International Business Management 11 (3): 664-672, 2017
ISSN: 1993-5250

Culture and Agency Theory: The Case of Malaysia

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Abstract: This study examines the effect of culture (ethnicity) on agency costs in relation to agency theory in Malaysian business environment. It explores the monitoring costs of the businesses controlled by different ethnic groups in Malaysia. These businesses are those controlled by Chinese and Malays which are claimed to be the main groups, dominate much of the socio-economic in Malaysia. In addition, the increased in foreign investments in Malaysia which have different culture impact in the organizations is also examined. The result indicates that there is a significant relationship between the monitoring costs demanded by businesses controlled by different ethnic groups in Malaysia. Chinese controlled businesses appear to have significant negative relationship with monitoring costs while malay controlled businesses show a significant positive relationship with monitoring costs.

Key words: Agency costs, culture, ethnicity, monitoring, Malaysia

INTRODUCTION

It is claimed that cultural differences and its various aspects have influenced business practices, organizations and accounting disclosure practices and audit services (Hofstede, 1991; Haniffa and Cooke, 2002; Ahmad, 2001; Yatim *et al*., 2006). Culture is defined as the collective programming of the mind which distinguishes the members of one group or category of people from another (Hofstede, 1991). It is said that culture influences business relationship and expectations of customers and business associates (Salleh, 2000). Culture also influences individual self-construals and these in turn will influence all aspects of behaviour such as the way individuals think, perceive themselves, feels emotions and act (Jogulu and Ferkins, 2012; Matsumoto, 1999; Abdullah, 1992; Shephard, 1989).

The agency theory provides insights to the problem of goal congruence and suggests remedies. Johnson and Droege (2004) argue that cultural differences may attenuate the risk and self-interest and temper agency theory prediction. They further claim that relationship in terms of market, authority and social aspect exist in every society but their relative weighting vary widely and culture characteristics mitigate the self interest assumption of the agency theory in certain cultural contexts. Previous studies have identified culture as one of the factors which can align goals between the agents and the principals (Johnson and Droege, 2004; Sendut, 1991). Johnson and Droege posit that culture can change organization's preference and lower the moral hazards concerned. Culture is also claimed to be the basis for a people's value system in every aspect of their life such as how they express themselves, how they solve problems, how they relate to others and how they conduct businesses and manage them (Sendut, 1991). This is because the value system of the people in an organization in the country will explain why things are as they are as the tradition of a nation is instilled in its people (Haniffa and Cooke, 2005; Matsumoto, 1999; Markus and Kitayama, 1991; Johnson and Droege, 2004). In addition, Markus and Kitayama (1991) claim that people of non-western, have interdependent self construals, a feature that a person is not separate from the social contact but more connected and less differentiated from others. Dauber (2012) who conducts a study on merger and acquisition claims that culture is also one of the critical factors for success in international business environment nowadays.

Malaysian studies on culture effect on agency relationship, specifically, the agency costs involved such as the monitoring costs in the demand for monitoring are very few and inconclusive. It is claimed that cultural characteristics shape to a considerable extent the business ethics, corporate practices and the behaviour of board members (Ow-Yong and Guan, 2000). Akbar and Vujic (2014) posit that culture can influence corruption practices of organisations and Gupta (2011) finds that there are significant differences in culture and strategy used in different ethnic organisation in Malaysia. A local study by Yatim ***et al.*** (2006) concludes that the unique environment in Malaysia with a clear identifiable ethnic domination of corporate boards and ownership indicates evidence of monitoring differences in these organizations. However, they find contradicting results with Ahmad (2001). Thus, this study is carried out to empirically examine this agency relationship in Malaysian organizations. As the study is conducted in Malaysia, it recognises the cultural context and social relations of Malaysian unique ethnic community. Therefore, ethnicity is used as the proxy for culture in this study. The ethnic groups examined are the Chinese, Malays and foreign which are claimed to be among the groups which dominate much of the socio economics in Malaysia (Ahmad *et al*., 2006). And 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 (MCCG, 2012). Specifically, this study focuses on the agency costs of Malaysian public listed companies which are controlled by its different ethnic groups.

