	Std. Error	t. Statistic	Probability
Institutional ownership	0.0294	0.1708	0.1721	0.8634
Foreign ownership	0.7528	0.1812	4.1544	0.0000
Government ownership	-0.1697	0.3255	-0.5216	0.6022
Family ownership	0.1790	0.0907	1.9726	0.4291
Inventories and receivable turnover	0.8100	0.0898	9.0165	0.0000
Firm Size	0.0613	0.0052	11.7476	0.0000
Risk	-0.0570	0.0907	-0.6285	0.5300
Return on Asset	0.0115	0.0032	3.5334	0.0005
Tobin's Q	-0.1817	0.0427	4.2475	0.0000
Adjusted R²		0.2655		
F Statistics		6.21		
F significance		0.000		

In order to overcome the restrictive nature of common effect model fixed and random effect model has been tested. The null hypothesis of common effect model is that all the constants are same across time and cross sectional units and can be determined through Standard F-test. Hence, we observed that the calculated value of F-statistics is F=34.76, greater than F-statistics critical value at confidence level of 95%, which don't support the null hypothesis and recommends that the fixed model is better. Further, we applied Hausman test to retain the results of Fixed Effect Model and Random Effect and results presented in table 2.

Table 2: Results of Hausman Test

	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
H-Statistics	72.468	24.853	0.0000
Cross-section random effects test comparisons:			
Variable	Fixed	Random	Var(Diff.)
Institutional ownership	0.3532	0.2854	0.0145
			Prob.
			0.7340

Foreign ownership	0.4702	0.4388	0.1091	0.0059
Government ownership	-0.7263	0.0964	0.0787	0.6203
Family ownership	-0.4702	0.4388	0.1091	0.5061
Inventories and receivable turnover	-0.2083	-0.0274	0.0014	0.0000
Firm Size	-0.3350	-0.1075	0.0020	0.0000
Risk	0.0446	0.0181	0.0000	0.0044
Return on Asset	0.0079	0.0093	0.0000	0.8716
Tobin's Q	-0.0202	0.0235	0.0004	0.0171

The value of H-statistics is 72.46, as reported in the first row table 2, the value high and shows significant difference among the estimated techniques at the level of 5% significance. Hence, we do not accept the null hypothesis the random effect is consistent and retain the results of fixed effect model. Table 4.3 presents the results of fixed model.

Table 3: Fixed Effect Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.8767	0.3607	2.4301	0.0155
Institutional ownership	0.0978	0.1716	0.5701	0.5688
Foreign ownership	0.9318	0.1924	4.8424	0.0000
Government ownership	0.1676	0.3509	0.4776	0.6331
Family ownership	0.5612	0.2976	0.6574	0.5165
Inventories and receivable turnover	0.1483	0.0909	1.6311	0.1035
Firm Size	0.8187	0.0900	9.0927	0.0000
Risk	0.0031	0.0245	0.1273	0.8987
Return on Asset	0.1149	0.0940	-1.2231	0.2219
Tobin's Q	-0.0104	0.0032	3.1698	0.0016
Fixed Effects (Period)				
2015 C		-0.083968		
2016 C		0.080339		
2017 C		0.078525		
2018 C		-0.009624		
2019 C		-0.065273		
Adjusted R²		0.274		
F statistics		15.07		
F significance		0.000		

6. Conclusion:

We find significant positive association between foreign shareholdings and monitoring cost that is when foreign ownership is increased, the agency cost tend to increase. Our results are in

line with past research of our results strengthen the agency theory (Jensen & Meckling, 1976) perspective that separation between ownership and control tends to increase agency cost and thus decrease overall value of firm.

As foreign ownership increases, agency cost increases because these shareholders enhances incentives to active monitor the managerial decisions in order to mitigate their risk and to keep their wealth intact (Abdullah, 2006; Jusoh, 2016). Firms with multinational block holdings tend to disclose more as compared to local shareholdings (Tsamenyi, Enninful-Adu, & Onumah, 2007) so more monitoring cost is incurred.

This study observed insignificant impact of family ownership, institutional ownership and government ownership on monitoring cost of a firm. However, Tobin's Q is significantly negatively related to monitoring cost of a firm. Firms with Tobin's Q greater than 1 are supposed to be well-managed firms creating superior value for their shareholders so they are less likely to be incurring detrimental agency cost. Firms with Tobin's Q less than 1 have lower growth opportunities and have more exposure to resource wastage that creates higher agency cost.

