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Exploring the role of institutional investors in voting, monitoring and dialogue engagement in mitigating agency conflict in Malaysia's public listed companies

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Institutional investors are very important for keeping shareholder value high by reducing agency conflict and promoting good governance. Recent governance scandals have placed Malaysia on the global stage, jeopardising the publicly listed companies (PLCs) reputation and calling into question the effectiveness of the country's corporate governance mechanism. The study aimed to examine the level of agency conflict in Malaysian PLCs and the roles of institutional investors in mitigating agency issues. At the same time, we are exploring unclear institutional investors level of activism in Malaysia and evaluating which roles are considered powerful among institutional investors. The findings demonstrated that institutional investors significantly mitigate agency conflict, with monitoring and dialogue engagement as the most influential roles. Conclusively, the discovery reinstated Type 1 agency conflict (principal-agent) among important issues for corporate governance in Malaysia. The study meets the gaps of prior research in the Malaysian context of agency conflict. It offers a novelty on agency conflict examination in Malaysia as well as exploring institutional investors' roles and recommending an approach that can be taken to strengthen the governance mechanism among PLCs in Malaysia. The present study advises institutional investors to play aggressive roles in managing agency issues, and relevant bodies need to enhance awareness of agency issues.

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Introduction

The agency dilemma is important from an ethical, practical, and economic standpoint. It is one of the most important aspects of corporate governance (Jensen & Meckling, 1976). Asymmetric knowledge occurs because investors are unable to routinely supervise every decision performed by firm management, resulting in ethical hazards and a lack of agreement. It adheres to the principles of agency cost theory. The duties of institutional investors become critical when it comes to maintaining strong corporate governance and ensuring that agency conflicts can be controlled (Beebeejaun & Koobloll, 2018; Chen, Liu, & Yan, 2022; Jensen & Meckling, 1979; Lewellen & Lewellen, 2022). Institutional investors have a substantial presence and rising impact in the world's financial markets. Because of the growing size of their worldwide assets, they may exert some influence over the actions of the firms in which they have invested by monitoring those activities. In general, institutional investors who are unsatisfied with the performance or management of a firm may either sell their shares ("exit") or interact with the companies in which they have invested ("voice") (McCahery, Sautner, & Starks, 2016). Yet, since the "exit" option is costly, significant institutional investors often collaborate with their investee businesses to remedy unfavourable governance systems and poor performance (McCahery, Sautner, & Starks, 2016). Institutional investors' participation with their investee businesses, known colloquially as "investor activism," may take several forms, including consultations, voting, shareholder resolutions and recommendations, priority lists, and governance rating systems (Awalluddin, 2020; Mallin, 2016).

Investor activism seeks to influence corporate policy and practises by leveraging an investor's ownership position. The strategy is advantageous, and it is one of the most important corporate governance techniques for bridging the gap between management and investors (Sehrawat, Kumar, Lohia, Bansal, & Agarwal, 2019). Previous study has demonstrated that institutional investors' activism has a major influence on the companies in which they invest since it may create excellent governance, exert good behaviour, and increase business value (Sakawa & Watanabel, 2020; Wang, 2019). Yet, it is uncertain if institutional investors, as proposed in Malaysia, perform their responsibilities. Othman and Borges (2015), investor activism in Malaysia is still in its infancy.

Awalluddin (2020), on the other hand, claims that CSR activism in Malaysia is on the upswing. According to Mehmood, Hunjra, & Chani (2019), good governance systems may reduce agency costs in South Asian countries. That is because investors, particularly institutional investors, like to invest in companies that have good governance practises. Good corporate governance is defined as a well-structured set of management processes, rules, regulations, and procedures. This approach helps firms keep control over their operations. According to Besley & Ghatak (2008) and Levin (2014) research, giving managers with incentives successfully lowers agency conflict. Similar research was carried out in Malaysia, and the findings agreed with those reported in Western nations (Mustapha & Che Ahmad, 2011). Ataay (2018), on the other hand, revealed an inverse link between compensation and the agency issue. The investor's primary worry seemed to be the agency conflict. To decrease agency-related concerns, Chaudhary (2022) urged organisations to have strong institutional stock ownership, especially from pressure-insensitive investors.

