

# Relationship between Managerial Ownership and Agency Cost

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## Abstract

The codes of corporate governance for every country are framed to solve agency problems with good monitoring techniques and mechanisms. Monitoring mechanisms are an important tool for aligning the interest of principals and agents. This research study focuses on the link between managerial ownership and agency costs. This research paper also reviews agency theory and its shortcomings. The result findings depict that there is a positive link between the remuneration of directors, large firms, old firms, and asset-utilization ratio but no impact of managerial ownership is found on reducing agency cost.

**Keywords:** Agency, Firm Age, Firm Size, Managerial Ownership

## Introduction

In this era, there is an increasing trend of delegating duties and functions from owners to the person hired. It can be called a separation of ownership and management. Berle and Means (1932) defined it as an agency relationship. He further furnished that the owners are mostly shareholders or the principal in the case of a listed company while the persons hired by the principal to run the corporate firms are called the agents. The agent has more information about the corporate firm as compared to the principal due to imperfect information. This is the reason why the principal delegates some of their authority like decision-making power to their agents. The concept of principal-agent is mostly applied in the game theory that was introduced by a seminal work of Jensen and Meckling (1976) when they were studying the costs emanating from agency contracts. Gichana (2012) revealed many contracts of agency in different organizational set up, i.e., shareholders versus debt holders, shareholders

versus top managers, executive managers versus low-level managers and the list is unending. Any separation of ownership from control may likely result in principal-agent conflict (Jensen & Meckling, 1976). This is because agents, usually the contracted manager, may deviate from the agreements made with shareholders when there is a higher payoff to uphold ethical consideration as provided in the guidelines of corporate governance. The agent may have their selfish interest such as misappropriation of funds, overconsumption on perquisites, and entrenching activities against the shareholders' value (Mustapha and Ahmed (2011)).

Jensen and Meckling (1976) proposed that some part of the shareholding is given to the top managers. The concept of principal-agent is based on the idea, when agents own a certain part of ownership, they are bound and responsible to take right and prompt decisions that are in the best interests of the firm. De Angelo and De Angelo (1985) also supported views of Meckling (1976). Jensen and Meckling (1976) stated that a unit increase in the firm's managerial ownership makes a negative impact on agency costs. This supports Agency Theory. Joseph and Richardson (2002) also agreed with the negative relationship between managerial ownership and agency costs but they warn that the link is not linear so it is necessary to take precautions while implementing it. The non-linear relationship results from the existence of both entrenchment activities in the firm and the convergence effect in the firm (Morck, Shleifer and Vishny (1988)). It is depicted that ownership first improves firm performance because of the convergence in interests between managers and owners. Joseph and Richardson (2002) stated that when managers begin to get a substantial share of the firm's equity then they become entrenched and this entrenchment enables them to pursue non-value-

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maximizing behaviors without being disciplined by the market. Some such non-value-maximizing behavior includes unplanned lavish company trips; the empire-building; spacious and expensive offices; buying of high-priced paintings, and the list is endless. Thus, firm value decreases with ownership as the adverse effects of entrenchment become increasingly seen. This hypothesis does not imply that convergence effects are absent but they are continued and dominated by entrenchment effects. When there is a rise in management ownership, it shows convergence effects. The impact of the concentration of managerial ownership on performance will provide two different aspects: the incentive and the entrenchment effect. Managerial ownership is one way-out to align the objectives and functions of the shareholders and the managers. It is a method of ex-ante incentive alignment that puts restrictions on the managerial discretion to reduce the ex-post misallocation of resources Holmstrom (1979). The incentive effect of managerial ownership shows that there is a positive and significant relationship between managerial ownership and corporate performance. The entrenchment effect of managerial ownership reveals that when managerial ownership is large, it is a tough task for outside owners to exercise control. In that case, managers don't want to maximize firm value and it leads to a negative relationship between managerial ownership and firm performance.