The result indicates that there is a significant relationship between the monitoring costs demanded by companies controlled by different ethnic groups in Malaysia. Chinese controlled businesses appear to have significant negative relationship with monitoring costs while Malay controlled businesses show a significant positive relationship with monitoring costs. This is supported by an ANOVA which indicates that there is significant difference between the monitoring costs of these ethnic controlled businesses. The descriptive statistics show that the average monitoring costs of Chinese controlled businesses are significantly lower compared to other ethnic groups, such as those of Malay controlled businesses.

Literature review and hypotheses development: Shephard (1989) claims that cultural differences are significant role in the management development process as it influences the manager's ways of thinking and behaviours. This is supported by Sendut (1991) who states that culture is the basis for the people's value system in every aspect of their life such as how they express themselves how they solve problems how they relate to others and how they conduct businesses and manage them. Cultural characteristics are also claimed to influence the business ethics corporate practices and the behaviour of board members to a considerable extent (Ow-Yong and Guan, 2000). Malaysia is a multiracial country. Sendut (1991) states that Malaysia is probably the only country in the world which has its population mix maintained their separate identities, preserved their separate culture, code of dress, behaviour patterns, different languages and architectural styles which makes Malaysia a varied and fascinating environment. Its population includes people from different ethnic groups (such as Malays, Chinese, Indian, Kadazans, Bajau and a few others) which have different culture and believes. Kenzo (1991) claimed that majority of businesses in Malaysia are owned and operated by Chinese. Chinese businesses are also said to have certain characteristics which include centralised decision making which place greater reliance on a dominant CEO, in the form of family ownership and tend to place their family members in the top management position of the business. This is supported by Sendut (1991) who claims that Chinese belong to a cultural tradition of ancestor worship and wealth is normally derived from family business, while their ambitions tend to be dynastic and perpetuate family fortunes.

Another study on Malaysia scenario by Faaland *et al*. (2005) also claim that Chinese are more involved in business as entrepreneur and managers at organizations, whereas Malays are more inclined to work in the public sector with the government whether at the federal or state level. It is claimed that Chinese businessmen are already prominent in the early colonial era. Large businessmen also diversified into banking industry where they played an important role in strengthening the position of Chinese traders. The Chinese are more inclined to start businesses which are normally in the form of family ownership where the relatives of the owners are members of the board of directors and are also the shareholders of the organization. This is supported by Kenzo (1991) who claims that Chinese businesses are in the form of family ownership. It is also claimed that monitoring cost to reduce agency problem in companies controlled by family tend to be lower than that controlled by non-family (Fleming *et al*., 2005; Fama and Jensen, 1983). This is due to the fact that families have a committed, undiversified stake in the organization and induce strong incentive to monitor as the organization survival and its value maximisation is important for them as stated by Anderson *et al*. (1994) and Fleming *et al*. (2005). Chinese business structure and business practices are also argued to be different from other ethnic-controlled businesses such as those of Malay and foreign-controlled companies as they prefer family members in the management of the organizations and utilise ethnic ties in the recruitment of employees and other business relationships, thus resulting in lower operational risks and lower transaction and agency costs (Ahmad, 2001).

Ahmad (2001) further finds that Chinese-controlled companies pay significantly lower audit fees (one of the monitoring costs examined in this study) compared to Bumiputra-controlled companies and

Bumiputra-controlled companies pay lower audit fees than foreign companies. However, his findings contradict a result of another local study by Yatim *et al.* (2006). Yatim *et al.* (2006) claim that Bumiputra controlled organizations pay lower monitoring cost (that is external audit fees) than their non-Bumiputra counterparts. It is claimed that Malays come from strong patriotic background and a tradition of government service. Normally they prefer to work in government departments (Sendut, 1991). Malays, for most part in colonial economy, kept to their traditional agricultural activities and basically were resigned to their fate (Jesudason, 1987). Their involvement in business is much less compared to Chinese. However, the government effort to increase the participation of Bumiputra in the economy through the launching of New Economic Policy (NEP) since 1970s has brought Malays into the capital market (Ahmad, 2001). It is also claimed that Bumiputera-controlled businesses (which are largely owned by Malays) which is termed as 'ethnic favoured firms' in Johnson and Mitton (2003) study of cronyism and capital control of Malaysian companies are favoured and helped by Malaysian government and perceived to have poor corporate governance and greater agency problems. Thus, this may create a need for more monitoring and lead to more monitoring costs. When the Malaysian government established the NEP in 1970, it is further claimed that this ethnic-controlled businesses (which are dominantly Malays) are given a lot of privileges and priority by government, such as contracts, access to capital and the opportunities to buy assets. It is claimed that most Malay individuals in major businesses are likely to be well connected to the government and many of them are direct beneficiaries of the government privatisation programme whose objectives include the target of bumiputra equity and employment shares (Kenzo, 1991). These individuals are normally appointed as directors by the government in those companies managed by the government. They tend to be from the elite group (including influential politicians, members of royalty, ex-army or ex-police high ranking officers) (Kenzo, 1991). Some of these appointed directors are argued to have lack of management know-how and experience but have the backing of the government on their appointments. The privatisation policy has also resulted in key strategic and major companies that are the largest in their sectors (such as national airline, car makers and telecommunication companies) being controlled by the Malays. These companies (via their importance to the national economy) are claimed to be monitored closely by the government.