Malaysia has had several corporate governance scandals, including those at MAS Airline, Perwaja Steel, Sime Darby, and Bank Bumiputra (Ong, 1984). The managers' contrasting roles and interests produce conflict. Most of the time, directors or managers working as agents strive to further their own interests at the cost of the firm. For instance, Sime Darby's corruption arose as a consequence of a conflict of interest. Some local studies have shown that institutional investors play a critical role in resolving agency disputes (Azmi, Abd Sata, Abdullah, Ab Aziz, & Ismail, 2021; Ismail & Rahman, 2011). It is almost difficult for a business to have perfect corporate governance practises. There are, however, a variety of ways available to remove agency conflict and strengthen corporate governance. This research investigates the active activities of institutional investors in dealing with agency conflict, as well as the extent of agency conflict in Malaysian publicly traded corporations (PLCs). One of the tasks that investor shareholders may perform is monitoring (Chen, Harford, & Li, 2007; Starks, 2009). Some academics have discovered that institutional investors who watch management operations may reduce agency conflict (Bebchuk, Cohen, & Hirst, 2017; Chaudhary, 2022; Huu Nguyen, Thuy Doan, & Ha Nguyen, 2020). Therefore, active roles of institutional investors may mitigate any loss in shareholder value (Guimaraes, Leal, Wanke, & Morey, 2019).

This study provides three important contributions. First, although some earlier research in the Malaysian context studied agency conflict and institutional investors, the bulk of it focused on the influence on company value (Ashrafi & Muhammad, 2013; Azmi et al., 2021) and the monitoring function (Aswadi, Wahab, How, & Verhoeven, 2008; Hanis Hazwani & Adilah, 2022). The research stimulated institutional investors' interest in engaging firms that are listed under Malaysia's standards of conduct for institutional investors in exercising voting rights, monitoring duties, and dialogue involvement. Second, the research will look at the amount of agency conflict in Malaysia. Finally, determine the most active roles that institutional investors perform in Malaysia.

This paper will be organised as follows: The second section investigates the review of literature. The third section concerns hypothesis formulation. The approaches are discussed in the fourth section. Section five contains the results, whereas section six contains the study's discussion and conclusion. Section seven will focus on the study's ramifications and future research.

Literature review

Institutional shareholders in Malaysia. Institutional investors have surpassed retail investors as the most significant shareholders in Malaysia (Qasem, Aripin, Wan-Hussin, & Al-Duais, 2021), demonstrating that the firm in which they have invested has solid corporate governance. Since 1997, when the Asian financial crisis struck and harmed many Malaysian firms that were already fighting to remain in business, institutional investors have improved. After the incident, a post-crisis review highlighted a problem with corporate governance in Malaysia (Singam, 2003). Part 3, paragraph 4.80 of the Malaysian Code of Corporate Governance (MCCG) 2007 clearly demonstrates institutional investors' role in corporate governance: "given the weight of their votes, how institutional shareholders use their power to influence the standard of corporate governance is of fundamental importance." Consequently, institutional investors must hold good corporate governance responsible. Principle 2 of the Malaysian Code of Institutional Investors (MCII) 2014, on the other hand, reiterates that institutional investors must actively monitor the performance of the firms in which they have interests, the quality of corporate reporting, and the preservation of high company value.

They are seen to be in a unique position to influence the firms in which they invest. According to Li, Zhang, Zhao, & Zhu (2022) and Zhu, Huang, & Bradford (2022), institutional investors have greater clout when it comes to persuading listed businesses to modify their corporate governance practises. Businesses that are contacted by institutional investors are more likely to reveal more information than those that are not solicited (Lin, Song, & Tan, 2017). Since institutional investors control more shares in a firm than individual and small investors, this is the case. Monitoring initiatives may assist institutional investors in identifying concerns early on and taking extra actions to reduce the likelihood of agency conflict. Danger may be controlled if the source is detected early on (Aven, 2016). As a result, institutional investors' active participation may assist reduce any loss of shareholder value (Guimaraes et al., 2019; Oehmichen, Firk, Wolff, & Maybuechen, 2021).

The Malaysian government has strict control over the institutional investor sector, which is dominated by large federal investment organisations known as Government Linked Investment Companies (GLICs). The Institutional Investors Council Malaysia 2018 has developed a list of Malaysia's biggest public institutional investors. Employees Provident Fund (EPF), Lembaga Tabung Angkatan Tentera (LTAT), Permodalan Nasional Berhad (PNB), Lembaga Tabung Haji (LTH), Social Security Organisation of Malaysia (SOCSO), Malaysian Association of Asset Managers, Malaysian Takaful Association, and Private Pension Administrator Malaysia are among those on this list. Permodalan Nasional Berhad (PNB), Lembaga Tabung Haji (LTH), Employees Provident Fund (EPF), Lembaga Tabung Angkatan Tentera (LTAT), and the Social Security Organisation of Malaysia are the most notable institutional investors under the government supervision. They together possess 70% of all institutional shares (Hafizah, Che Zurina, & Wan Nordin, 2016).