## Review of Literature

Gichana (2012) tried to examine the link between managerial ownership and agency cost. The study covered all companies quoted at Nairobi Securities Exchange on 20<sup>th</sup> July 2012. This research covered 2009-11 as its study period. The correlation research design was used in this research. The study used secondary data collected from Nairobi Security Exchange. SPSS software was used for data interpretation. The regression model, T-test, and F-test were used in this research. The result findings revealed that there was a direct link between managerial ownership and agency costs. The results concluded that there showed a significant and notably high coefficient that confirmed the effect of managerial ownership and reduction in agency costs.

Alfadhil and Alabdullah (2013) tried to investigate the relationship between the determinants of managerial behavior and agency cost and its impact on firm performance. This study used a sample of 27 firms

registered in the Iraq Financial Market belonging to banks, industries, and services from 2005 to 2008. Managerial ownership, information asymmetry, and percentage of firm debts were used as independent variables. This research used asset-utilization ratio and operating expenses to measure agency costs. This research used return on investment to measure firm performance. This research applied non-parametric statistical tests and Kendall correlation. The result findings showed that there was a significant link between managerial ownership and agency cost but this link was non-linear between managerial ownership and firm performance.

Kwaye (2014) tried to examine the link between managerial ownership and agency cost. This research used a sample of 64 firms listed on the NSE in Kenya. This research applied correlation research design. SPSS software was used in this research. Simple regression was used for data interpretation. The asset-utilization ratio was used to measure agency costs in this study. This study used managerial ownership, total debts, and ownership concentration as independent variables in this study. The result findings showed that there was a direct and significant impact of managerial ownership on the reduction of agency cost. The results revealed that a unit increase in managerial ownership led to an increase in agency cost when all other factors were held constant.

Zondi and Sibanda (2015) investigated the impact of managerial ownership on firm performance. This research study took a sample of 23 retail sector firms listed on the JSE from 2010 to 2013. The study conducted regression analyses for data interpretation. The results findings stated the robust results. The results suggested that there was an inverse link between managerial ownership and corporate performance. This study used two-stage least squares models. The result findings found that managerial ownership did not make any impact on corporate performance. The result findings of the study were not in favor of agency theory. The results clearly stated that managerial ownership did not reduce agency costs, especially in the retail sector.

Noradiva, Parastou and Azlina (2016) examined the impact of managerial ownership on intellectual capital performance as well as on the value of a corporate firm. This research study took panel data analysis. This research study took a sample of 46 Malaysian firms listed on the ACE Market of Bursa Malaysia from 2009 to 2012. This research used market value of equity for the

firm as a dependent variable and value-added intellectual coefficient for the firm, managerial ownership, size of the firm, financial leverage for the firm, and profitability of the firm, as independent variables. This research study applied Public Value Added Intellectual Coefficient Method for data interpretation and analysis. The result findings depicted that the impact of managerial ownership seemed to have a non-linear and insignificant relationship with intellectual capital performance and the value of the firm.

Bouras and Gallali (2017) examined the relationship between board structure and firm performance. This study tried to define the board structure as managerial ownership and the board of directors. This study took equity-based compensation to measure corporate performance. This research focused on the comparative study conducted between the French and American markets. This research took a sample of 203 U.S. companies and 159 French companies for the period of 2002-2010. This study used global level databases for financial variables and annual reports to gather data related to governance and board structure. This research study used Tobin Q for measuring firm performance as a dependent variable and managerial ownership as independent variables. The research took the size of the firm, a debt of firm, and volatility of equity as control variables. The results found that the impact of managerial ownership on firm performance seemed to be non-linear. This research suggested that the board of directors is a substitute for managerial ownership to solve the agency problem in the case of managerial entrenchment. The results further added that there was a non-linear link between stocks' based compensation and managerial ownership. This study made a hypothesis regarding endogeneity, which was valid only in the American case. The result findings concluded that the impact of managerial ownership on corporate performance was positive and significant that helped in neutralizing capital market monitoring.

Chinelo and Iyiegbuniwe (2018) attempted to depict the impact of mechanisms of corporate governance on reducing agency costs. This study used a sample of manufacturing firms that were listed in the Nigerian Stock Exchange. This research took 2007-17 as its study period. This research used the asset-utilization ratio to measure agency costs. This research employed a multivariate fixed effect regression to interpret the data. Ownership concentration, the board size, managerial ownership, board independence, and board remuneration were taken

as explanatory variables in this research. This study took leverage, operating expenses, and cash flow as control variables. The result findings showed agency cost could be eliminated with higher managerial ownership, operating expenses, and free cash flow.

