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Blockholders and Corporate Monitoring Costs: Evidence from Malaysia

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ABSTRACT

This paper examines the effect of outside block-holders' ownership on the demand for corporate monitoring in relation to agency theory in the Malaysian business environment. The results of this study provide evidence that, given the cultural differences, the agents and the principals may act differently. The findings indicate that block-holders in Malaysia appear to demand more monitoring costs as their shareholdings increase. This positive relationship may be associated with the demand for more monitoring by minority shareholders as a balance against the power of the majority shareholders in the concentrated business environment in Malaysia and the tighten regulations after 1997/98 financial crisis. Further investigation shows that the institutional and non-institutional block-holders react and demand different level of monitoring costs. The institutional block-holders who are mostly government related institutions appear to demand more monitoring costs as their share ownership increase, while the non-institutional shareholders are associated with less monitoring costs as their shares increase.

Keywords: agency theory, block-holders, monitoring costs, institutional shareholders.

INTRODUCTION

Agency theory postulates that firms consists of a contract between the owner of economic resources (the principal) and management (the agents) who is charged with using and controlling these resources (Jensen and Meckling, 1976). This theory posits an inherent moral hazard problem in these relationships, which in turn give rise to agency costs for the organisation. The agency relationship between the principals and the agents give rise to agency costs because the managers may

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not act in the owners' best interest, such as consumption of excessive perquisites and sub-optimal investments (Fleming, Heaney and McCosker., 2005). It is suggested that ownership structure tends to mitigate the conflicts of interests between shareholders and managers. One of the ownership structure suggested by the literature to mitigate the agency cost is through concentrated ownership (Fleming *et al*., 2005). It is claimed that concentrated ownership by outside shareholders (such as block-holders), have greater incentives to align management and shareholders' interests (Li and Simerly, 1998). Block-holders are also said to facilitate behaviour-based monitoring from the capital market (Eisenhardt, 1989). Prior studies claim that share ownership by block-holders can help to monitor agency problems (Agrawal and Knoeber, 1996; Fleming *et al*., 2005; Fosberg, 2004; O'Sullivan, 2000). This is due to the fact that shareholders of an organisation have a residual claim on the earnings and assets of the organisation and therefore bear proportional to their share ownership, the economic consequences of actions taken by organisation managers and directors. If managers engage in opportunistic behaviour, shareholders bear a portion of the costs of such actions (Fama and Jensen, 1983). Large shareholders are also claimed to have greater incentive to monitor management and have the necessary power to influence the company's policies since they will bear a significant proportion of managers' value destroying actions (Haniffa and Hudaib, 2006).

Besides that agency theory is also criticised for its ignorance of the existence of social and authority relationship and assumes social life is a series of contract (Johnson and Droege, 2004). It is unknown whether the agency theory findings in western countries have equal impact in Asian organisations (Ekanayake, 2004; Johnson and Droege, 2004). Previous literature (Conlon and Parks, 1990; HassabElnaby and Mosebach, 2005; Ekanayake, 2004) indicates that there is a possibility that given the cultural differences, the typical nature of agents in agency theory may not be the case with regard to non-western countries. Sharp and Salter (1997) argue that the agency effects are lower in Asia. It is also claimed that there is a limited empirical research that directly tests agency theory in different cultural context (Ekanayake, 2004).

Previous study claims that in Asian countries (such as Malaysia) which are considered as newly industrialised economies, the corporate governance involved is slightly different from those in developed countries (Nam and Nam, 2004). They state that businesses in Asian countries are said to be concentrated and the agency problem exists not between the management and owners in general, but between the management (the large shareholders) and the minority shareholders. This issue has also been highlighted in OECD Report (OECD, 2006, p. 71). The report claims that the ownership structure in Asian listed companies with large shareholders

(e.g. blockholders) often creates problems for non-controlling shareholders (e.g. minority) to properly effectuate their shareholders rights. This is supported by Haniffa and Hudaib (2006) in their study using Malaysian data, who claim that protection of minority shareholders is problematic in this concentrated business environment.