6.1 Managerial Implications

The foreign ownership increases the agency cost as more monitoring cost is incurred but it also increases the firm performance. The first reason is that foreign owners are more likely to be able to keep an eye on managers and reward them based on performance, which encourages managers to take management more seriously and abstain from actions that contradict the business owners' aims for wealth growth. The introduction of new technology and globally tested management techniques is the second factor. These changes help the company become more efficient by lowering operating costs and creating savings for the company. In order to reduce the agency cost, employee shareholdings should also be increased, as this will enhance commitment and motivation, so productivity and performance will be boosted. Performance based compensation system should be established in order to align interests of managers and shareholders.

6.2 Limitations and Further Research Directions:

The major limitation of this study, as it based on the hand collected publically available data for the annual reports of sample companies. Therefore, sample size and time horizon is small because data for certain variables was missing. Future researcher can use survey method in order to gather information in this way research with relatively large sample can also be possible. Impact of ownership concentration as well as effect of managerial shareholdings on monitoring cost can also be analyzed in future.”

References

- Abdullah, S. N. (2006). Board structure and ownership in Malaysia: The case of distressed listed companies. *Corporate Governance: The international journal of business in society*.
- Agrawal, A., & Mandelker, G. N. (1990). Large shareholders and the monitoring of managers: The case of antitakeover charter amendments. *Journal of Financial and Quantitative analysis*, 25(2), 143-161.
- Ali, S. Z. A. S. S., & Saeed, M. M. (2011). Ownership structure and performance of firms: Empirical evidence from an emerging market. *African Journal of Business Management*, 5(2), 515-523.
- Ang, J. S., Cole, R. A., & Lin, J. W. (2000). Agency costs and ownership structure. *The journal of finance*, 55(1), 81-106.
- Berger, P. G., Ofek, E., & Yermack, D. L. (1997). Managerial entrenchment and capital structure decisions. *The journal of finance*, 52(4), 1411-1438.
- Boone, N., Colombage, S., & Gunasekarage, A. (2011). Block shareholder identity and firm performance in New Zealand. *Pacific Accounting Review*.
- Borisova, G., Brockman, P., Salas, J. M., & Zagorchev, A. (2012). Government ownership and corporate governance: Evidence from the EU. *Journal of Banking & Finance*, 36(11), 2917-2934.
- Cheema, A., Bari, F., & Saddique, O. (2003). Corporate governance in Pakistan: Ownership, control and the law. *Lahore University of Management Sciences, Lahore*, 5.
- Chen, X., Harford, J., & Li, K. (2007). Monitoring: Which institutions matter? *Journal of financial economics*, 86(2), 279-305.
- Chhibber, P. K., & Majumdar, S. K. (1999). Foreign ownership and profitability: Property rights, control, and the performance of firms in Indian industry. *The journal of law and Economics*, 42(1), 209-238.
- Chinelo, E.O., & Willi, I. (2018) Ownership Structure, Corporate Governance and Agency Cost of Manufacturing Companies in Nigeria. *Research Journal of Finance and Accounting*, 9 (16)
- Chow, C. W. (1982). The demand for external auditing: Size, debt and ownership influences. *Accounting review*, 272-291.
- Dawar, V. (2014). Agency theory, capital structure and firm performance: some Indian evidence. *Journal of Managerial Finance*; 40(12), 1190-1206
- De Miguel, A., Pindado, J., & De la Torre, C. (2004). Ownership structure and firm value: New evidence from Spain. *Strategic Management Journal*, 25(12), 1199-1207.
- Demsetz, H., & Lehn, K. (1985). The structure of corporate ownership: Causes and consequences. *Journal of political economy*, 93(6), 1155-1177.