Jesudason (1987) asserted that the ethnic agenda of state enterprise and the restriction on local capital hinder a strong developmentalist role by both groups, Malay and Chinese but the existence of foreign investment helps compensate for these weaknesses. These foreign-based business communities are claimed as the third major group of investors in Malaysia (Ahmad, 2001). Foreign investors are said to play a major role in Malaysian economy, especially in the manufacturing sector (Jesudason, 1987).

Although, there are many ethnic groups in Malaysia, this study concentrates on two major ethnic groups that are Chinese and Malays as these are the two main groups which dominate much of the socio-economic and political environments in Malaysia (Ahmad, 2001). Official statistics show Malays and Chinese as the two largest ethnic groups in Malaysia, as they constitute 63 and 22% of the whole population of the country, respectively. In addition to these two ethnic groups as revealed by Ramasamy (1999) and Rahman (2004), foreign investments have increased significantly in Malaysia. More foreign companies invest in Malaysia and more foreign ownership companies reside in Malaysia. It is also claimed that foreign-controlled companies in emerging countries can improve corporate governance and enhance efficiency as they provide capital, managerial expertise and exert monitoring activities on our managers. Therefore, this study also includes foreign-controlled businesses which are influenced by foreign culture and are expected to be different from Malaysian ethnic culture.

Foreign-controlled businesses involve parties from different nationalities (Ghoshal and Bartlett, 1990) different ethnicities and different cultural values. It is claimed that these differences may cause interpersonal conflicts, high agency problems and high information asymmetries as the agents may make decisions that reduce their own risks but at the expense of the principal (Mustapha, 2014). This is supported by Luo (2005) who claims that these differences may increase the foreign headquarters uncertainties about the appropriateness of the subsidiaries decisions. These high information asymmetries will require high level monitoring. This is agreed by Niemi (2005) who argues that foreign subsidiaries with foreign culture require additional control because of the conflict of interest between management of the subsidiaries and the foreign corporate owners. Furthermore, the complexity of the global operations, task programmability and behaviour verifiability when an organization becomes more globalised are more difficult to monitor and will increase agency costs (Mustapha, 2014). If these ethnic controlled businesses are compared, it is argued that Chinese with their family-owned businesses would demand lower monitoring mechanisms and incur lower monitoring costs compared to other ethnic-controlled businesses. This is because as managers are also the owners in Chinese organizations, the organization structure will have lower information asymmetry, less complex and more committed staff as they have incentives to monitor the organization which will reduce the need for assurance and monitoring. On the other hand, it is argued that foreign-controlled businesses will demand greater monitoring mechanisms and incur greater monitoring costs compared to other ethnic-controlled businesses. This is due to their different nationalities and adaptation requirements and cultural differences, there will be high conflict and information asymmetries, greater need of monitoring and high agency costs. While the costs of monitoring for Malay-controlled businesses are believed to be at a different level compared to other ethnic-controlled businesses. It is different because its costs may be greater or lower than those costs of other ethnic-control businesses. As argued by Johnson and Mitton (2003), these Malay-controlled businesses have poor governance and greater agency problems, thus lead to greater monitoring costs compared to other ethnic-controlled businesses such as Chinese controlled businesses which emerge from family businesses, predicted to have lower conflict and lesser need for monitoring. However, as Malay-controlled businesses do not involve monitoring of subsidiaries with different values and cultures, compared to foreign-controlled businesses which involve different cultures and nationalities, the level of monitoring costs demanded by Malay controlled businesses may be lower than such companies. This argument is also consistent with the earlier findings by Ayoib who find that Chinese-controlled businesses pay less audit fees (one of the monitoring costs in this study) than other ethnic-controlled businesses and foreign-controlled businesses pay the most while bumiputra-controlled businesses (which are dominantly comprise of Malays) are on the average between these two groups. Therefore it can be hypothesised that:

- H_A: Chinese-controlled businesses have a lower total monitoring costs compared to other ethnic-controlled businesses
- H_B: Foreign-controlled businesses have a greater total monitoring costs compared to other ethnic-controlled businesses
- H_C: Malay-controlled businesses have a different level of total monitoring costs compared to other ethnic-controlled businesses

MATERIALS AND METHODS

Data and sample: Data for the study was collected using primary (questionnaire) and secondary sources (annual reports). The population of the study includes all companies listed on the Main and Second Board of Bursa Malaysia as at 31st December, 2007. However, the companies classified under finance sector were excluded in this study because of their unique features and business activities, as well as differences in compliance and regulatory requirements (Yatim *et al*., 2006; Mustapha, 2014). The response rate was 27% where 235 questionnaires were usable.

The data was also inspected for outliers by means of standard regression diagnostics at three standard deviations (as suggested by Hair *et al*., 2006). 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: The dependent variable of the study is the monitoring costs of the companies listed in Bursa Malaysia. Earlier studies use indirect measurement such as asset utilization ratio (Singh and Davidson, 2003) ratio of selling and administration expenses to sales (Singh and Davidson, 2003) and ratio of operating expenses to sales (Ang *et al*., 2000) as proxies for agency costs incurred by the firms in monitoring their firms. But this study uses measurements that are directly related to these firms in monitoring the shareholders wealth of their companies. Directorship and auditing (internal and external) are specified as monitoring mechanisms in the Malaysian Code of Corporate Governance (MCCG, 2012). Thus, the dependent variables in this study involve the costs of these monitoring mechanisms demanded by the organization in Ringgit Malaysia (RM). 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 behavior of the management (Haniffa and Hudaib, 2006) this study does not include executive director's remuneration as monitoring costs. Hence, total monitoring (MONITOR) is measured by the sum of organization investment in non-executive director's remunerations, internal auditor's costs and external auditor's costs.

The independent variables in this study are Chinese controlled businesses (CETHNIC) Malay controlled businesses (METHNIC) and Foreign controlled businesses (FETHNIC). An organization is categorised as Chinese controlled business if the Chinese directors in the organization (as a group) own 50% or more of the total equity of the organization (coded as 1 and 0 otherwise).

Table 1: Operationalization of the research variables

Variables	Explanation	Measurement
Dependent variable		
MONITOR	Total of external audit costs, internal audit costs and non-executive directors remuneration	Total monitoring = External audit costs+Internal audit costs+Non-executive Directors remunerations
Independent variable		
CETHNIC	Chinese controlled businesses	1 for Chinese-controlled businesses 0 for other ethnic-controlled businesses
METHNIC	Malay controlled businesses	1 for Malay-controlled businesses 0 for other ethnic-controlled businesses
FETHNIC	Foreign controlled businesses	1 for Foreign-controlled businesses 0 for other ethnic-controlled businesses
Control variables		
SIZE	Size of the organization	Natural log of total assets
COMPLEX	Complexity of an organization's operation	Natural log of number of subsidiaries (including its head-office)
RECINV	Complexity of an organization's assets	(Inventories and receivables)/total assets
RISK	Risk of an organization	1 if company has a loss in current year and 0 otherwise
ROA	Performance of an organization	Profit before interest and tax/total assets (ROA)
GROWTH	Growth of an organization	Market value of the firm/total assets (Tobin's Q)
LISTSTAT	Listing status of an organization	1 if company is listed in the main board, and 0 otherwise
INDUSTRY	Industry	Contrase-for companies in consumer, trading and services sectors Indprop-for companies in industrial, construction and property sector