Vijayakumaran (2019) tried to depict the effect of ownership reform undertaken in 2005 and state ownership on the relationship between agency costs and different mechanisms of corporate governance. This study took large panel data from companies listed on the Shanghai Stock Exchange. Managerial ownership, debt financing, and institutional ownership's reform were taken to make mechanisms of corporate governance more effective and help in reducing agency costs in the period after the reform. This study also focused on the literature of ownership reform of corporate governance and agency costs. The result findings showed the difference in the effectiveness of state and private managed corporate concerning their mechanisms of corporate governance and state ownership still lacked efficiency in mechanisms of corporate governance.

Nguyen, Doan and Nguyen (2020) tried to furnish the role of corporate governance on the ownership structure, features of the board, and the agency cost. This study took 281 companies listed on the Ho Chi Minh Stock Exchange in Vietnam. This study considered 2013-18 as its study period. This study used the OLS method, random-effects model, and multivariate fixed effects model for data interpretation. This study took board size, foreign ownership, CEO/Chairman Duality, government ownership, and management ownership as independent variables. The asset-utilization ratio was used as a dependent variable to measure agency costs. The result findings showed that independent variables made a positive impact on the reduction of agency cost and helped in reducing agency conflicts by good corporate governance mechanisms.

## Agency Theory

This research paper gives a brief description of what agency theory is and how the agency cost arises. A corporate firm can be owned by an individual or more individuals. A firm owned by an individual can be termed as a sole proprietorship concern. If the owner and the manager are the same people, so his interests are the same as that of the firm. But, it is not feasible that an individual

can provide the financial resources, expertise, and talent itself so it leads to the idea that some individuals with similar objectives can collectively start the corporate firm. Large firms mainly prefer a limited liability company structure. A large number of investors provide the financial resources for carrying out the day-to-day requirements of the corporate firms. They are known as 'shareholders'. Shareholders have residual claims on the assets as well as the right to control their use. Shareholders are considered as deemed owner of the company. Shareholders delegate some of their authority to agents for managing the company. The board of directors further delegates some of their authorities to managers while retaining its role to monitor and control the executive management. There are various kinds of literature available on corporate governance that provides insight to call shareholders as principal and managers as their agent. The principal-agent relationship can be described in simple words:

*A principal-agent relationship exists when one or more people (principals) hire other people (agent) to perform some work on their behalf which includes delegation of some decision making power to the person hired (agent).*

Where there is dispersed ownership, shareholders do not have any control over the manager of corporate firms. A manager controls and manages all the assets of the firm. Financial results on a periodical basis are informed to shareholders by managers. The conflict in the interest tends to occur between majority shareholders and minority shareholders (domestic and foreign) and other investors. This conflict in the interests is called as expropriation problem when the dominant owner-manager often deprive minority shareholders of their fair share of income in companies' resources by channelizing those resources to his own best interests (Berglof & Pajuste, 2005; OECD, 2007). We know the board of directors provides some authorities to managers for decision-making; managers can easily manage and use the financial resources as per their convenience. Managers can make the transfer of money either in the form of loans or selling off assets of the corporate firm to himself at minimum prices or transfer more perks and perquisites in their accounts. As per legal proceedings, shareholders are considered as the deemed owners of the corporate firm. Shareholders need to provide certain protection in their interest. But there is separation in the ownership and management. So, it brings divergence in the interests of the shareholders and managers due to the separation

of control from management which aggravates agency costs in the companies. There are two different functions usually performed in corporate firms:

- Ownership function
- Managerial function

These two functions are performed by different sets of people. These people belong to have conflict in their interests with each other.

The agency problem is inherent as far back as in the 18<sup>th</sup> century that was given by Adam Smith, Father of Economics, in his book named *Wealth of Nations*. Berle and Means (1934) and Lorsch and MacIver (1989) both reflected that this separation of ownership from management in corporate firms throughout the world is the same. Different types of costs are incurred from the divergence of interests among different parties. Corporate governance is an effective tool and mechanism for mitigating these types of costs.

