

The Study of Corporate Social Responsibility and Ownership Structure on Bank's Financial Performance in Taiwan

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Abstract

This study investigates the relationship between corporate social responsibility (CSR), ownership structure, and financial performance in a sample of 14 domestic financial holding companies in Taiwan. The empirical data indicate that banks recognized with CSR awards demonstrate superior financial performance across all models compared to those without awards. Notably, the bank's practice of CSR, which signifies drawing from and contributing back to society, correlates with superior financial returns. In terms of large external shareholders, the institutional block-holders has a more pronounced impact as a monitoring mechanism compared to individual block-holders. The study also supports the convergence-of-interest hypothesis, indicating that the alignment of interests between the managerial insiders and the shareholders through equity ownership can bolster a company's financial performance.

Keywords : Corporate Social Responsibility (CSR), Ownership Structure, Financial Performance.

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1. Introduction

The financial sector plays a crucial role in driving social and economic development, deeply embedded within the larger workings of society. Encompassing a vast network of diverse stakeholders, it facilitates a wide range of collaborative activities, spanning from personal deposits, financing, and investment, to loans, insurance, and asset management. This extensive presence underscores the significant impact that the financial industry has on individuals' lives and the overall well-being of the economy. Consequently, the financial industry carries a profound responsibility to actively embrace and integrate "corporate social responsibility" (CSR).

The financial crisis has had profound repercussions on our economy and society. The financial crisis of 2007–2009, such as the Subprime mortgage crisis and the bankruptcy of Lehman Brothers, has had a huge impact on the global economy, prompting comparisons with the Wall Street Crash and the Great Depression. Despite regulatory failures and shortsighted borrowers, it is widely believed that the financial sector is at least partially responsible for the financial crisis. This crisis has ignited interest in the concept of CSR, prompting discussions about ethical behavior, risk management, and effective corporate governance within the financial industry.

From another perspective, these financial crisis events also demonstrate the insufficiency of companies' governance capabilities and the existence of loopholes in their risk control mechanisms. Corporate governance is the system that aims to reduce agency costs between managers and shareholders of a company. Agency costs refer to the expenses incurred due to conflicts arising between shareholders and managers, commonly known as the 'principal-agent problem'. A substantial body of financial literature (Shleifer & Vishny, 1997; Gompers, Ishii & Metrick, 2003; Balatbat, Taylor and Walter, 2004) demonstrates that the establishment of a sound governance system can lead to improved performance for companies. This is because an effective governance system aligns the interests of managers and owners (Fama and Jensen, 1983), resulting in enhanced operational performance and company growth (Shleifer and Vishny, 1997).

Ownership structure plays a crucial role in shaping the corporate governance system and addressing agency problems within a company. Existing finance literature (Shleifer and Vishny, 1986; Morck, Shleifer, and Vishay, 1988; Elyasiani and Jia, 2010; Ahmed and Hadi, 2017) explores various aspects of ownership structure, such as management or non-management shareholders, insider or outsider shareholders, concentration or decentralization of shareholders, and institutional or individual shareholders. The external block-holders can influence corporate strategy and operations through their significant voting power and control over the company's management team. The external block-holder ownership represents the shareholders' ability and motivation to monitor managers' activities, thereby

mitigating direct agency conflicts between shareholders and management (Friend and Lang, 1988; Vishny and Shleifer, 1986). The insider ownership, which encompasses board members, the CEO, and top managers, serves as a proxy for the alignment of interests between managerial insiders and shareholders through equity ownership. It reflects the management team's inner incentive to operate the firm effectively. Our research intends to delve into these structures to understand their influence on corporate financial performance and the overall efficacy of governance mechanisms within the financial industry.

In Taiwan's financial sector, there's a pronounced focus on actively championing CSR. This commitment is evident through methods like CSR reporting, educational initiatives, training programs, and various award and recognition schemes. The dominant perspective suggests that CSR can enhance a company's competitiveness, bolster its reputation, and strengthen its financial position, thereby exerting a positive impact on the company's financial performance (Preston and O'bannon, 1997; Margolis, Elfenbein and Walsh, 2009). In contrast to this argument, an alternative perspective proposes a negative correlation between CSR and firm performance. According to this viewpoint, CSR consumes a company's limited resources without yielding significant returns (Friedman, 1970). In other words, CSR initiatives or activities involve costs that may negatively affect profits. The costs of CSR activities encompass various aspects, such as environmental protection operations, improved working conditions, and pollution control, all of which can reduce a company's profitability. This study aims to investigate whether financial companies that have actively promoted CSR and received awards exhibit better financial performance.