Apart from government-backed funds, there are international pension funds and pension plan funds owned by local firms, such as the Tenaga Nasional Berhad Retirement Benefit Trust and the Public Bank Officers' Retirement Benefits Fund. Moreover, the trust unit or mutual fund business in Malaysia has risen by 310.5 percent from RM87.3 billion in 2004 to RM354.4 billion in 2016 (Ming, Foo, Gul, & Majid, 2018). The Minority Shareholder Watchdog Group (MSWG) and the Securities Commission (SC) concluded the amended Malaysian Code for Institutional Investors in 2014 to assist institutional investors in observing investee companies and making investment decisions by fusing sustainability and corporate governance concerns.

Agency theory. Jensen and Meckling's (1976) agency theory outlines the relationship between the principle and the agent. Agency theory has made major contributions to our understanding of incentive structure and information usage in contractual contexts containing uncertainty (Panda & Leepsa, 2017). The principal-agent connection is referred to in agency theory. Principals, according to this view, transfer decision-making power to agents. When this theory is applied to company management, the "principals" are the investors who put money or other assets into the firm and anticipate a return on their investment. The agent, on the other hand, is referred to as a "director," which refers to executive directors or corporate managers who work directly for the corporation and are not independent. The company's activities are managed by agents. The CEO is usually in charge of the firm, and the executive and senior management report to him (Hakovirta et al., 2020). They have business experience and information that can be used to generate the return that investors want (Fama & Jensen, 1983). Figure 1 depicts the agent-principal connection.

Since the agent-principal connection is not symmetrical, this theory views ownership and control as distinct concepts. It occurs when the principal and the agent have disparities in their

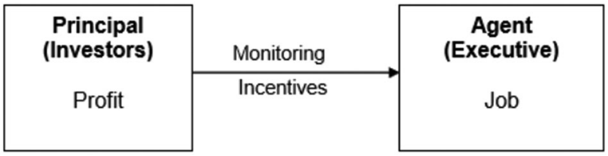

Fig. 1 The agent-principal relationship.

knowledge (Cole, Eisenbeis, & McKenzie, 1994; Wohlfart et al. (2021). As a result, there may be a conflict of interest between investors and firm executives. In this research, the agency theory is used between institutional investors (the main) and management, often known as corporate managers (the agent).

Agency conflict. According to Jensen and Meckling's (1976) agency theory, corporate managers are granted the ability to govern and make choices for the firm on behalf of the primary, the shareholders, or investors. On behalf of the shareholder, the agent must exert reasonable diligence, care, and skill. But, due to the agent's self-interest, principal-agent difficulties develop. "Agency conflict" or "agency problem" refers to the difficulties in persuading the agent to behave genuinely on behalf of the principal. The principle cannot order the agents to always work in the best interests of the parties since the two parties have opposing aims and the agents have greater knowledge. It is especially applicable when exercises in consideration of the principal are costly for the agent and portions of what the agent performs are prohibitively expensive for the principle to monitor.

Agency conflict has been documented in a broad range of academic subjects. For instance, accounting (Al-Saidi, 2020; Ronen, Kashi, & Balachandran, 1995), finance (Fama & Jensen, 1983; Rinaldo & Puspita, 2020), economics (Jensen & Meckling, 1976; Kusumadewi & Wardhani, 2020), political science (Brando de Oliveira, Getulio Vargas, & Brasileira de, 2017; Hammond & Knott, 1996), sociology (Tate, Ellram, Bals, Hartmann, & van der Valk, 2010; Wiseman, Cuevas-Rodríguez, & Gomez-Mejia, 2012). In general, agency conflict arises when managers' goals vary from those of the shareholders, such as maximising their wealth, avoiding risk, or being opportunistic. Due of the presence of the agency issue in numerous sectors, this theory has developed as an important theory in corporate governance.

Agency cost. Internal expenditures incurred because of conflicting principal and agent interests, such as the costs of settling this issue and sustaining the relationship, are referred to as agency costs. To solve agency issues, the principle was obliged to develop monitoring tools and controls at the expense of the firm. According to Jiraporn et al. (2008), there is an inverse link between agency expenses and profit management. In other words, when agency expenses decrease, a manager's chances of profit improve.

Some previous research revealed that institutional investors were more motivated to watch management since the advantages of their efforts surpassed the expenses they were prepared to incur (Huo, Lin, Meng, & Woods, 2021; Liu, Low, Masulis, & Zhang, 2020; Shleifer & Vishny, 1986). Since institutional investors often have bigger investment money than small investors, the costs of shareholder activism by institutional investors may be paid (Gillan & Starks, 2007).

Institutional investors must take an active part in dealing with agency concerns in this research. They act as a tool for resolving the agency conflict caused by separate ownership and control rights. When institutional investors actively utilise their voting rights to monitor compliance with corporate governance laws and shareholder participation via conversation, costs may be spent.