*Agency Costs:* Misalignment of the interest between the principal and the agents will lead to an increase in agency costs. This misalignment of interests arises due to the separation of ownership from management. Self-interest is the very objective of principals and agents of the corporate firms. Principals hire agents for carrying out the functions of corporate firms effectively and efficiently. When principal delegates some decision making responsibility to their agents, agents often utilize their power to raise their wellbeing and benefits by opting those actions and decisions which can or can't contribute in the best interests of the principals. The agency relationships are very common in this present world whether it may be economic and business life, it is seen everywhere.

It is common fact that there is a variance in the aims and objectives of the principals and agents, which brings problem in an agency relationship. Agency contracts are usually uncertain in nature as there is always be an information asymmetry, which can't secure other parties from pursuing their self-interests at the cost of other in the agency relationship.

Incomplete contracts are the essential feature of the principal-agent problem of the corporate firm. If it is possible to write a complete contract only then the principal-agent problem will not occur and agency cost will be mitigated easily. In this contract, shareholders and managers will just put their signature that tells what agents

of the corporate firm will do with the financial resources and how the returns are distributed among shareholders, and how much percentage of profit is given to agents if they work in the best interest of their shareholders. The written contract is used by shareholders to align the interests of managers with their own. Though, it is not feasible and possible to write a complete contract as it is not practically possible to draft every condition that explains all upcoming contingencies. Incomplete contracts inspire shareholders and managers for allocating residual control rights in such a way where residual control rights can be able to make decisions in unforeseen circumstances and those situations not given in the contract. Why do not investors just write a contract that gives them all the residual control rights in the firm? This is not feasible practically because the owners hire managers in the first place since they need specialized human capital to run the firm and to attain profit on their investments.

The agency problem arises due to the presence of asymmetric information. We know that managers are better informed regarding what are the best alternative uses for the investor's funds as they are efficient in performing the day-to-day tasks for the company. Managers have most of the control rights that lead to management entrenchment and rent extraction by managers. Jensen and Meckling (1976) defined agency cost as the total of monitoring costs, bonding costs, and residual loss.

*Monitoring Cost:* Monitoring costs are the costs which are incurred by the owners to monitor the actions of the manager in the corporate firms. For example, costs incurred for the appointment of the auditors, the appointment of Board of Directors, installation of formal control systems and budget restrictions, etc.

*Bonding Cost:* Bonding costs are costs incurred by the managers to assure the owners that they will act in the interest of the principals.

*Residual Loss:* Residual loss is the reduction in welfare undertaken by the principal of the corporate firm, which arises due to the divergence of interest between the owners and the managers.

## Shortcomings of Agency Theory

The basic model of Agency Theory assumes that there are one principle and one agent. On the other hand, the

modernist view of the world merely assumes that there is the addition of more principals and more agents that construct a complex model without negating any of these assumptions. When there are only one principal and one agent, the agency problem is less likely to exist since they are the same person. Limitations of agency theory can be summarized in the following points as given in (Eisenhardt 1989; Shleifer & Vishny, 1997; Daily et al., 2003):

- It is assumed by the Agency theory that there are complete contracts that cater to all possible contingencies such as ambiguities in language, inadvertence, unforeseen circumstances, and disputes. It is not practically possible to draft complete and efficient contracts. Information asymmetries, transaction costs, and fraud are the main hurdles and problems in constructing efficient contracts. It is also assumed by the Agency Theory that agency costs can be eliminated by making efficient contracts. Market imperfections depict that these assumptions are not valid.
- Third-party effects are not recognized in constructing a contract. Third parties are those parties that are affected by the contract but in actual they are not a party to the contract. Many boards took consideration regarding third-party effects and perform as best as possible to fulfill social and financial responsibilities. Maximum economic efficiency may (theoretically) be achieved under the Agency theory and it will not maximize social welfare in the society.
- It is assumed that shareholders are only interested in the financial performance of the corporate firm.
- It is assumed that directors and management owe their duty to shareholders. The law requires that their duties are required to be owed to corporate firms.
- Boards have many roles to perform in corporate firms. Agency theory defines the monitoring role of boards but it does not explain the other roles of boards. Agency theory is not providing information about the directors' resources, services, and strategic roles in corporate firms.
- Researches on corporate governance are mainly conceptualized as deterrents to managerial self-interest. Agency theory assumes that managers are opportunistic persons and solely motivated by self-interest but this agency theory forgets to focus on loyal agents of the corporate firms.