In Nam and Nam (2004) study of corporate governance in Asia, they further claim that the existence of large shareholdings will only give beneficial effect when management is separated from ownership and proper corporate governance mechanisms are in place, so that the outside shareholders can effectively check misbehaviour of the controlling owners. Therefore, this study defines outside block-holders as those shareholders who hold at least 5% or more of a voting right in an organisation and are not linked to the organisation management in either business or family relationship. Specifically this study focuses on the effect of outside block-holders ownership on the agency costs of Malaysian public listed companies. This study uses the direct measure of agency costs, which are the cost of monitoring the companies as recommended by Malaysian Code of Corporate Governance (FCCG, 2001). This study aims to provide evidence that support or reject prior research findings in western countries relating to the effect of block-holders in the agency relationship which is reflected in its agency costs.

The results indicate a positive relationship between outside block-holders shareholdings and monitoring costs. This finding appears to be slightly different from earlier studies in western countries. The finding indicates that as the percentage of shareholdings by block-holders increase, the monitoring costs also increase. This positive relationship may be associated with the demand for more monitoring by minority shareholders as a balance against the power of the major shareholders in the concentrated business environment in the country and the tighten regulations after 1997/98 financial crisis. Further investigation of the result indicates that greater ownership by institutional shareholders is associated with greater monitoring costs.

This paper is organised as follows: The following section discusses the relevant literature on the role played by block-holders ownership in agency setting and how it affects the agency costs. The methodology section describes the research methods employed in this study and followed by the discussion of the empirical finding. The paper ends with the conclusion of the research.

LITERATURE REVIEW

Prior studies posit that block-holders' ownership has greater incentives and capability to monitor management (Singh and Davidson, 2003; Fleming *et al*., 2005; Fosberg, 2004). It is claimed that share ownership by block-holders can help

to monitor agency problems (Agrawal and Knoeber, 1996; Fleming *et al*., 2005; Fosberg, 2004; O'Sullivan, 2000). This is due to the fact that shareholders of an organisation have a residual claim on the earnings and assets of the organisation and therefore bear proportional to their share ownership, the economic consequences of actions taken by organisation managers and directors. If managers engage in opportunistic behaviour, shareholders bear a portion of the costs of such actions (Fama and Jensen, 1983). Large shareholders are also claimed to have greater incentive to monitor management and have the necessary power to influence the company's policies since they will bear a significant proportion of managers' value destroying actions (Haniffa and Hudaib, 2006). On the other hand, a well-diversified investor is not particularly worried as the bankruptcy risk of any one organisation in the portfolio of investments will not have a large impact on their wealth. Consequently, a shareholder's incentive to monitor insiders and ensure that the organisation is properly managed is directly related to the proportion of the organisation's shares that the shareholder owns. Block-holders are also expected to favour more extensive audit as they view the audit process as an important mechanism to monitor managerial behaviour, and consequently pay higher audit fees as they have the financial incentives to ensure maximum monitoring is undertaken (O'Sullivan, 2000).

It is also said that block-holders existence in an organisation can resolve the conflict of interests over financing policy arise between managers and shareholders because of the fact that managers preference for lower organisation risk due to their under-diversification (Fama, 1980), and managers' dislike to being subject to performance pressure that large fixed interest payment entails (Jensen, 1986). Managerial insiders are reluctant to use the optimal amount of debt financing for the organisation because of the additional bankruptcy risk associated with higher level of debt engender (Fosberg, 2004). Therefore managers will not issue the optimal amount of debt without pressure from a disciplining force (Jensen, 1986). However, the shareholders want the leverage to be used at its optimal level in order to maximize the organisation value. Berger, Ofek and Yernack (1997) and Borokhovich, Brunarski, Harman, and Kehr (2005) claim that this conflict can be resolved by having block-holders in the organisation as they find that leverage rises in the presence of significant block-holders. Block-holders are found to be an effective monitoring mechanism as it forces the managers to use more debts in the organisation's capital structure than the managers' personally desired (Fosberg, 2004).

A study using Malaysian data by Mat Nor and Sulong (2007) postulates that large share ownership provides the incentive of controlling shareholders to use their influence to maximize value, exert control and to protect their interest in the

company. Shareholders of an organisation is said to have a residual claim on the earnings and assets of the organisation and therefore bear proportional to their share ownership, and the economic consequences of actions taken by the organisation managers and directors (Haniffa and Hudaib, 2006). If managers engaged in opportunistic behaviour, shareholders bear a portion of the costs of such actions.

Findings from previous studies on the impacts of block-holders on monitoring costs (agency costs) are mixed. O'Sullivan (2000) and Peel and Clatworthy (2001) find no evidence that ownership by block-holders has a significant impact on monitoring costs of UK companies. Singh and Davidson (2003) also find no significant influence of block-holders on reducing managerial spending, which is used as a proxy for agency costs of US companies. However, Chen and Yur-Austin (2007) find a negative significant relationship between block-holders and managerial extravagance, a proxy for agency costs, and they conclude that block-holders significantly curtail the managers' discretionary spending of US companies.