Conceptual framework and hypothesis development

Agency conflict in Malaysia. The Malaysian media has lately focused on various business scandals. A series of mini-Enron scandals hit Malaysia a few years ago, exposing important people in corporate governance, including directors, managers, and auditors (Leong Hua & Ragayah, 2007; Mohamad Ezrien Mohamad Kamal, Mohd Fairuz Md Salleh, & Azlina Ahmad, 2016). The public outpouring of wrath in response to the scandals surrounding Perwaja Berhad, Renong Berhad, and Technology Resources Industries Berhad (TRI) has proven that the lack of corporate governance was a crucial factor in the death of these businesses (Abdul Rahman, 2013). Despite the greatest efforts of Malaysian government to develop corporate governance in Malaysia, governance concerns exist even after the Malaysian Code on Corporate Governance (MCCG) was established in 2000 and improved in 2007. For example, when Sime Darby Berhad's Energy and Utilities Division faced losses in the middle of 2010 due to budget overruns on four projects, the Malaysian public was shocked to find that the business may lose up to RM964 million in profits.

Therefore, Malaysian authorities, such as the Securities Commission (SC), examined the MCCG 2007 and developed the Corporate Governance Blueprint (the "Blueprint") in 2011 and the Malaysian Code of Corporate Governance (the "MCCG") in 2012. Yet, recent scandals covered by The Star and The New Straits Times have impacted Telecom Malaysia (TM) and Felda Global Ventures (FGV) (Mohd Khuzairi & Amanuddin, 2017). In Malaysian public enterprises, power abuse, bribery, and fraud have happened.

The governance rule was examined and amended as needed by the authorities. Malaysia enacted the Malaysian Code of Institutional Investors (MCCI) in 2014, and it was amended in 2017 and 2021 to guarantee ongoing relevance and consistency with generally recognised best practises and standards. Unfortunately, the question of agency endures. Malaysian International Shipping Company Berhad (MISC) was charged with bribes totalling RM 105.8 million in 2021, as did Caely Holdings Berhad, whose founder and managing director were charged with misappropriating RM 30.55 million. As of 2021, the Securities Commission Malaysia confirmed that 22 investigations into publicly traded companies had been completed, with 136 administrative sanctions imposed for various misconduct and violations of securities law (Securities Commission Malaysia, 2021), indicating the emergence of a problem with agencies in Malaysia.

Investors may lose trust in Malaysian publicly listed firms if there are ongoing issues with corporate governance that impact how the company is operated. It is because while making investment selections, Malaysian investors often assess potential firms utilising all relevant financial and non-financial information (Ann Ley, Fathyah & Zaini, 2019). Furthermore, the 1Malaysia Development Fund Bhd (1MDB) scandal, for example, is probably the greatest corruption case ever documented. Billions of cash in its accounts, as well as earnings from bribery and bond pricing, have been looted and laundered because of false representations made by its executives and others. The scandal eroded public faith in politicians and government institutions. (Jones, 2020).

H1: In Malaysia, there is a significant level of agency conflict between publicly traded companies.

Institutional investors roles (voting, monitoring, and engagement) and agency conflict

Exercise voting right. Voting at shareholder meetings is seen as an essential aspect of corporate governance and one of the most significant avenues for shareholders to communicate with the company's management. Since they represent minority shareholders, institutional investors typically have holdings big enough to impact the result of an annual general meeting vote. As a result, they are expected to act as gatekeepers and prevent the approval of unwanted transactions, i.e., deals proposed by management that may be self-serving. When asked to vote on such proposals, shareholders, particularly institutional shareholders, are given with several moral and ethical options. They suffer a bigger share of the proposed deal's costs since they possess a substantial investment in the firm. Because of these conditions, they are obligated to vote in the best interests of the shareholders.

The Companies Act of 2016 regulates shareholders' rights to attend and vote at general meetings. The number of votes that shareholders are entitled to cast is determined by the number of shares they possess. Consequently, in terms of voting power and influence over invested corporations on agency matters, institutional investors are the most powerful shareholders. Hafizah et al. (2016) institutional investors own shares in 69.4% of Malaysian listed businesses, demonstrating that given the magnitude of the assets they possess, institutional investors may penetrate portfolio ownership structures. Voting at shareholder meetings is an important tool of corporate governance and one of the most important ways shareholders interact with company management. McCahery et al. (2016) discovered in a study of institutional investors that institutional investors perceive corporate governance as bottom-line and that many of these institutions are inclined to participate in shareholder activism via the proxy process.

