Journal of Global Business and Social Entrepreneurship (GBSE)
Vol. 2: no. 4 (2016) page 61–71| gbse.com.my | eISSN 24621714|

OWNERSHIP STRUCTURES AND FIRM PERFORMANCE ON CONSUMER PRODUCT SECTOR IN MALAYSIA

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Abstract

This paper study the influence of ownership structure on accounting profitability and market performance. Concurrently, the role of consumer product sector is increasingly important in Malaysia Economy, the contribution of consumer product sector in Malaysia's GDP is increasing every year since year 2005 until 2012.This research focused on listed companies in consumer product sector of Bursa Malaysia's Main Board for ten years period (2001-2010).Total samples of 46 companies are chosen and tested using the Empirical Quantitative Method. The results of the study revealed that institutional ownership is extensively influenced the firm's performance. Meanwhile, managerial and family ownership only imposed the influence on the firm's accounting profitability. Lastly, non-institutional ownership has negative influence on firm's accounting profitability. The results of the study supported the agency theory and alignment theory in explaining the influence of ownership structure on firm performance.

Keywords: *Ownership Structures, Firm Performance, Consumer Product Sector*

Introduction

The variety of means can be used to tackle the agency's problems such as debt policy, institutions, and usage of foreign directors. Another obvious solution would be the ownership structure (Lee and Chuang, 2008). The term ownership structure typically expresses the core mechanisms to measure a company's returns. Lately, in business readings, the correlation among ownership structure cum returns has gained swelling attention. Ownership structure is considered the determining factor of business supremacy composition that affects enterprise's behavior. If the relationship between ownership structures and business returns are computed, the leaders would need to evaluate which type of ownership structure would increase the enterprise capacity since there are some past works that articulated the magnitude of ownership structures.

For local context, Mazlina and Ayoib (2011) investigated an exploration on whether managerial ownership would carry weight towards agency theory in local commercial

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environment. Their models comprised of some 235 listed enterprises listed for the financial annum ended 2006. One eventual upshot read that managerial ownership is inversely correlated with total supervising budgets as foreseen in agency theory.

As for the international perspective, Wang and Xie (2011) investigated the relationship among equity ownership structure of China's fund management enterprises and profits. An aggregate of 50 fund management enterprises in China during year 2008 – 2009 were opted as models. They discovered that ownership in fund management enterprises is correlated to fund management. Additionally, Liang et al. (2005) investigated a test using models consisting Taiwan's public companies from year 2000 – 2009 to reexamine the relationship stuck between ownership structures, proxies for intellectual capital and enterprise net worth in emerging Taiwan economy. The final outcome revealed that ownership has absolute impact on both traditional businesses and cutting edge firms.

In short, the connection between ownership structure and firm's performance is urgent to examine because there might be a much difference among developed and developing nations in terms of social, political and business cultures. In a way, the facts amassed from developed countries shall not apply to the evolving markets. As for emerging country like Malaysia, the matter of whether ownership composition would affect enterprise net worth produces varied results. The reason for this might be certain researches are conducted with differed focus. Yatim et al. (2006) pictured very limited researches were instigated in emerging countries. Thus, this study serves a goal of: (1)assessing ownership structure's effect on accounting profitability, (2) assessing ownership structure's effect on market returns.

Literature Review

Theories

Separation of ownership and direct power had been making out to possibility effect on a corporate value since long time ago. From the novel agency theory by the Jensen and Meckling (1976), their research stated that there is a positive relationship between equity agency costs and the ownership structure. There are some studies concerning the relation between managerial ownership and agency costs based on Malaysia market data. A study by Johari et al. (2008) found that management practices of a firm will affect the managerial ownership. Their result showed that managerial ownership might encourage directors to make decisions which will bring benefit for themselves as stakeholders. This is because when managers own the organizations' share, it will motivate the managers to become more responsible thus increase the value of companies through the better management.