Previous studies also claim that, Asian countries (such as Malaysia) which have concentrated businesses are dominated by large shareholders who exercise their rights (Haniffa and Hudaib, 2006; OECD, 2006, p. 71). Nam and Nam (2004) claim that the existence of large shareholdings may be a blessing as previous studies claim that companies with large shareholders tend to perform better. However, according to them, the beneficial effect of large shareholders can only be expected when management is separated from ownership, so that the outside shareholders can effectively check misbehaviour of the controlling owners. Hay, Knechel and Ling, (2008) claim that having block-holders in an organisation may contribute to negative or positive effect on the monitoring costs. Hay *et al*. (2008) suggests that there are two possible outcome of having block-holders in the governance structure of an organisation. The first outcome is consistent with agency theory. A block-holder that is actively involved in operations and decision making may have such a broad span of control over activities and internal control that the need for other mechanisms such as external auditing may be reduced. On the other hand, a major outside shareholder may also use this influence to increase external auditing to compensate for a lack of control over other internal decisions.

In Asian countries, which involved concentrated business environment, the researcher believes that the large shareholders may dominate the companies and affect the monitoring costs of the companies. Thus, this study aims to investigate the effect of outside block holders' ownership on the monitoring costs (agency costs) in Malaysian business environment.

RESEARCH METHODOLOGY

Data and Sample

Data for the study was collected using primary and secondary sources. Primary data was collected using cross-sectional questionnaire surveys. Questionnaires were sent to all 867 Malaysian listed companies as at 31 December 2006. Data collection cannot be done solely by using secondary data, as some of the information needed (such as internal audit costs) for the study is not available from secondary sources (such as annual reports).

After considering the incomplete and inconsistence questionnaires, there were 235 usable samples for the study (27.10% response rate). The data was also inspected for outliers by means of standard regression diagnostics at three standard deviations (Hair *et al*., 1998, p.65). 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, homoscedasticity and linearity are also tested.

Variable Definition

This study uses measurements that are directly related to these firms in monitoring the shareholders wealth of their companies as outlined by the Malaysian Code of Corporate Governance (FCCG, 2001). Directorship and auditing (internal and external) are specified as monitoring mechanisms in the Code. Thus, the dependent variables in this study involve the costs of these monitoring mechanisms demanded by the organisations. However, as the executive directors are in-charged of managing the companies, and the non-executive directors are said to monitor and controlling the opportunistic behaviour of the management (Jensen and Meckling, 1976; Haniffa and Hudaib, 2006), this study does not include executive directors' remuneration as monitoring costs. Hence, total monitoring (MONITOR) is measured by the sum of organisation investment in non-executive directors' remunerations (DIRREMNED), internal auditors' costs (INTCOST) and external auditors' costs (EXTCOST).

The independent variable in this study is block-holders ownership (BLKOWN). This study defines the block-holders as the total percentage of shareholding of block-holders who hold at least 5% or more of a voting right in an organisation and are not linked to the organisation management in either business or family relationship. The controlled variables included in the study are size, complexity, performance, risk, growth, listing status and industry.

The following model is used to analyse the relationship between the monitoring costs and block holders ownership:

$$\begin{aligned} \text{MONITOR} = {} & \alpha_i - b_1\text{BLKOWN}_i + b_2\ \text{RECINV} + b_3\text{COMPLEX}_i \\ & + b_4\text{SIZE}_i - b_5\text{DEBTSTRC} - b_6\text{RISK}_i - b_7\text{ROA}_i + \\ & b_8\text{GROWTH}_i + b_9\text{LISTSTAT}_i + \varepsilon_i \end{aligned}$$

Where:

MONITOR	=	natural logarithm of total monitoring costs which are the sum of external audit costs, internal audit costs and non-executive directors remuneration
α	=	Intercept
BLKOWN	=	Percentage of block-holders' shareholdings
RECINV	=	(Inventories and Receivables)/ Total assets
COMPLEX	=	natural logarithm of no of subsidiaries (including its head-office)
SIZE	=	natural logarithm of total assets
DEBTSTRC	=	Long term debt / Market value of the firm
RISK	=	1 if have loss in current year, and 0 otherwise;
ROA	=	Profit before interest and tax / Total Assets
GROWTH	=	Market value of the firm / total assets
LISTSTAT	=	1 if listed in the main board, and 0 otherwise;
ε_i	=	error term

RESULTS AND DISCUSSIONS

Descriptive Statistics

Table 1 presents the descriptive statistics of the variables used in the study. The results of standard tests on skewness and kurtosis in Table 1 indicate that there is no problem with normality assumption. Thus, these variables can reasonably be considered as normally distributed. In summary, the model does not violate the basic OLS assumptions and could be used to test the relationship in this study.