Clifford (2008) and Klein & Zur (2009) also investigate the activism of individual funds that engage in anti-management votes, such as pension funds and hedge funds. Fos (2016) demonstrates that proxy contests have a role in an executive's reprimand. Gantchev (2013), on the other hand, points out that proxy fights are costly and that, on average, monitoring costs exceed activist advantages. Iliev and Lowry (2015) certain kinds of funds put in substantial effort to understand corporate-level governance concerns and then vote appropriately. It implies that when it comes to corporate decisions involving conflicts of interest, voting power encourages institutional shareholders to oppose management and vote the correct alternative, that is, to vote against a proposal that appears to be against the best interests of the company on the surface.

H2: Agency conflict and institutional investors' participation in voting rights are associated.

H2a: Voting rights are considered vital roles in mitigating agency conflict.

Monitoring. Apart from exerting voting power, institutional investors may engage in a number of governance practises and have a variety of investment horizons, all of which may affect how well a firm operates (Dasgupta, Fos & Sautner, 2021). Sakawa & Watanabel (2020) and Tee (2019), the monitoring function of institutional investors may increase corporate governance quality and business value. For example, institutional investors with short-term or temporary holdings, rather than interfering, maintain a watch on enterprises via "exit" or informed selling (Edmans, 2014). Committed or long-term institutional investors, on the other hand, actively engage in or otherwise "express" their concerns about corporations, making them more inclined to favour openness and transparency (Switzer & Wang, 2017). Ownership is inadequate, according to Malaysian research (Abdul Jalil & Abdul Rahman, 2010). Institutional investors must participate in shareholder activism to be successful as outside monitors. In other words, rather than just voting, institutional investors would be better able to protect the value of their interests if they engaged in shareholder activism (engagement and monitoring).

H3: Agency conflict and institutional investors' roles in assessing whether listed companies' corporate governance is complying are linked.

Dialogue engagement. Shareholder involvement, according to Çelik & Isaksson (2014) and McNulty & Nordberg (2016), is a great practise that can lead to effective governance in publicly listed organisations. One of the suggested shareholder interactions is meaningful discussion with publicly listed firms, referred to as investee companies under the Malaysian Code of Institutional Investors (2014). The goal of the conversation is to safeguard and increase the wealth of the shareholders. Although hedge fund activists may benefit from cordial conversations with management (and therefore resemble significant shareholders), they can also be openly hostile with target boards when they consider them to be entrenched (Brav et al., 2008). Additionally, governments and other global shareholders have put pressure on institutional investors to begin interacting with their investment firms (Mallin, 2016). Semenova & Hassel (2019) behind-the-scenes communication may increase a company's performance and transparency. Board-shareholder interaction is an important engagement mechanism that enables institutional investors to fulfil their stewardship responsibilities (Strampelli, 2021). The conceptual framework of Fig. 2 depicted the hypotheses of the study.

H4: Agency conflict and institutional investors' participation in dialogue-based engagement are linked.

Methodology

Sample and data collection. This study's sample consists of 201 firms that are traded on the main market of Bursa Malaysia. Consumer goods, industrial products, construction, commerce and services, real estate, plantations, technology, infrastructure, finance, hotels, and real estate investment trusts are the eleven categories in which Bursa Malaysia classifies its listed firms (REITs). For this investigation, no industries were omitted from the sample. The unit of analysis for this research is corporate executives who are engaged with and accountable for institutional investors' investments in their firms. The investigation was quantitative since it only used numbers. This approach was chosen by the researchers as the best for evaluating hypotheses about the connections between variables.

A quantitative technique may also be employed if the research must be double-checked or repeated. The data for this investigation were analysed using statistical software. The data were analysed using the Statistical Software for the Social Sciences (SPSS) by the researchers. A pilot study is required as part of a suitable research design. Johanson and Brooks (2009) the best sample size for pilot research is 30. To establish dependability, a pilot study was done on 60 listed businesses in Bursa Malaysia's Main Market. It was discovered that eight institutional investors made significant investments in 201 publicly traded firms. Table 1 covers the top 201 publicly traded firms' institutional shareholders.

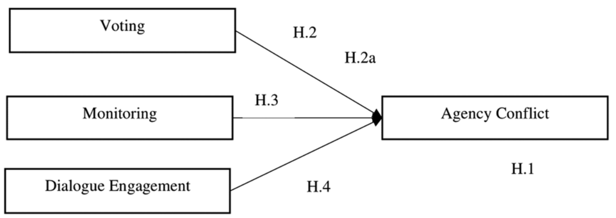

Fig. 2 Conceptual framework and hyphoteses of study.

Dependent variables. The responsibilities of institutional investors in the reactions of corporate executives imply agency conflict. The response rating reflects management's ability to react to institutional investor demands for information disclosure, information asymmetry, decision-making, and institutional investors' involvement in convincing management. The company's management ranks the amount of agency conflict on a scale of one (strongly disagree) to five (strongly agree) (strongly agree). The agency's conflict level was determined using a mean analysis.