The information about the ethnicity of the directors is obtained from the director's profile and telephone calls are made to those companies without such information to confirm the director's ethnicity category. The 50% shareholdings are determined by examining the director's shareholdings statistics. The director's shareholding is used, as directors are considered as the persons who have the power and authority to make strategic decisions for the organization and the shareholdings strengthen their control and position in the organization. The 50% and more shareholdings cut-off reflect the majority shareholding in the organization and this threshold value is also adopted in earlier study by Ahmad (2001). Furthermore, it is claimed that majority control gives the shareholders considerable power and discretion over organization's important decisions. Similar method is used to classify the Malay-controlled business and foreign-controlled business. The controlled variables include in the study are size, complexity, performance, risk, growth, listing status and industry. The following model is used to analyze the relationship between the monitoring costs and ethnic controlled businesses: Variable definitions, labels and measurement used are reported in Table 1.

$$\begin{aligned}\text{MONITOR} = {} & a_i + b_1\text{CETHNIC}_i + b_2\text{METHNIC}_i + \\ & b_3\text{FETHNIC}_i + b_4\text{RECINV}_i + \\ & b_5\text{COMPLEX}_i + b_6\text{RISK}_i + b_7\text{SIZE}_i + \\ & b_8\text{ROA}_i + b_9\text{GROWTH}_i + b_{10}\text{LISTSTAT}_i + \\ & b_{11}\text{CONSTRASE}_i + b_{12}\text{INDPROP}_i + \varepsilon_i\end{aligned}$$

RESULTS AND DISCCUSION

Descriptive statistics: Table 2 provides the descriptive statistics for the variables used in the study. It embodies the mean, standard deviation, minimum and maximum values of the dependent variable, independent variables and control variables. Some of the variables (MONITOR, SIZE and COMPLEX) were transformed into logarithm to control for skewed nature of data. The results of standard tests on skewness is within ±1.96 and standard kurtosis is between ±3.0 (Rahman and Ali, 2006), indicating 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 expected hypotheses. Table 3 presents the correlation matrix for the dependent variable, independent variables and control variables. The result indicates that there is no multicollinearity problem as the correlations are below the threshold value of 0.8 (Gujarati, 2003).

The effect of ethnicity on total monitoring costs: Column two of Table 4 presents the multiple regression analysis used to test the main model. The adjusted R^2 for the model is 0.7622 and the f-value of 63.5148 is significant ($p<0.000$). The value of the adjusted R^2 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 >76% of the variation in the monitoring costs can be explained by the model. This study posits that businesses whose directors are predominantly Chinese and owning 50% or more shares in the company are expected to have a lower monitoring costs compared to businesses with other ethnic dominant director shareholdings. The result in column two of Table 4 shows that there is a negative significant association between total monitoring costs and ethnicity variables measured using a dichotomous variable of whether the majority of the organization's equity is held by the Chinese directors or not. The result indicates that

Table 2: Descriptive statistics of variables

Variables	Mean	Min.	Max.	SD	Skewness	Kurtosis
MONITOR	12.9841	10.9491	16.8605	1.0005	0.864	0.922
REVINV	0.3088	0.0019	0.8046	0.1945	0.329	-0.888
COMPLEX	2.4998	0.0000	6.0981	0.9091	0.232	1.430
RISK	0.2000	0	1	0.3980	1.544	0.386
SIZE	19.744	16.720	24.8991	1.4171	0.911	0.887
CETHNIC	0.2170	0	1	0.4131	1.382	-0.091
METHNIC	0.0383	0	1	0.1923	4.843	21.63
FETHNIC	0.0170	0	1	0.1296	7.516	54.96
LISTSTAT	0.7400	0	1	0.4370	-1.130	-0.731
CONSTRASE	0.3300	0	1	0.4720	0.718	-1.497
INDPROP	0.5400	0	1	0.5000	-0.146	-1.996
ROA	0.0101	-3.0172	0.2037	0.2259	-10.814	140.20
GROWTH	1.0515	0.3081	7.9680	0.7092	5.424	42.856

Variable definition: MONITOR = Total monitoring costs (ln); 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; CETHNIC = Chinese-controlled businesses (Dummy); FETHNIC = Foreign-controlled businesses (Dummy); METHNIC = Malay-controlled businesses (Dummy); LISTSTAT = Board listing (Dummy); CONSTRASE = Companies in consumer, trading and service sectors; INDPROP = Companies in industrial, constructions and property sectors