- Douma, S., George, R., & Kabir, R. (2006). Foreign and domestic ownership, business groups, and firm performance: Evidence from a large emerging market. *Strategic Management Journal*, 27(7), 637-657.
- Fama, E. F., & Jensen, M. C. (1983). Agency problems and residual claims. *The journal of law and Economics*, 26(2), 327-349.
- Farrer, J., & Ramsay, I. (1998). Director share ownership and corporate performance—evidence from Australia. *Corporate Governance: An International Review*, 6(4), 233-248.
- Gedajlovic, E. R., & Shapiro, D. M. (1998). Management and ownership effects: Evidence from five countries. *Strategic Management Journal*, 19(6), 533-553.
- Hausman, J. A. (1978). Specification tests in econometrics. *Econometrica: Journal of the econometric society*, 1251-1271.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4), 305-360.
- Jusoh, M. A. (2016). Foreign ownership and firm performance: Evidence from Malaysia. *Asian Journal of Accounting and Governance*, 6, 49-54.
- Khanna, T., & Palepu, K. (2000). Emerging market business groups, foreign intermediaries, and corporate governance. *Concentrated corporate ownership*, 265-294.
- Lang, L. H., & Litzenberger, R. H. (1989). Dividend announcements: cash flow signalling vs. free cash flow hypothesis? *Journal of financial economics*, 24(1), 181-191.
- Lu, Y., & Yao, J. (2006). Impact of state ownership and control mechanisms on the performance of group affiliated companies in China. *Asia Pacific Journal of Management*, 23(4), 485-503.
- Maug, E. (1996). Corporate control and the market for managerial labour: On the decision to go public. *European Economic Review*, 40(3-5), 1049-1056.
- Mir, S., & Nishat, M. (2004). *Corporate governance Structure and firm performance in Pakistan: An empirical study*. Paper presented at the Second Annual Conference in Corporate Governance. Lahore University of Management Sciences, Lahore.
- Mustapha, M., & Ahmad, A. C. (2011). Agency theory and managerial ownership: evidence from Malaysia. *Managerial Auditing Journal*.
- Ongore, V.O. (2011). The relationship between ownership structure and firm performance: An empirical analysis of listed companies in Kenya. *African Journal of Business Management*, 5 (6), 2120-2128
- Panda, B., & Leepsa, N. (2017). Agency theory: Review of theory and evidence on problems and perspectives. *Indian Journal of Corporate Governance*, 10(1), 74-95.
- Rachagan, S. (2010). Enhancing corporate governance in listed companies with concentrated shareholdings: A Malaysian perspective. *Journal of Financial Crime*.
- Rashid, A. (2016). Managerial ownership and agency cost: Evidence from Bangladesh. *Journal of business ethics*, 137(3), 609-621.

- Roe, M. J. (1990). Political and legal restraints on ownership and control of public companies. *Journal of financial economics*, 27(1), 7-41.
- Sajid, G., Muhammad, S., Nasir, R., & Farman, A. (2012). Agency cost, corporate governance and ownership structure: the case of Pakistan.
- Schulze, W. S., Lubatkin, M. H., Dino, R. N., & Buchholtz, A. K. (2001). Agency relationships in family firms: Theory and evidence. *Organization science*, 12(2), 99-116.
- Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The journal of finance*, 52(2), 737-783.
- Singh, M., & Davidson III, W. N. (2003). Agency costs, ownership structure and corporate governance mechanisms. *Journal of Banking & Finance*, 27(5), 793-816.
- Thomsen, S., & Pedersen, T. (2000). Ownership structure and economic performance in the largest European companies. *Strategic Management Journal*, 21(6), 689-705.
- Tsamenyi, M., Enninful-Adu, E., & Onumah, J. (2007). Disclosure and corporate governance in developing countries: Evidence from Ghana. *Managerial Auditing Journal*.
- Vafeas, N. (1999). Board meeting frequency and firm performance. *Journal of financial economics*, 53(1), 113-142.
- Wei, Z., Xie, F., & Zhang, S. (2005). Ownership structure and firm value in China's privatized firms: 1991–2001. *Journal of Financial and Quantitative analysis*, 40(1), 87-108.
- Woidtke, T. (2002). Agents watching agents?: evidence from pension fund ownership and firm value. *Journal of financial economics*, 63(1), 99-131.
- Zaidi, R., & Aslam, A. (2006). *Managerial efficiency in family owned firms in Pakistan: an examination of listed firms*: Center for Management and Economic Research, Lahore University of Management
- Zhao, J. (2010). Ownership structure and corporate diversification strategies of Chinese business groups. *Management Research Review*.