On the other hand, alignment theory suggested that performance of the firm is positively affected as the level of inside ownership grows. Inside ownership refers to the peoples such as a company's director, officers or key executives own company's shares of stock. Thus, based on the theory, it can conclude that high performance companies will have high levels of inside ownership. Small company is typically has larger inside ownership percentage, due to the larger company has many outstanding shares and hard for insider to hold a large percentage.

The entrenchment theory is just contrary with the agency theory. According to the entrenchment theory, the higher the degree of ownership by those who make company's decision, the more likely the performance of the company will decrease. This point is supported by Dugan and Edmunds (1994), concluded that the risk and reward structure among the company's decision maker suggests in the entrenchment theory are insufficient to encourage them to increase the company performance.

Theoretical Ownership Structure and Firm Performance

Firms are affected by different mechanisms of corporate control; one of them is the ownership structure (Jensen, 1976). The functions of internal control mechanism are determining firm's objectives and shareholder wealth.

The existence of large institutional investors will implies a positive effect on the market value of the firm because of the more effective monitoring (Shileifer and Vishny, 1986). Stiglitz (1985) proposes that institutional investors with greater shareholding can easily put up with the cost of collecting information, and lead them likely to be involved in firm monitoring activities. Thus, it can be concluded that institutional investors perform an important role to improve the firm performance. On the other hand, previous researchers both local and abroad included Diamond, (1984); Stinglitz, (1985); Jensen (1976); Shleifer and Vishny (1986); Pound (1988); Agrawal and Knoeber (1996); Duggal and Millar (1998); Abdelsalam et al. (2008); Hafiza and Susela (2009) did reported that institutional ownership is significantly influence the firm's performance through their participation in firm.

According to Prasanna (2006), corporate governance from non-institutional shareholders to independent shareholders is much more focus. Most of the firms now a day's consisted majority of non-institutional investors. Non institutional investors can play an important role in reducing agency conflict between company management and shareholders by performing monitoring function on the board. Hence the firm agency problem can be solving. Inclusion of non-institutional investors in the firm's board will decrease the potential divergent behavior of management and thereby reducing the agency conflicts (Chowdury, 2004). Moreover, Fama and Jensen, (1983); Md Amir Hossain, (2010). Karin, (2011) have given similar kind of opinion as to the role of non-institutional investors are effective for firm's performance.

Jensen and Meckling (1976) stated that as the management ownership increases will decrease the need for board intense monitoring activity. The executive director is divided to internal and external directors. Previous research indicated that internal and external directors have different incentives. Internal directors are much more motivated to monitoring the firm activities due to they also have stock on the firm. Previous researchers who did support the statement that managerial ownership will increase the firm's performance included Jensen and Meckling (1976); Cho (1998); Muhamad Ridhwan (2010); Mathiesen (2002); Mueller and Spitz (2002).

According to Mak and Kusnadi (2005), Asian firms have more concentrated ownership where family control is common in both small and establish firms. On the other hand, Claessens and Fan (2002) said that study on the role of family ownership structure is critical to the effectiveness of corporate governance. On the other hand, the empirical findings that presence with family control perform healthier than those without were backed by Cho and Kim, (2007); Anderson and Reeb; (2004); Fama and Jensen (1983); Mak and Kusnadi, (2005); Bartholomeusz and Tanewski (2006).

In general, the empirical studies are not conclusive because some previous studies specify firms with concentrated ownership will lower the firm's profitability (Fama and Jensen (1983)). In contract, empirical study by Shleifer reported that ownership concentration will positive influence the firm when lacking protection from corporation governance. Moreover, Anderson and Reeb (2003) and Wang (2006) findings showed family ownership is positively influence firm performance. Therefore, this study hopes to find out the effect of ownership structure on marketing performance and accounting profitability.

Methodology

Independent Variables

An independent variables are the variables used to test the dependent variable. In this paper, the quantitative variables utilized are institutional, non-institutional, managerial, and family ownership.

Dependent Variables

In this research, the dependent variable is measured by two classes which are (1) Accounting Profitability, and (2) Market Performance. Accounting profitability based measures ROA, ROE. While the market performance based measure the Tobin's Q. In this study, the dependent variables were selected if they are found to be useful in at least five previous study.