In summary, the financial sector's pivotal role in the economy underscores the importance of understanding how proactive CSR initiatives and strong corporate governance can potentially influence a firm's financial performance within the industry. This research delves into the correlation between CSR, ownership structure, and the financial outcomes of 14 financial holding companies in Taiwan. We define CSR based on the distinction of receiving a CSR award and examine the effects of specific ownership features, namely the institutional block-holder ownership, the individual block-holder ownership, and the insider ownership. Our methodology involves four distinct regression models, each employing a different metric for firm performance (ROE, ROA, EPS, and Tobin's Q) as the dependent variable, with CSR, ownership elements, and other control variables serving as explanatory variables.

The article is structured as follows: Section 2 provides the review of relevant literature. Section 3 presents the data sources, variable definitions, and empirical models used. Section 4 discusses the preliminary analysis and presents the empirical findings. The concluding remarks are presented in the final section of the article.

2. Literature Review

2.1 Corporate Social Responsibility (CSR) and Financial Performance

CSR refers to a company's commitment to operating ethically and responsibly while considering its impact on society and the environment. The majority of academic research suggests that CSR yields net benefits for businesses (Preston and O'Bannon, 1997; Maqbool and Zameer, 2018). However, differing viewpoints exist. Some researchers have discovered a negative correlation between CSR and corporate financial performance (Cavaco and Crifo, 2014), while others found the relationship to be neutral (Mishra and Suar, 2010).

Preston and O'Bannon (1997) investigated the relationship between indicators of corporate social performance and financial performance within a comprehensive theoretical framework. Their findings, based on data from 67 large U.S. corporations for the period of 1982-1992, revealed strong positive relationships between CSR and financial performance. The authors suggested that CSR could help reduce firm costs, create value for stakeholders, and develop internal capabilities. Maqbool and Zameer (2018) examined the relationship between CSR and financial performance in Indian banks. The study utilized data from 28 Indian commercial banks listed on the Bombay Stock Exchange (BSE) for the period of 2007-2016. The results indicated a positive impact of CSR on the financial performance of Indian banks. This finding provides valuable insights for management, highlighting the importance of integrating CSR into the strategic intent of the business and transforming their business philosophy from a traditional profit-oriented approach to a socially responsible one.

On the other hand, Cavaco and Crifo (2014) utilized a final unbalanced panel sample consisting of 1,094 observations (approximately 300 firms per year) from 15 countries over the period of 2002-2007 to examine the relationship between CSR and financial performance. The study found a negative correlation between CSR and return on assets (ROA). This can be attributed to the fact that CSR expenditures result in additional costs for the company and divert funds from potentially more profitable investments. In a different context, Mishra and Suar (2010) conducted a study on Indian firms and found no significant relationship between CSR and financial performance, underlining that the correlation may vary across different cultures and economic contexts.

2.2 Ownership Structures and Financial Performance

The principal-agent problem in corporate governance arises from the disparity between dispersed shareholders (the principals) and influential managers (the agents). Managers might not always act in the best interests of shareholders and could misuse private information for personal gain. This misalignment can adversely affect the company's performance. Corporate governance seeks to address

this issue by ensuring the decisions of managers align with shareholders' interests.

Ownership structure is one of the important mechanisms for shaping the corporate governance system to reduce agency problems. In the literatures (Shleifer and Vishny, 1986; Morck, Shleifer, and Vishay, 1988; Elyasiani and Jia, 2010; Ahmed and Hadi, 2017), there are two common measurements of ownership concentration in a company: (i) the percentage of shares owned by the largest shareholders (the block-holder ownership) and (ii) the percentage of shares owned by the management team, including board members, the CEO and top managers (the insider ownership). The two measurements reflect two different aspects of the agency problem. The former represents the shareholders' ability and motivation in monitoring and supervising managers (external pressure), meanwhile the latter is a proxy for the inner incentive of the management team itself in operating the firm effectively (internal motivation).

2.2.1 Block-holder Ownership

Since external block-holders could influence corporate strategy and operations through their significant voting power and control over the company's management team, external block-holder ownership represented the shareholder's ability and motivation to monitor the manager's activities, thereby mitigating direct agency conflicts between shareholders and management (Friend and Lang, 1988; Vishny and Shleifer, 1986). *The monitoring hypothesis* argued that significant shareholders could carry out closer monitoring mechanisms, leading to better performance from managers in serving the owners' interests. On the contrary, Shleifer and Vishny (1997) proposed *the expropriation hypothesis*, which stated that the agency problem also existed among shareholders; controlling shareholders could appropriate or seize benefits that would otherwise have belonged to minority shareholders. The hypothesis posited that as ownership became more concentrated, the risk of such expropriation grew, potentially leading to diminished overall firm performance.