Independent variable. The major independent variables are the responsibilities of institutional investors. For the purposes of this study, institutional investors' roles can be defined as voting, expressing dissatisfaction and frustration, making suggestions, maximising good practises through compliance with corporate governance codes, and attempting to communicate through dialogue, as suggested by (Brav et al., 2008). In this research, just three institutional investor functions drawn from the Code of Institutional Investors will be investigated further: voting, monitoring, and conversation involvement.

Responses for all three independent variables were provided on a Likert scale ranging from one (strongly disagree) to five (strongly agree) (strongly agree). Voting rights are used to regulate agency conflicts and demonstrate how important the number of shareholdings is dependent on how actively and fiercely institutional investors perform their responsibilities. Monitoring dependent variables may be measured by sending a representative to the board, observing the share price of the company, and keeping an eye on how the businesses are operated. Regular discussion to grow and safeguard shareholder value, improved access to firms at any time, and active engagement to prevent agency conflict include dialogue engagement measurement. The association between institutional investor roles and agency conflicts will then be measured using correlation and multiple regression.

Reliability and validity of study. The test was carried out to assess the validity and reliability of the research. The significance of KMO and Bartlett's Test findings should be less than 0.6, but their validity should be more than 0.6. The KMO value for this research is 0.914, suggesting that there is no problem with validity, and the significant value is 0. Therefore, the data has an accurate factor analysis.

The Cronbach's alpha test may be used by researchers to determine how stable and consistent test findings are. According to Uma and Roger (2016), a reliability coefficient closer to 1.00

Table 1 Summary of largest institutional shareholders.

Largest institutional investor	Institutional investors investment percentage
Social Security Organization (SOCSO)	22.4%
Lembaga Tabung Angkatan Tentera (LTAT)	27.4%
Tabung Haji (TH)	19.9%
Kumpulan Wang Persaraan (Retired Pension Fund) (KWAP)	26.4%
Amanah Raya Trusteee Berhad (ART)	22.9%
Khazanah Nasional Berhad	18.4%
Permodalan Nasional Berhad (PNB)	18.9%
Employee's Provident Fund (EPF)	25.4%

Table 2 Mean and standard deviation.

Variables	Mean	Standard deviation
Agency conflict (DV)	3.8657	0.75078
Voting (IV1)	3.7711	0.81654
Monitoring (IV2)	3.4637	1.00753
Engagement (IV3)	3.5796	1.00275

implies strong reliability, a reliability coefficient less than 0.60 is bad, a reliability coefficient in the range of 0.70 is acceptable, and a reliability coefficient more than 0.80 is excellent. The test findings reveal that each variable, such as voting rights (0.801), monitoring (0.929), conversation involvement (0.915), and agency conflict, has a good and consistent Cronbach's Alpha score (0.874).

Findings of study

Mean and standard deviation. The standard deviation describes the spread of the data. If most of the data points are clustered around the mean, then the standard deviation will be slight; if the data points are widely dispersed, it will be significant. The mean value represents the level. If the mean is near five, the variables will be at a higher level (Field, 2013). The Likert scale used in the survey allows for the results to be interpreted as interval data, with the mean serving as an appropriate indicator of central tendency (1.00–1.99: low; 2.00–2.99: moderate; 3.00–3.99: high; 4.00–4.99: very high).

According to Table 2, the mean of the dependant variable (agency conflict) was 3.8657, with a range of 3.00 to 3.99. 0.75078 was the standard deviation. Consequently, the output demonstrated that agency conflict was prevalent among publicly listed corporations. With a standard deviation of 0.81654, the mean for voting among the independent variables was 3.7711. To put it another way, respondents said voting was the most significant function in resolving agency disagreement. The mean value for the monitoring job was 3.4637, with a standard deviation of 1.00753, suggesting a high degree of monitoring. Lastly, the engagement role had a mean value of 3.5796 and a standard deviation of 1.00275, suggesting a high degree of involvement. The results highlighted the significance of institutional investor participation in resolving agency dispute. The standard deviations of all variables are scattered around the mean.

Pearson correlation analysis. Uma & Roger (2016) correlations should be utilised to analyse the relationship between variables. Correlation analysis investigates how the model's dimensions are related and whether the relationships between the constructs are highly correlated (multicollinearity). The correlation, denoted by the r, can range between ±0 and ±1. The value indicates the relationship's strength, whereas the symbol indicates its direction. To comprehend, we must consider the statistical significance of r's significance. In addition, $p < 0.05$ would be accepted as the criterion for rejecting the null hypothesis that there is no association between the two variables. The correlation between values near 1.00 is perfect / the correlation is significant. If proximity to 0.00 indicates a weak association.