Control Variables

Control variable is held constant in order for the investigator to study the effect of one particular independent variable. In this study, firm size and leverage have been selected as control variable. Firm size is the control variable that has high correlation with the independent and dependent variable. Size variable can influence the relationship between ownership and firm performance (Anderson and Reeb (2003); Wang (2006)). On the other hand, leverage was used to control firms that are currently facing financial difficulties. Firm size and leverage as a control variable is consistence in measure the relationship between firm value and ownership structure based on past literature practices**.**

Population and Sample Selection

This research aims on the consumer product sector, focused on the ownership revenue in 10 years recovering period which initiates from 2001 end until 2010. Those selected enterprises must fulfill the financial data terms for a 10-year period and also to be actively listed in consumer product sector for the entire period. The sample selection in the population was based on Krejcie and Morgan (1970) method. This method had been used because it can help the study to determine with a 95 percent certainty what the result would have been if the entire population had been surveyed. The year 2000 will be used as guidance and benchmark to determine which enterprise achieved the requirement. As at the end of year 2000, there are 73 companies in consumer product sector is listed on Bursa Malaysia's Main Board. Due to the data requirement of the study (to calculate the ten years firm performance from 2001 until 2010), 27 companies had been eliminating due to missing ten years continuous data. Thus, the final sample of this study comprised 46 companies with complete data for measure the firm performance.

Data Collection Procedures

The data and information used will be gathered through the Bursa Malaysia website (http://www.bursamalaysia.my) to glance at the annual report of which enterprise can last from 2001 until 2010.

Analysis Methods

In this research, the analysis methods is measured by two parts which are (1)Linear Regression Analysis, and (2) Multiple Regression Analysis.

Before the analysis, a regression diagnostic analysis for data have been conducted. The purpose of the diagnostic test is to find out whether the regression assumptions is achieved through a variety set of statistical procedures. In order to conduct the Regression Diagnostic Analysis. Skewness and Kurtosis, Durbin-Watson, and Multicollinearity by Variance Inflating Factor (VIF) had been tested.

Next, Linear Regression Analysis method has been selected to recognize the link between the four categories of ownership structures and firm accounting profitability also market performance. This type of analysis is often practiced to test the variables link and the hypotheses. The formula to compute linear regression models with all four independent variables are shown below.

I. Institutional Ownership

Accounting Profitability $= \beta 0 + \beta 1\ Institutional\ Ownership\ (IO) + \varepsilon i$

$$\beta 0 + \beta 1\ Institutional\ Ownership\ (IO) + \varepsilon i$$

II. Non- Institutional Ownership

Accounting Profitability =

$\beta 0 + \beta 2\ Non - Institutional\ Ownership\ (NO) + \varepsilon i$**Error! Reference source not**

III. Managerial Ownership

Accounting Profitability = **Error! Reference source not found.**

Market Performance = **Error! Reference source not found.**

IV. Family Ownership

Accounting Profitability =**E**$\beta 0 + \beta 4\ Family\ Ownership\ (FO) + \varepsilon i$

Market Performance =**Err**$\beta 0 + \beta 4\ Family\ Ownership\ (FO) + \varepsilon i$

Lastly is the Multiple Regression Analysis, As for the multiple regression models, the calculation is done with the following equation:

General Multivariate regression model for the study is shows below:

$$\text{Firm Performance} = \beta 0 + \beta 1(IO) + \beta 2(NO) + \beta 3(MO) + \beta 4(FO) + \beta 5(Size) + \beta 6(Leverage) + \varepsilon i$$

Multiple regression models with four independent variables and control variable is shows below:

$$\text{AP} = \beta 0 + \beta 1(IO) + \beta 2(NO) + \beta 3(MO) + \beta 4(FO) + \beta 5(Size) + \beta 6\ (Leverage) + \varepsilon i$$

$$\text{MP} = \beta 0 + \beta 1(IO) + \beta 2(NO) + \beta 3(MO) + \beta 4(FO) + \beta 5(Size) + \beta 6\ (Leverage) + \varepsilon i$$

Where:

Firm Performance = Dependent Variable (ROA, ROE, Tobin's Q)
AP = Accounting Profitability
MP = Market Performance
IO = Institutional Ownership
NO = Non-institutional Ownership
MO = Managerial Ownership
FO = Family Ownership
εi = Error
Control Variable:
Size = Log of total asset
Leverage = The ratio of total liabilities to total assets

Hypothesis Designing

The hypotheses were developed to justify empirically are as follows:

(i) $\mathbf{H_{1a}}$: Institutional ownership has a positive significant influence on the firm’s accounting profitability.
$\mathbf{H_{1b}}$: Institutional ownership has a positive significant influence on the firm’s market performance.

(ii) $\mathbf{H_{2a}}$: Non-institutional ownership has a positive significant influence on the firm’s accounting profitability.
$\mathbf{H_{2b}}$: Non-institutional ownership has a positive significant influence on the firm’s market performance.

(iii) $\mathbf{H_{3a}}$: Managerial ownership has a positive significant influence on the firm’s accounting profitability.
$\mathbf{H_{3b}}$: Managerial ownership has a positive significant influence on the firm’s market performance.

(iv) $\mathbf{H_{4a}}$: Family ownership has a positive significant influence on the firm’s accounting profitability.
$\mathbf{H_{4b}}$: Family ownership has a positive significant influence on the firm’s market performance.

(v) $\mathbf{H_{5a}}$: Institutional ownership has the greatest impact on the firm’s accounting profitability.
$\mathbf{H_{5b}}$: Institutional ownership has the greatest impact on the firm’s market performance.

(vi) $\mathbf{H_{6a}}$: Non-institutional ownership has the greatest impact on the firm’s accounting profitability.
$\mathbf{H_{6b}}$: Non-institutional ownership has the greatest impact on the firm’s market performance.

(vii) $\mathbf{H_{7a}}$: Managerial ownership has the greatest impact on the firm’s accounting profitability.
$\mathbf{H_{7b}}$: Managerial ownership has the greatest impact on the firm’s market performance.

(viii) $\mathbf{H_{8a}}$: Family ownership has the greatest impact on the firm’s accounting profitability.
$\mathbf{H_{8b}}$: Family ownership has the greatest impact on the firm’s market performance.

Result and Discussion

Regression Results on the effects of Institutional Ownership on ROA, ROE, and Tobin's Q

Variables	Standard Coefficients Beta	T Values	Sig Values	S.Error
IO-ROA	0.237	5.232	0.000*	7.608
IO-ROE	0.215	4.703	0.000	14.852
IO-TQ	0.033	0.716	0.474	0.164

Note: ** Significant at 10%, * Significant at 5%

In summary, institutional ownership has significant influence on firm ROA, ROE. However, it does not manipulate the Tobin's Q of the firm.

Regression Results on the effects of Non-Institutional Ownership on ROA, ROE, and Tobin's Q

Variables	Standard Coefficients Beta	T Values	Sig Values	S.Error
NO-ROA	-0.279	-6.219	0.000	7.521
NO-ROE	-0.264	-5.860	0.000	14.667
NO-TQ	0.012	0.256	0.798	0.164

Note: ** Significant at 10%, * Significant at 5%

Overall the non-institutional ownership has negatively influence on the firm's ROA, ROE. On the other hand, non-institutional ownership has no influences on the Tobin's Q of a firm.

Regression Results on the effects of Managerial Ownership on ROA, ROE, and Tobin's Q

Variables	Standard Coefficients Beta	T Values	Sig Values	S.Error
MO-ROA	0.023	0.484	0.629	7.830
MO-ROE	0.009	0.199	0.842	15.206
MO-TQ	-0.112	-2.419	0.016	0.163

Note: ** Significant at 10%, * Significant at 5%

Managerial ownership has no influences on ROA, ROE. However, managerial ownership found to has negative significant influence on firm's Tobin's Q.