Table 3: Correlation matrix

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13
MONITOR	1.00												
CETHNIC	-0.16***	1.00											
METHNIC	0.11**	-0.11*	1.00										
FETHNIC	-0.01	-0.07	-0.03	1.00									
RECINV	-0.21***	0.19***	0.16***	-0.37***	1.00								
RISK	-0.25***	-0.03	-0.09*	0.07	0.00	1.00							
SIZE	0.82***	-0.21***	0.28***	0.42***	-0.40***	-0.23***	1.00						
COMPLEX	0.61***	-0.10*	0.05	0.22***	-0.14**	-0.04	0.52***	1.00					
ROA	0.15**	0.07	-0.02	0.02	0.05	-0.43***	0.20***	-0.05	1.00				
GROWTH	0.09*	-0.13**	0.18***	-0.16**	0.00	0.01	0.05		-0.04	-0.50**	1.00		
LISTSTAT	0.32***	-0.13**	0.15***	0.06	-0.23***	-0.28***	0.47***	0.21**	0.18***	0.06	1.00		
CONSTRASE	0.11*	-0.11*	0.14**	-0.02	0.09*	-0.10*	0.02	0.09*	0.07	0.04	0.00	1.00	
INDPROP	-0.15**	0.10*	0.13**	0.01	0.09*	0.09*	-0.09*	-0.07	-0.08	-0.08	-0.09**	-0.76**	1.00

*Significant at 1% level; **significant at 5% level; ***significant at 10% level

Table 4: Results of OLS estimation

Variables	Main model	The IDV used the cum % shldg of ethnic directors
INTERCEPT	2.190285***	2.553872***
	(3.613432)	(4.234450)
CETHNIC	-0.324387***	-0.710819***
	(-4.106718)	(-4.914691)
FETHNIC	0.071621	(0.542251)
	(0.285896)	0.149557
METHNIC	0.325739*	(1.527263)
	(1.929638)	0.325265*
RECINV	0.605927***	(3.288042)
	(3.178707)	0.614683***
RISK	-0.161694*	(-1.967367)
	(-1.715146)	-0.181314*
SIZE	0.512327***	0.497806***
	(15.26230)	(15.46455)
COMPLEX	0.286580***	0.295940***
	(6.533155)	(6.870545)
ROA	0.147567	0.180246
	(0.734923)	(0.918453)
GROWTH	0.109599	0.092031
	(1.937868)	(1.647028)
LISTSTAT	-0.173668	-0.214361**
	(-2.014416)	(-2.572103)
CONSTRASE	-0..53.89	-0.032622
	(-0.490244)	(-0.306711)
INDPROP	-0.199098	-0.157569
	(-1.933616)	(-1.571400)

R^2: 0.774431, 0.785111; Adj. R^2: 0.762238, 0.773495; F-statistics: 63.51483, 67.59097; p-values: 0.000000, 0.000000; Significant at 1% level; significant at 5% level; significant at 10% level

Chinese-controlled businesses have lower monitoring costs compared to other ethnic controlled businesses, thus hypothesis H_A is supported. This result is consistent with the earlier findings by Ahmad (2001).

Another significant ethnicity variable in this model is the ethnic variable, Malay-controlled businesses. There is a positive significant association between total monitoring costs and ethnic variable measured using a dichotomous variable of whether the majority of the organization's equity is held by Malay directors or not. This indicates that Malay-controlled businesses incur a different level of total monitoring costs compared to other ethnic-controlled businesses, thus hypothesis H_C is supported. However, the association between foreign controlled businesses and monitoring costs is insignificant, hence hypothesis H_B is not supported.

The significant relationships described in the earlier paragraph may be explained by the nature of these businesses in relation to ethnicity as it is claimed that cultural characteristics shape to a considerable extent the business ethics, corporate practices and the behavior of board members (Ow-Yong and Guan, 2000; Shephard, 1989; Sendut, 1991). The result of this study also support the earlier notion by Yatim *et al*. (2006) which conclude that monitoring differences exist in Malaysian organizations which have clear identifiable ethnic domination of corporate boards and ownership.