- The Agency theory does not stress on the competence of the agents. Even incompetent managers are honest but they are not able to meet or fulfill shareholder's objectives. Incentivizing managers, as they are honest, will not serve the purpose of the corporate firm; they should be competent enough to carry out their functions assigned effectively and efficiently.

## Hypothesis

*H1: Increase in managerial ownership will reduce agency cost.*

*H2: Increase in director's remuneration will reduce agency cost.*

*H3: Large firms will help in reducing agency cost and*

*H4: Old firms will help in reducing agency cost.*

## Sample and Data

This study uses a sample of 30 Information Technology corporate firms that are listed on the Bombay Stock Exchange and National Stock Exchange. The period for the research study is selected on a random basis, which is 2013-17. Simple random sampling is selected while considering the nature of corporate firms, i.e., IT firms under this research. An empirical research design is taken into account in this research. The data used is secondary in nature. It is collected through annual reports, which are available on the websites of companies. Multiple fixed effect regression method is applied to this research for data interpretation as it was also suggested by Chinelo and Iyiegbuniwe (2018). This study chooses asset-utilization ratio as a dependent variable to measure agency cost as it was also considered by Nguyen et al. (2020) and Chinelo and Iyiegbuniwe (2018). This research study takes managerial ownership and director's remuneration as independent variables and firm size and firm age as control variables. An asset-utilization ratio for measuring agency cost is chosen because it is a good indicator that represents financial firm performance. It represents how efficiently a corporate firm is using its assets to make money. The assets utilization ratio is frequently used to compare the efficiency of the company over time and is more specific. STATA-16 software is used for data analysis.

Agency cost (AUR) =  $\alpha + \beta_1$  (MO AUR) +  $\beta_2$  (NLDR AUR) +  $\beta_3$  (NLTA AUR) +  $\beta_4$  (NLFA AUR) + e AUR  
Where AUR represents Asset-utilization ratio = Total income/ Total assets; MO tells managerial ownership, NLDR depicts natural log of director's remuneration; NLTA tells natural log of total assets (firm size) and NLFA tells natural log of firm age.

## Results and Analysis

Table 1 provides descriptive statistical results on the dependent and independent variables that were used in the empirical analysis of this study. The findings depict that on average of managerial ownership are 3.66 with a maximum of 24.13 and a minimum of 0.0031, standard deviation, and median are 5.52 and 0.57, respectively. The mean value of the natural log of the director's remuneration is 1.72 with a minimum of -2.04 and a maximum of 4.55, its median is 1.72 and the standard deviation is 1.41. The findings indicate that the average natural log of firm age is 3.40 with a maximum of 4.29 and a minimum of 1.09, standard deviation, and median are 0.66 and 3.58, respectively. The mean value of the natural log of total assets (firm size) is 8.66 with a minimum of 6.05 and a maximum of 11.57, its median is 8.59 and the standard deviation is 1.60. The agency cost is measured by asset-utilization ratio having average value, median, standard deviation 1.61, 1.26, and 1.22, respectively, with a minimum of 0.45 and a maximum of 7.38.

As per Table 2, there is a negligible degree of relationship among asset-utilization ratio (agency cost) and managerial ownership, natural log of director's remuneration, firm age, and firm size. It is depicted in Table 2 that there is a very low degree of the positive relationship between the director's remuneration and firm size. A low degree of the positive link between firm age and firm size is as shown in Table 2. Overall, there is a very low degree of relationship between variables.