Regression Results on the effects of Family Ownership on ROA, ROE, and Tobin's Q

Variables	Standard Coefficients Beta	T Values	Sig Values	S.Error
FO-ROA	-0.036	-0.760	0.447	7.827
FO-ROE	-0.033	-0.700	0.485	15.199
FO-TQ	0.011	0.231	0.817	0.164

Note: ** Significant at 10%, * Significant at 5%

The finding shows family ownership does not have any influence on firm's ROA and ROE, and Tobin's Q.

Multiple Regression Results Analysis

Dependent Variables	Independent Variables Coefficient/ Sig Level				Control Variables	
Firm Performance	IO	NO	MO	FO	Size	Leverage
ROA	0.242	-0.092	0.186	0.137	0.224	-0.304
	(0.001)*	(0.066)**	(0.001)*	(0.012)*	(0.000)*	(0.000)*
ROE	0.256	-0.078	0.199	0.143	0.233	-0.094
	(0.001)*	(0.142)	(0.001)*	(0.014)*	(0.000)*	(0.036)*
TOBIN'S Q	0.235	-0.034	0.026	0.079	-0.257	0.501
	(0.001)*	(0.491)	(0.636)	(0.138)	(0.000)*	(0.000)*

Note: ** Significant at 10%, * Significant at 5%

The results specified that institutional ownership and managerial ownership is significant influencing the firm's accounting profitability (ROA, ROE). However, the regression results showed that only institutional ownership significant influenced the market performance (Tobin's Q) during the study period. While the managerial ownership does not showed substantial influence on Tobin's Q. Family ownership was significant influence the accounting profitability (ROA, ROE) with a 5% significant level. While non-institutional ownership was found negatively significant influence the accounting profitability (ROA) at 10% significant level.

Besides that, size also was found positively influence on the firm's accounting profitability (ROA, ROE) at 5% significant level. However, size was negatively influence on Tobin's Q at 5% significant level. On the other hand, regression results found that leverage was negatively influence the accounting profitability (ROA, ROE) at 5% significant level. At the same time, the market performance (Tobin's Q) is identified to positively influence by the leverage at 5% significant level.

Conclusion

The results of the study reveal that institutional ownership is extensively influenced the firm's performance. Institutional ownership is significant influence the firm's accounting profitability (ROA, ROE) and market performance (Tobin's Q). Meanwhile, managerial and family ownership only imposed influence on the firm's accounting profitability (ROA, ROE). Lastly, non-institutional ownership has negative influence on firm's accounting profitability (ROA).

In this study, as for agency theory perspective, institutional ownership is an important group of agents who influences corporate performance, since they are on average owning more than 75 percent of the total shareholding. Consequently, institutional investors are an important component in determine the firm performance.
Furthermore, this result may also be related to the alignment theory, inside or managerial ownership appears to influence the firm performance. The results of the study supported the alignment theory. Alignment theory claimed that firm performance is positively affected by the inside ownership (company's director, officers or key executives own company's share of stock).

On the other hand, the entrenchment theory explains how the degree of agent (manager or CEO) will decrease the firm performance. The finding of the study is inconsistent with this theory, this is due to the result that shows the fact of the higher the degree of ownership (institutional, managerial), the higher the performance of the firm will be. Thus, the entrenchment theory that cannot apply to this study due to the reason the study find a significant positive relationship of institutional and managerial ownership on the firm performance which is the contradict of what is supported by entrenchment theory.

The contributions of the study are divided to four aspects, 1) Finance field: will provide understanding, proving how the ownership structure works in corporate, and act as the main body of knowledge finance. 2) Corporate firms: serving as a benchmark for decision making. 3) Market or investors: providing information and potentially invest in highly profit generating company. 4) Literature field: act as initial framework for future relevance researches.

Acknowledgements

First, I would like to thank to my respectable supervisor, Dr Nik Intan Norhan bt. Abd Hamid, for her time, encouragement and guidance throughout the process of completing this research. Besides that, I would like to thanks to all my friends and others who have provided assistance at various occasions. Their inspirational ideas, views and opinions are useful indeed. Last, I would like to thank to my parents and siblings who was constantly being caring, understanding and supportive of my efforts throughout the duration of the research.

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