Table 1 Normality test statistics of sample companies

Variable	Mean	Std Dev	Skewness	Kurtosis
MONITOR	12.9841	1.0005	0.864	0.922
BLKOWN	0.1517	0.1911	1.500	1.470
DEBTSTRC	0.1468	0.1584	1.860	4.366
REVINV	0.3088	0.1945	0.329	-0.888
COMPLEX	2.4998	0.9091	0.232	1.430
RISK	0.2000	0.3980	1.544	0.386
SIZE	19.744	1.4171	0.911	0.887
LISTSTAT	0.7400	0.4370	-1.130	-0.731
ROA	0.0101	0.2259	-10.814	140.20
GROWTH	1.0515	0.7092	5.424	42.856

Variable definition:
MONIITOR = Total monitoring costs(ln); BLKOWN = Block-holders shareholdings (%); DEBTSTRC = Long term debt to market value of the firm; SIZE = Total assets(ln); COMPLEX = number of subsidiaries(ln); RECINV = Ratio of inventories and receivables to total assets; ROA = ROA; RISK = Current year loss(Dummy); GROWTH = Tobin's Q; LISTSTAT = Board listing (Dummy)

Table 2 presents the correlation matrix for the dependent and independent variables. The result indicates that there is no multicollinearity problem, as the correlations are below the threshold value of 0.8 (Gujarati, 2003, p. 359). VIF readings for the model is between 1.037 to 2.606, which is below the threshold value of 10 (as claimed by Hair *et al*., 1998, p. 193; Gujarati, 2003, p.362).

Table 2 Correlation matrix

Variable	MONITOR	BLKOWN	DEBTSTR	RECINV	RISK	SIZE	COMPLEX	ROA	GROWTH	LISTSTAT
MONITOR	1.00									
BLKOWN	0.31***	1.00								
DEBTSTRC	0.24***	0.08	1.00							
RECINV	-0.21***	0.16***	-0.37***	1.00						
RISK	-0.25***	-0.09*	0.07	0.00	1.00					
SIZE	0.82***	0.28***	0.42***	-0.40***	-0.23***	1.00				
COMPLEX	0.61***	0.05	0.22***	-0.14**	-0.04	0.52***	1.00			
ROA	0.15**	-0.02	0.02	0.05	-0.43***	0.20***	-0.05	1.00		
GROWTH	0.09*	0.18***	-0.16**	0.00	0.01	0.05	-0.04	-0.50***	1.00	
LISTSTAT	0.32***	0.15***	0.06	-0.23***	-0.28***	0.47***	0.21***	0.18***	0.06	1.00

Notes: *** significant at 1% level
** significant at 5% level
* significant at 10% level
(See variable definition in Table 1)

Results of the Study

Column two of Table 3 presents the multiple regression analysis used to test the main model. The adjusted R squared for the model is 0.754 and the F-value of 80.857 is statistically significant ($p < 0.000$). The value of the adjusted R squared is very high, as well as statistically significant, which suggests that it is a good predictive model of monitoring costs for Malaysian data. It means more than 75% of the variation in the monitoring costs can be explained by the model. This adjusted R squared is also very much higher compared to a similar study by Anderson *et al*. (1993) on monitoring cost, which use Australian data, where its adjusted R-squared is 0.423.