The results of multivariate regression analysis are presented in Table 3, with asset-utilization ratio as the dependent variable, natural log of director's remuneration, and managerial ownership as independent variables, and firm age and firm size as control variables. This model depicts that there is a high degree of a positive correlation between asset-utilization ratio (dependent variable) and all independent variables and control variables as

Multiple R is 0.846. The model as a whole is significant in explaining variation in the dependent variable. R-square is 0.717 which means that all independent variables and control variables explain a 72% variation in the dependent variable asset-utilization ratio. As per the results depicted, there is a positive correlation among them. An increase in all independent variables and control variables impacts positively on the asset-utilization ratio up to 72%.

*Managerial Ownership:* The coefficient value of managerial ownership is -0.02 with a p-value 0.06 depicts that the hypothesis is rejected. Managerial ownership has no impact on asset-utilization ratio and hence on agency costs. It is because managerial ownership is very less i.e. 5% that can't make an impact on the reduction in agency cost. There must be at least 15-25% of managerial ownership that can create an incentive impact for agents to work in the best interest of corporate firms. Even managerial ownership beyond 40 to 50% will lead to an entrenchment effect that increases agency problems and reduces firm performance. In this study, managerial ownership ranges between 0 and 24% and mainly it consists of 5 to 8%. So, it is unable to make an impact in mitigating agency cost. Alignment of interest between shareholders and managers can be achieved when agents work in the best interest of wealth maximization of the firm and it can only be possible when managerial ownership is in a reasonable amount with managers not before that.

*Director's Remuneration:* The coefficient value of the natural log of the director's remuneration is 0.30 with a p-value 0.04 that shows that hypothesis is accepted. There is a positive and significant relationship between asset-utilization ratio and director's remuneration and helps in mitigating agency costs. This study stresses that good and reasonable remuneration to directors will motivate them to work harder, and contributes to raising their productivity. It will boost up the firm performance. There is a need to develop some effective strategies that can distinguish between efficient and hard-working directors from lazy and inefficient ones so that proper rewards and incentives will be offered to efficient directors. It helps in mitigating agency costs. The research results are consistent with the results of Murphy (1985) and Jensen and Murphy (1990) who stated that principal-agent theory is used for justification of direct link between director's remuneration and firm performance. Lewellen et al. (1992) depicted that there is a positive link between executive compensation and firm performance and those

firms which pay better will perform better. Hogan and Mc Pheters (1980) depicted that those firms which acquire better and higher skills from executives requested higher pay in labor markets. Gerhart (2000) showed that the remuneration package could assist the firms to compete for high performers that contribute to the future success of the firm.

*Firm Age:* The coefficient value of firm age is 0.45 with a p-value 0.05 that furnishes that hypothesis is accepted. There is a direct link between firm age and asset-utilization ratio. Old and mature firms serve positively in the reduction of agency costs. The result is positive and compatible with the model of Learning by Doing proposed by Prof K Arrow who describes that firm raises their productivity as they learn about more productive production technology. New firms are retarded by their need to make a search process and facing difficulty in solving every new problem they encounter. As learning starts, advantages can be attained from the introduction of a collection of problem-solving procedures and patterns. It helps to eliminate labor and time required to address and focus on repetitive problems. This research result supports the Financial Growth Cycle Model. It reflects that the financial needs and financing options change as the firm size, firm age, and information. When a firm becomes old and experienced, it will easily raise funds from public equity or long-term debt financing as they have established goodwill and reputation in the national or international market.

*Firm Size:* The coefficient value of firm size is 0.35 with a p-value 0.03 that tells that hypothesis is accepted. There is a direct link between firm size and asset-utilization ratio. Larger firms contribute to mitigating agency costs. The result findings are consistent with the economies of the scale model. Profitability and low cost can be attained by corporate firms when they are established, matured, and have big size. As output increases, the average unit cost starts decreasing. Many types of economies of scale are generated and attained when the size of the firm is big, i.e., managerial, technological, financial, risk-bearing, specialization, and division of labor, information, marketing, etc. Large firms can be able to establish different contacts either in media or different businesses that provide informational benefits for the business. The results also support the risk-bearing hypothesis. Matured firms are more capable and having survival ability at the time of recession as they have huge assets

and contingency funds. Short and Keasey (1999) also stated the same conclusion that described that large firms have more capacity to generate internal funds. This study considered a control variable growth. This study supports the Pecking Order Theory of financial structure.