Table 3 depicts the associations between the studied variables. Voting and agency have a positive relationship, $r = 0.355$, p 0.01. This partnership was seen to be beneficial. Voting is related to agency dispute resolution. Since $r = 0.355$ fell between 0.20 and 0.40, it was deemed a modest correlation. The monitoring function was related to agency conflict in a positive and significant way, $r = 0.518$, p 0.01. This partnership was seen to be beneficial. There was a moderate correlation since $r = 0.518$ was between 0.40 and 0.60. The involvement in discussion and agency conflict exhibited a positive association, $r = 0.654$, p 0.01. The active participation of institutional investors helps in the management of agency conflict. The association was strong, with a r value of 0.654. According to the correlation research, there were no difficulties with multicollinearity since the correlation coefficient for any variable was less than 0.80 (Hair, Black, Babin, & Anderson, 2010). Most research hypotheses are supported by these relationships.

Table 3 Pearson correlation.

Variables	IV1	IV2	IV3	IV4
Agency conflict	(0.874)			
Voting	0.355**	(0.801)		
Monitoring	0.518**	0.674**	(0.929)	
Engagement	0.654**	0.388**	0.388**	(0.915)

**Indicates that the correlation is significant at 0.01.

Table 4 Coefficients[a] of agency conflict.

Model	Unstandardised standardised Coefficients			t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.925	0.198		9.729	0.000
Voting	−0.065	0.064	−0.071	−1.013	0.312
Monitoring	0.221	0.056	0.297	3.963	0.000
Engagement	0.397	0.045	0.530	8.840	0.000

[a]Dependent variable: agency conflict.

Multiple regression analysis. Uma and Roger (2016) noticed that regression is used when it is thought that a variable that is not dependent on the other variables affects the dependent variable. Multiple regression uses multiple independent variables to explain variation in the dependent variable. It gives a method for determining the degree and nature of the link between independent and dependent variables.

Table 4 demonstrates that voting power and agency conflict have no relationship ($p > 0.001$). The function of voting is not required for understanding or decreasing agency conflict. Second, among publicly traded businesses, monitoring demonstrates a positive, =0.297, and significant, p 0.001 link to control agency conflict. As a result, monitoring duty aids in the prevention of agency conflict. The regression coefficient for discussion involvement was positive (=0.530) and statistically significant (p 0.001), indicating that it is connected to managing agency conflict. The threshold of significance should be <0.05. If the value is >0.05, the independent variable does not have a strong or significant link with the dependent variable. Both monitoring and conversation involvement are 0.00. Therefore, it was discovered that both were the most effective approaches for institutional investors to deal with agency conflicts.

Discussion and conclusion

This research investigated how prevalent agency conflicts are in Malaysian public firms and how institutional investors might assist in their resolution. The information was acquired via a questionnaire sent to corporate executives. The results show that Malaysian institutional investors collaborate with agent-invested enterprises to prevent any conflicts of interest. The major goal of institutional investors in Malaysia is to reduce the possibility of agency conflict.

The analysis is based on agency theory and the MCII's description of the responsibilities of institutional investors' activism. Brav et al. (2008) active owners are an important component of a single theory of agency conflict. The study's agency conflict hypotheses outline the agents who may have a conflict of interest, which may lead to uneven knowledge and jeopardise company operations on both ethical and financial grounds.

As can be shown, Malaysian publicly traded corporations have a high degree of agency conflict. In other words, firm leaders are quite likely to make judgements that benefit them. That is consistent with the results of Mustapha & Che Ahmad (2011) on agency conflict concerns in Malaysian publicly listed corporations. Moreover, the findings of this research contradict Banchita, Abdullah, & Ali (2017)'s contention that principal-agent conflict is not an agency issue in ASEAN 5, which includes Malaysia, but rather shareholder conflict.

Numerous thorough corporate governance changes have been implemented, and some argue that this is due to cultural differences. Agents in non-Western countries may not exhibit the standard traits indicated by agency theory (Mustapha & Che Ahmad, 2011). Additionally, some academics contended that national institutional elements like economic circumstances influence corporate governance patterns (Mcnulty, Zattoni, & Douglas, 2013). The outcomes of this research, however, show differently. When ownership and control are separated, agent conflict of interest becomes a worldwide concern. Humans are selfish regardless of society. It causes individuals to concentrate only on their own fulfillment, disregarding standards and principles (Levine, 2005). Several agency disputes in Malaysia, particularly with GLCs, were sparked by wealthy politicians seeking to increase their wealth. Even non-GLCs have more affluent business executives. It might explain why greed is associated with conflicts of interest such as fraud (Awalluddin, Nooriani, & Maznorbalia, 2022), dishonesty (Cohen et al., 2009), corruption (Rose-Ackerman, 1999), and other immoral behaviour (Seuntjens, Zeelenberg, van de Ven, & Breugelmans, 2019).