Chinese businesses are said to belong to a cultural tradition of ancestor worship and normally derive from family businesses (Kenzo, 1991; Sendut, 1991). Their ambitions tend to be dynastic and perpetuate family fortunes (Sendut, 1991) where the relatives of the owners are members of the board of directors and shareholders of the company (Kenzo, 1991). As their businesses are family controlled, their monitoring costs are claimed to be lower than those controlled by non-family shareholders (Fleming *et al*., 2005; Fama and Jensen, 1983). This is due to the fact that families have committed, undiversified stake in the firm and induce strong incentive to monitor as the firm survival and its value maximization is important for them. This result is also consistent with the claim that Chinese business structure and business practices are different from other ethnicity controlled business (such as Malay and foreign-controlled companies) as they prefer family members in the management of the companies and utilize ethnic ties in the recruitment of employees and other business relationship, resulting in lower operational risks and lower transaction and agency costs (Ahmad, 2001). Further investigation of the Chinese-controlled businesses in this study reveals that close to 80% of the samples are family-managed organizations which appoint the family members as their directors and own the shares of the organizations. Thus as the managers are also the owners in these Chinese-controlled businesses, the organization structure have lower information asymmetry, less complex organization structure and more committed staff as they have incentives to monitor the firm which will reduce the need for assurance and monitoring.

On the other hand, the Malays come from a strong patriotic background and a tradition of government service, preferring to research in government departments (Sendut, 1991) and their involvement in business is at a lower rate compared to the Chinese. The costs of monitoring for Malay-controlled business are also believed to be different from other ethnic controlled businesses, specifically these two groups, foreign controlled businesses which have complex structure of foreign subsidiaries and Chinese-controlled businesses which are usually family-owned businesses.

In addition, an ANOVA is carried out to examine if there is any difference between the monitoring costs of these ethnic controlled businesses. The results reveal that there is a significant relationship between the variables. At 10% level of confidence, the monitoring costs of Chinese-controlled business is significantly different from the monitoring costs of Malay-controlled business but the relationship of both businesses with foreign-controlled business is insignificant. The descriptive statistics also show that the mean for monitoring costs for Chinese-controlled business is RM486.915 which is lower than the average monitoring costs of Malay-controlled business of RM1,022.166. This result further supports the findings of the study. Further tests on these ethnicity variables is also carried out where the main model is re-estimated with the three independent variables redefined as the cumulative percentage shareholdings of Chinese, Malay or foreign directors in the organization (column 3 of Table 4). It appears that the results are not affected by this alternative. Again, the significant variables are the same for this re-estimated result. CETHNIC and METHNIC are still significant in this result and FETHNIC remain insignificant.

CONCLUSION

This study explores the impact of culture in Malaysian organizations on their agency costs. The ethnicity variables are used as proxies for culture. It examines the monitoring costs of the businesses controlled by different ethnic groups in Malaysia. We argue that culture can have an important influence on the principal and agents relationship in an organisation. This result supports and consistent with the findings from prior studies. Culture differences may attenuate the risk and self-interest and temper the agency relationships. In addition, this study contributes to the literature relating to the impact of different culture and values of these groups to their businesses. A comprehensive understanding of how culture affects the agency relationship is an important form of knowledge that may expand management theories.

IMPLICATIONS

This study has theoretical and practical implications both for scholars and practitioners. From theoretical viewpoint, results of this study revealed the important link between culture and monitoring costs of the organisations. It stresses the importance of considering the culture/ethnicity involve in understanding the agency costs of an organisation because culture can align goals between the agents and principals. Ignoring these influences may lead to misinterpretations of organisation condition and in some cases, the organisation success. For organisational researchers, this culture variable can be included as a study variable in both theory development and applied research.

This study also provides a conceptual foundation for practitioners. It enhances understanding about how culture can affect the agency relationship in an organisation and influence its agency costs. It provides useful information to the stakeholders such as investors, suppliers and customers. Stakeholders should go extra miles to understand the culture and potential agency conflicts in an organisation before investing or dealing with one. This is especially important when this finding is further supported by prior literature which found that other factors are also significantly affected by these cultural values such as the extent of disclosure to the stakeholders, corporate practices of the organisations, their accounting practices and financial reporting.

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