Table 3 Cross sectional OLS regression of monitoring costs on block-holders ownership

Variables	As per main model	Block-holders are segmented into institutional and non-institutional	Block-holders are categorised into zero, low and high shareholdings
INTERCEPT	1.770** (2.735)	1.839** (2.823)	1.756** (2.583)
BLKOWN	0.573** (3.162)		
INSTBLKOWN		0.599** (3.266)	
NON-INSTBLKOWN		-0.228 (-0.266)	
HIGH BLKOWN			0.147* (1.829)
LOW BLKOWN			-0.182** (-2.306)
DEBTSTRC	-0.571** (-2.331)	-0.574** (-2.341)	-0.550** (-2.267)
RECINV	0.426** (2.215)	0.441** (2.283)	0.381** (2.002)
SIZE	0.531*** (14.444)	0.527*** (14.280)	0.534*** (14.875)
COMPLEX	0.288*** (6.515)	0.289*** (6.546)	0.298*** (6.803)
RISK	-0.153 (-1.594)	-0.157 (-1.633)	-0.176* (-1.850)

Table 3 (*Con't*)

ROA	0.134 (0.657)	0.122 (0.597)	0.194 (0.960)
GROWTH	0.081 (1.371)	0.077 (1.316)	0.104* (1.792)
LISTSTAT	-0.237** (-2.725)	-0.238** (-2.734)	-0.235** (-2.728)
R-squared	**0.764**	**0.765**	**0.770**
Adj R-squared	**0.754**	**0.754**	**0.760**
F-Statistics	**80.857**	**72.835**	**75.105**
P-value	**0.000000**	**0.000000**	**0.000000**

Notes: *** significant at 1% level
** significant at 5% level
* significant at 10% level
(See variable definition in Table 1)

Concentrated ownership by block-holders in the main model (Column 2 of Table 3) is significant, but not in the predicted direction as expected under the agency theory. The result suggests that as the percentage of ownership by block-holders increases, more monitoring costs are incurred. Earlier studies on this ownership variable in relation to agency and monitoring costs were mixed. There are two possible outcomes of having block-holders in the governance structure of a company as suggested by Hay *et al*., (2008). The first outcome is consistent with agency theory where an active block-holder who is involved in operations and decision making may have such a broad span of control over activities and internal control that the need for other monitoring mechanism may be reduced, thus this will give a negative relationship. Alternatively, a major outside shareholder may also use this influence to demand more monitoring to compensate for a lack of control over other internal decisions; this will give a positive relationship. The result of this study supports the second possible outcome.

Another plausible explanation for this positive and significant result in this study may be associated with the demand for more monitoring costs by minority shareholders as a balance against the power of the major shareholders. This scenario of large shareholders (such as block-holders) is especially pronounced in the Malaysian business environment which is dominated by concentrated ownership (Ow-Yong & Guan, 2000; Mat Nor & Sulong, 2007; Haniffa & Hudaib, 2006), such as family controlled and owner managed companies. This study defines block-holders as those shareholders who are not involved in the management

and does not have family relationship with the managers of the company. Further examination of the data reveals that about 21.3% of the cases have the cumulative largest shareholders owning more than 25% of the issued shares in the companies, and about 42.5% with accumulative largest shareholders owning between 5% to 25%. This suggests that Malaysian companies are concentrated and less diffused. The minority shareholders in this scenario is said to be in the highest risk of being expropriated (Ow-Yong and Guan, 2000) and protection of minority shareholders may be problematic (Haniffa and Hudaib, 2006). This explains the motivation for the formation of Malaysian Minority Shareholders Watchdog Group (MSWG) in the year 2000. Through this body, the minority shareholders can voice their dissatisfaction and urge for more monitoring in Malaysian listed companies to protect their interests. Amongst others, they have urged for more monitoring of management activities (BPPSM komen, 2005) and demanded that block-holders play a more dominant monitoring role (Watchdog group, 2002; Isu KFCH, QSR, 2005). This positive relationship may be due to the pressure from this group to ensure that their interests are protected.

This greater demand for monitoring mechanisms by block-holders in this study may also be due to their reactions to the requirement by the Code after 1997/98 financial crisis and to protect their interests in response to the recent increase in governance problems among listed companies in Malaysia (such as those highlighted in the newspaper: Negligence suit, 2002; Wan Hussin and Ibrahim, 2003; Sidhu, 2006; KFC saman, 2006) and the fear of Enron like-case incident in Malaysia (as reported in Pengaudit, 2002). Many companies were closed down/ bankrupts after the crisis, which has spurred a lot of countries to improve their governance and regulations, and professional bodies to re-look at the existing code of conducts and consider its appropriateness. The same scenario had happened in Malaysia, where some of the listing requirements were reviewed, the Code was released, Minority Shareholders Watchdog Group (MSWG) was formed and the MIA's Bye-laws and code of conducts were revised. There are also calls for block-holders to play their monitoring roles to protect the shareholder wealth (Watchdog group, 2002; Isu KFCH, QSR, 2005). Thus it is argued that the positively significant result in this study is likely to be due to the fact that, learning from the companies downfall after the crisis which also involve the interest of the large shareholders, and the tighten regulations (such as those revised requirements introduced by the exchange and the Code) after the crisis, coupled with the fact that increase monitoring can compensate for their lack of control over other internal decisions by the management, motivate the block-holders to answer the calls for a better monitoring role.