In the literature, the largest shareholders were classified into two groups: the institutional block-holders and the individual block-holders. Numerous studies noted a positive relationship between a firm's performance and the institutional block-holder ownership (Aggarwal, Demirgüç-Kunt, and Peria, 2011; Barzegar and Babu, 2008). Institutional investors had the ability to absorb and process information, which decreased information asymmetry. As a result, institutional block-holders were considered informed traders who could provide more effective monitoring than the less informed investors (Davis and Steil, 2001). Several empirical studies sought to evaluate the link between individual block-holder ownership and firm performance. However, the findings were mixed and inconclusive. Lins (2003) found a positive relationship between individual block-holder ownership and firm performance. His investigations demonstrated that individual block-holders could effectively

monitor to reduce agency problems and increase firm value. Haniffa and Hudaib (2006) and Ali and Lesage (2013) found a negative relationship between individual block-holder ownership and firm performance. They claimed that individual block-holders were motivated to expropriate company assets, exposing the company to risks that might damage its performance.

2.2.2 Insider Ownership

Jensen and Meckling (1976) argued that when the manager's shareholding ratio was high, if the company lost money, it would also damage its own interests, leading to a greater incentive to improve the company's operating performance and reduce the agency cost. DeAngelo and DeAngelo (1985) suggested that by holding high stakes in a firm, insiders might have resolved the asymmetric information problem related to investment opportunities. The stock held by insiders served as an effective incentive to enhance firm performance and align managerial interests with shareholder value. *The convergence-of-interest hypothesis* posited that, as the interests of managerial insiders and shareholders converged through equity ownership, a positive relationship arose between insider managerial shareholdings and firm performance. Conversely, *the entrenchment hypothesis* stated that the relationship between insider managerial shareholdings and firm performance was likely to be negative because larger insider managerial shareholdings could entrench and insulate insiders from the market's influence for corporate control. Fama and Jensen (1983) suggested that significant insider managerial ownership could create additional costs; when insiders owned a significant fraction of a firm's shares, they possessed considerable voting power, allowing them to influence their positions without risking employment or salaries. As a result, excessive insider managerial ownership might have had a negative impact on corporate performance due to the potential for manager entrenchment.

3. Methodology

3.1. Sample and Data

The data sample consists of quarterly data collated from 14 financial holding companies publicly traded on the Taiwan Stock Market. The dataset spans from the first quarter of 2009 to the second quarter of 2022, covering a total of 54 quarters. The financial indices, ratios, and control variables utilized in the analysis are derived from the Taiwan Economic Journal (TEJ) database.

3.2. Variables

The dependent variable in the model is financial performance, with ROA, ROE, EPS, and Tobin's Q used as proxies for financial performance. To examine the relationship between CSR and financial performance, a dummy variable is constructed using well-known CSR awards in Taiwan, such as the Global Views Corporate Social Responsibility Award and Excellence in Corporate Social Responsibility. Reputable experts from various fields evaluate companies annually based on four key dimensions: corporate governance, corporate commitment, social engagement, and environmental sustainability. Each dimension is individually scored, and companies excelling across all dimensions are selected as the annual award recipients. The CSR variable takes the value of 1 if the firm has won a CSR award in a given year and 0 otherwise.

To investigate the impact of ownership structures on financial performance, the institutional block-holder ownership (INS), the individual block-holder ownership (BHD), and the insider ownership (BOH) are used as explanatory variables. Firm size and leverage are included as control variables, which could also influence a firm's financial performance. The calculation methodology for all variables is provided in Table 1 below.

Table 1. Variables Definition and Measurements

Variables	Measurements
Dependent Variable (Financial Performance)	
ROA	Return on asset calculated by dividing the firm's earnings after tax and before interests by average of total assets.
ROE	Return on equity calculated by dividing the firm's earnings after tax and interest by average of total equities.
EPS	Earnings per share calculated by dividing the firm's net income by average of shares issued.
Tobin's Q	Tobin's Q calculated by dividing the market value of firm by replacement cost of firm's assets.
Independent Variable	
CSR	Dummy variable takes the value of "1" if the firm has won a CSR award, and "0" otherwise.
INS	Institutional block-holder ownership defined as the percentage of shares held by institutional investors.
BHD	Individual block-holder ownership defined as the percentage of shares held by large shareholders (those that held 10% and above).
BOH	Insider ownership defined as the percentage of shares held by board members, the CEO, and top managers.
Control Variables	
SIZE	Firm Size defined as the natural logarithm of total assets
DR	Debt ratio defined as the firm's total debt divided by its total assets.