## Conclusion

This research study focuses on the link between managerial ownership and agency costs. This study tries to sum up that there is a direct relationship between the director's remuneration and asset-utilization ratio but managerial ownership makes no impact on the reduction in agency cost. This study also depicts the positive relationship between firm age and size and asset-utilization ratio. The level of managerial ownership which makes an impact on reducing agency cost is a debatable question in the finance literature. Different studies apply different managerial ownership percentages to show their impact on firm performance and to mitigate agency costs. It is normally concluded in managerial theories that 0-5% managerial ownership makes a negative impact on firm performance (entrenchment theory) and 15-25% managerial ownership makes a positive impact on firm performance (convergence theory) and finally above 25% makes a negative impact on firm performance (entrenchment theory). After certain threshold limits managers of corporate firms become conservative and utilize the financial resources as per their convenience and benefits and don't take any risks but higher return ventures and projects due to their self-interest. It sometimes destroys the firm welfare and conflict between shareholders and managers starts increasing and thereby leads to an increase in agency cost.

*Contribution of Study:* This research study furnishes the impact of managerial ownership in its different range on reducing agency costs. This study elucidates firmly that remuneration of directors; firm age and firm size make an affirmative impact on the reduction of agency cost. This research examines every aspect of agency theory. This study tries to show the division of agency costs into three parts to understand its actual implication. The level of understanding of agency theory and agency cost removes many doubts and misconceptions regarding these concepts due to its fine and proper explanation. This research paper demonstrates the limitations of agency theory lucidly and simply to understand the exact link between principals and agents in corporate firms. These limitations also

point out the issues, which arise between shareholders and agents that may lead to agency costs. This research depicts the prospective variables due to which agency cost can be eliminated. It furnishes the different managerial ownership range that can serve in reducing the agency cost as well as elucidates the importance of the director's remuneration, firm size, and age of the firm in minimizing the agency cost.

*Future Suggestions:* This research study can be further reviewed and explored vividly by taking more variables which can make an impact on agency costs like dependent directors, independent directors, the board size, CEO/Chairman Duality, inflation, gender diversity, board educational qualification, women directors, state ownership, institutional ownership, and non-institutional ownership, etc. This research study can be conducted and further given wide subject matters in the future by taking into consideration other sectors, i.e., banks, manufacturing sector, textile sector, pharmaceuticals sector, real estate, construction, cement, and many more. This research study can be extended by considering a wider period.

**Table 1: Descriptive Statistics**

|      | Mean | Median | Standard Deviation | Minimum | Maximum |
|------|------|--------|--------------------|---------|---------|
| MO   | 3.66 | 0.57   | 5.52               | 0.0031  | 24.13   |
| NLDR | 1.72 | 1.72   | 1.41               | -2.04   | 4.55    |
| NLFA | 3.40 | 3.58   | 0.66               | 1.09    | 4.29    |
| NLTA | 8.66 | 8.59   | 1.60               | 6.05    | 11.57   |
| AUR  | 1.61 | 1.26   | 1.22               | 0.45    | 7.38    |

**Table 2: Correlation Matrix**

|      | MO       | NLDR     | NLFA     | NLTA     | AUR      |
|------|----------|----------|----------|----------|----------|
| MO   | <b>1</b> |          |          |          |          |
| NLDR | 0.168    | <b>1</b> |          |          |          |
| NLFA | 0.021    | 0.148    | <b>1</b> |          |          |
| NLTA | 0.269    | 0.401    | 0.391    | <b>1</b> |          |
| AUR  | -0.177   | 0.231    | 0.116    | -0.240   | <b>1</b> |

**Table 3**

| Variable          | Coefficient | Probability |
|-------------------|-------------|-------------|
| MO                | -0.02       | 0.06        |
| NLDR              | 0.30        | 0.04        |
| NLFA              | 0.45        | 0.05        |
| NLTA              | 0.35        | 0.03        |
| Multiple R        | 0.846       |             |
| R-Square          | 0.717       |             |
| Adjusted R Square | 0.701       |             |
| Standard Error    | 1.09        |             |

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