Further Tests

Further tests are carried out to ensure the robustness of the analysis. In the second model, block holders are further breakdown into institutional block-holders (INSTBLKOWN) and non-institutional block-holders (NON-INSTBLKOWN), in percentages of their shareholdings. To examine the effect of each segment, the main model is re-estimated by replacing BLKOWN with INSTBLKOWN and NON-INSTBLKOWN. The result is presented in Table 3 (column 3). It reveals that institutional shareholders have a positive significant relationship with monitoring costs, while the relationship with non-institutional block-holders is insignificant. This result seems to suggest that the greater the ownership by institutional shareholders, the greater is the monitoring costs for an organisation. Further investigations on these institutional shareholders reveal that majority of them are the institutions which have primary commercial objectives in which Malaysian government has a direct controlling stake. Examples of the institutions are Khazanah Nasional Bhd, Employee Provident Fund Board, Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji, and Permodalan Nasional Bhd. Their high demand for monitoring costs may be due to the fact that they want to protect their investments which among others involve the interest of Malaysian public.

In the third model the data is categorised into companies with zero block-holders' shareholdings, low block-holders' shareholdings and high block-holders' shareholdings. Dummy variables are used to categorize the data. Those companies with no block-holder in their companies are categorised as companies with zero block-holders' shareholdings, while the low and high block-holders shareholdings are segmented using the average block-holders shareholding as a cut-off point. The main model is re-estimated, and the result for third model is shown in Table 3 (column 4). Those companies categorised as high block-holders' and low block holders shareholdings appear to have significant relationship with monitoring costs. Interestingly, those companies categorised as low block-holders' shareholdings appear to behave differently compared to those with high block-holders' shareholdings. High block-holders shareholdings appear to have positive relationship with monitoring costs. Further investigation of high block-holders' data indicate that most of them are those institutions related to government, which may be a plausible explanation for the demand for more monitoring to protect the public interest. On the other hand, consistent with agency theory, the result indicates that low block-holders shareholdings have negative relationship with monitoring costs. They appear to demand significantly less monitoring costs compared to other categories of block-holders shareholdings. This result may be contributed to the

fact that as their shareholdings is considered low, and not very high, they tend to be actively involved in the operations and decision making of the companies to ensure that their small interests are protected. However, a more detailed study need to be carried out before any conclusion can be made, and this area can be explored more detail in future research.

CONCLUSIONS

The objective of this study is to examine the outside block-holders' ownership on the demand for corporate monitoring in the Malaysian business environment. The findings indicate that ownership structure, particularly, the concentrated ownership by block-holders affect the demand for monitoring costs by Malaysian companies. This study also indicates that given the cultural differences, the typical relationship between agents and principals in agency theory may not be the same for the non-western cultures in developing countries compared to those in western culture and developed countries. The results support an earlier study which claims that across countries, differences in governance system, and market factors, political, legal and regulatory framework and internal control systems may influence the agency cost and monitoring mechanism chosen by each organisation in each country (Jensen, 1993). The result suggests that block-holders shareholdings examined in this study shows slightly different finding compared to the findings from studies in western countries. Generally, block-holders in Malaysia indicate a positive relationship with monitoring costs. They appear to demand more monitoring mechanisms which lead to more monitoring costs. Further analysis shows that the institutional and non-institutional block-holders react and demand different level of monitoring costs. The institutional block-holders who are mostly government related institutions appear to demand more monitoring costs as their share ownership increase, while the non-institutional shareholders demand less monitoring costs as their shares increase. This is not surprising as the government would normally like to have its investment protected since it involves public money and could have political implications should the investment goes wrong.

In addition, the results contribute to provide information to the organisations and their stakeholders to better understand the economic rationale of having block holders in their equity structure. With concentrated ownership structure in Malaysian business environment such as family ownership and owner-managers, the block-holders as the outsiders would help in monitoring the insiders to ensure that their shareholdings, as well as those of the minority shareholders are protected.

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