3.3 Model

To produce empirical results, this paper constructs four models. In these models, ROA, ROE, EPS, and Tobin's Q are employed as dependent variables respectively. Meanwhile, CSR, INS, BHD, BOH, SIZE, and DB are used as explanatory variables across all four models.

Model 1

$$ROA_{i,t} = a_0 + a_1CSR_{i,t} + a_2INS_{i,t} + a_3BHD_{i,t} + a_4BOH_{i,t} + a_5SIZE_{i,t} + a_6DB_{i,t} + \varepsilon_{i,t} \quad (1)$$

Model 2

$$ROE_{i,t} = b_0 + b_1CSR_{i,t} + b_2INS_{i,t} + b_3BHD_{i,t} + b_4BOH_{i,t} + b_5SIZE_{i,t} + b_6DB_{i,t} + \varepsilon_{i,t} \quad (2)$$

Model 3

$$EPS_{i,t} = c_0 + c_1CSR_{i,t} + c_2INS_{i,t} + c_3BHD_{i,t} + c_4BOH_{i,t} + c_5SIZE_{i,t} + c_6DB_{i,t} + \varepsilon_{i,t} \quad (3)$$

Model 4

$$Tobin's\ Q_{i,t} = d_0 + d_1CSR_{i,t} + d_2INS_{i,t} + d_3BHD_{i,t} + d_4BOH_{i,t} + d_5SIZE_{i,t} + d_6DB_{i,t} + \varepsilon_{i,t} \quad (4)$$

Where $ROA_{i,t}$ is the return on assets for firm i in quarter t , $ROE_{i,t}$ is the return on equities for firm i in quarter t , $EPS_{i,t}$ is the earning per share for firm i in quarter t , $CSR_{i,t}$ is a dummy variable which takes the value of 1 if firm i if the firm has won a CSR award in a given year and 0 otherwise, $INS_{i,t}$ is the percentage of shares held by the institutional block-holders for firm i in quarter t , $BHD_{i,t}$ is the percentage of shares held by the individual block-holders for firm i in quarter t , $BOH_{i,t}$ is the percentage of shares held by board members, the CEO, and top managers for firm i in quarter t . $SIZE_{i,t}$ and $DB_{i,t}$ are the control variables firm i in quarter t .

4. Empirical Results

This section presents the empirical results of the study. It presents and analyses the descriptive statistics and OLS regression results.

4.1 Descriptive Statistics

Table 2 lists preliminary descriptive statistics for the financial performance, CSR, ownership structure and the control variables. The statistics reported include the mean, median, standard deviation, max and min. Given that we apply pooled regression, the data from all time periods and cross-sections are pooled together, resulting in a total of 756 data points. The table reveals several notable points. First, the mean of ROE is higher than that of ROA, which means that financial leverage can expand the company's profitability. Second, the standard deviation of ROE is higher than that of ROA. It's evident that ROE is much more variability than ROA due to financial leverage. The use of financial leverage will increase the company's profits and also increase the company's financial risks. Third, CSR is represented as a dummy variable, taking values of either 1 or 0. The average value of CSR is 0.437, which means that, on average, approximately 43.7% of financial holding companies are awarded for their CSR efforts each year. This indicates that financial holding companies in Taiwan are actively promoting social corporate responsibility.

Table 2. Descriptive statistics of research variables

	No. of obs	Mean	Median	Std. dev.	Min	Max
Financial Performance						
ROA (%)	756	0.180	0.17	0.159	-2.08	1.42
ROE (%)	756	2.073	2.11	1.644	-22.06	9.93
EPS	756	0.417	0.32	0.514	-1.55	5.01
Tobin's Q	756	0.133	0.12	0.076	0.03	0.63
Corporate Social Responsibility						
CSR	756	0.437	0	0.496	0	1
Ownership Structure						
INS (%)	756	68.946	69.91	9.825	43.14	86.88
BHD (%)	756	20.281	19.33	8.058	8.73	73.19
BOH (%)	756	13.948	7.35	14.713	0.99	73.91
Control Variable						
SIZE	756	18.804	18.85	0.903	16.46	20.62
DB (%)	756	90.711	92.62	5.841	54.23	96.82

4.2 OLS Regression Results

Table 3 summarizes the pooled regression results across four models and also presents the Variance Inflation Factor (VIF) values to check for multicollinearity.