Except for H2A, all assumptions about the involvement of institutional investors in voting, monitoring, and conversation participation were supported. According to earlier research, the findings suggest that institutional investors and their active participation reduce agency difficulties (Lo, Wu, & Kweh, 2017; Tee, 2019). The H2A theory was rejected, and other hypotheses were offered. Monitoring and discussion engagement was successful in reducing agency conflict. Similarly, Muhammad Aiman (2020) found dialogue participation to be a successful technique for shareholder activism in publicly traded Malaysian corporations. Sandberg (2011) specifies that corporations must disclose their shareholder action as part of the conversation process. The benefit of conversation is that it fosters effective two-way communication between firm executives and investors, allowing sensitive information to be disclosed, information gaps to be closed, and transparency to be enhanced via question-and-answer sessions. Hyland-Wood et al. (2021) successful communication is suited to the demands of varied audiences, developing and maintaining trust for both sides, which is critical for long-term success.

Hartzell and Starks (2003) institutional investors with larger ownership can better monitor a firm since it costs less to organise monitoring operations when there are more of them. Hardin also discovered that active monitoring by institutional investors increases a company's worth and inhibits agencies from warring with one another. Consequently, the findings of this study support previous research by Hardin, Nagel, Roskelley, & Seagraves, (2017) and Wang & Wei (2019) that suggests monitoring is an effective strategy to prevent agency issues. Active monitoring enhances information quality, lowers information asymmetry issues, and has a significant impact on how businesses operate. Switzer and Wang (2017) found that corporations with a bigger base of long-term institutional investors maintain lower investment expenditures, greater dividend payments, lower cash levels, and more leverage.

This research attempted to identify evidence of the agency issue in Malaysian publicly listed corporations. It also investigated how institutional investors cope with the issue of agency. With Malaysia's publicly listed corporations, there are a lot of agency conflicts, which is comparable to how corporate challenges are becoming worse right now. It suggests that Malaysian business executives have a proclivity towards unethical behaviour. Hence, rather than depending on the corporate governance methods stipulated under Malaysia's governance structure, institutional investors must take an active role, even if it means behaving forcefully. The conclusions of the research are critical for Malaysia's institutional investors and government entities. It advises investors to proceed with great care and to be prepared to engage forcefully with their invested firms to defend shareholder wealth.

Research implications and future research

Various perspectives on what this research signifies for policy and practises. Institutional investors must do more to assist and encourage firms to have a robust corporate governance structure. Institutional investors must collaborate with firms and monitor the board of directors and senior management to ensure that enterprises are conducted in a manner that delivers long-term value. To control agency conflict, institutional investors must serve as a monitor or gatekeeper. Moreover, when dealing with a greedy human nature, aggressive roles may prevent unethical behaviour from manifesting. Continuous surveillance and the dispatch of representatives from institutional investors, for example, may indicate to business executives that they are being monitored. It also acts as a warning to investors to be cautious about their investments. Additionally, by using their voting rights, investors may influence the business agenda towards CSR initiatives and engagement, thereby encouraging corporate executives to avoid high-risk investment projects. Ultimately, through participating in discourse, investors not only interact but also obtain trustworthy information about the company's path.

This study has limitations, and further research is required. The first constraint is related to the study's independent variables. This study investigates the voting, monitoring, and involvement functions of institutional investors. However, there are numerous other roles that institutional investors can play to address the agency problem, such as engaging in massive share transactions that affect the price of securities, conducting pre-investment screening that may impact a company's governance system, and engaging in proxy wars. The second limitation of this research is the use of agency theory. The agency hypothesis is used to investigate the connections between managers and shareholders. This hypothesis does not sufficiently explain the role of institutional investors as substantial shareholders in corporations. Furthermore, the results cannot be applied to other nations since each has its unique governance processes and regulations that impact business management behaviour and investor responsibility. As a consequence, comparable study in other nations should be encouraged in order to compare and generalise the findings.

Data availability

All data generated or analysed during this study are included in this published article.

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Competing interests

The authors declare no competing interests.

Ethical approval

The study received ethical approval from the Faculty of Administrative Science and Policy Studies, Universiti Teknologi MARA for Master Dissertation's completion. Also, the research was performed in accordance with the Declaration of Helsinki. The questionnaire's contents were all multiple-choice questions with clear instructions that did not involve ethical issues. The authors are concerned about the rights, confidentiality, and dignity of all survey participants. The datasets do not contain any personal information about the participants who provided informed consent.

Informed consent

Letters were sent to each of the organization for approval, informed consent, and data collection. When approved, a meeting was set up for study's explanation and data collection with organization permission. Therefore, all participants provided informed consent for this study.

Additional information

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