Regarding the relationship between CSR and financial performance, the findings are as follows. In model 1, where ROA is the dependent variable, a coefficient of 0.024 at a 10% significance level suggests that companies recognized for CSR achieve higher ROA. Model 2, with ROE as the dependent variable, reveals a coefficient of 0.394 at a 1% significance level, indicating higher ROE for CSR-awarded enterprises. In model 3, the coefficient of 0.180 at a 1% significance level implies that companies receiving CSR recognition tend to have higher EPS. In model 4, the coefficient of 0.004 at a 10% significance level suggests that companies receiving CSR recognition tend to have higher Tobin's Q. Overall, the empirical results from all four models support the notion that CSR-awarded companies exhibit superior financial performance compared to non-awarded companies.

Furthermore, the study examines the relationship between ownership structure and financial performance, specifically focusing on the institutional block-holder ownership (INS). In model 1, a coefficient of 0.002 at a 5% significance level indicates a positive association between a higher institutional ownership shareholding ratio and ROA. Model 2 shows a coefficient of 0.013 at a 10% significance level, suggesting a positive relationship between institutional ownership shareholding ratio and ROE. In model 3, the coefficient of 0.001 is not statistically significant. In model 4, the coefficient of 0.001 at a 1% significance level implies a positive correlation between institutional ownership shareholding ratio and Tobin's Q. Overall, the empirical findings from three models support the idea that a higher institutional ownership shareholding ratio is positively linked to financial performance, indicating that higher institutional block-holder ownership is associated with higher financial performance in the financial industry.

Moving on to the relationship between the individual block-holder ownership (BHD) and financial performance, the results are mixed. The coefficients for Model 1 and Model 2 are 0.000 and 0.002, respectively, and neither is statistically significant. In model 3, the coefficient of 0.014 at a 1% significance level implies indicating a positive association between the individual block-holder ownership and EPS. However, model 4 reveals a coefficient of -0.001 at a 1% significance level suggesting a negative relationship between BHD and Tobin's Q. The inconsistent signs and significance of the coefficients across the four models indicate mixed empirical results for the individual block-holder ownership.

Lastly, the study examines the correlation between the insider ownership (BOH) and financial performance. In Model 1, a coefficient of -0.001 at 5% significance level suggests negative relationship between the insider ownership and ROA. Model 2, the coefficient of -0.008 is not statistically

significant. At a 1% significance level, Model 3 and Model 4 exhibit coefficients of 0.007 and 0.000, respectively, indicating a positive association between the insider ownership and both EPS and Tobin's Q. Two models suggest that the higher insider ownership is associated with improved financial performance.

Regarding the control variables, the coefficients for firm size (SIZE) in all four models are positive and statistically significant, indicating that larger firm size is associated with better financial performance. As for the relationship between debt ratio (DB) and financial performance, both Model 1 and Model 4 present negative coefficients, which are statistically significant at the 1% level. This suggests a negative relationship between ROA, Tobin's Q, and the debt ratio. Thus, it can be inferred that as the debt ratio increases, financial performance tends to deteriorate.

Multicollinearity refers to a condition where independent variables in a regression model exhibit high correlation. The Variance Inflation Factor (VIF) test is employed to detect multicollinearity problems. According to the collinearity diagnostic criteria set by Hair, Anderson, Tatham & Black (1995), a VIF value less than 10 is considered acceptable, indicating no significant multicollinearity problems among the independent variables. In this study, the VIF values for all four regression equations fall below 10, indicating that multicollinearity is not a significant concern. Consequently, it can be inferred that the independent variables in the study are not closely interrelated, ensuring that the estimation results are robust and efficient.

Table 3. Results of Regression of CSR, Ownership Structure and Company Performance

	Model 1 ROA	Model 2 ROE	Model 3 EPS	Model 4 Tobin's Q	VIF
CSR	0.024* (0.013)	0.394*** (0.141)	0.180*** (0.038)	0.004* (0.002)	1.514
INS	0.002** (0.001)	0.013* (0.008)	0.001 (0.002)	0.001*** (0.000)	1.884
BHD	0.000 (0.001)	0.002 (0.008)	0.014*** (0.002)	-0.001*** (0.000)	1.203
BOH	-0.001** (0.000)	-0.008 (0.005)	0.007*** (0.001)	0.000*** (0.000)	1.975
SIZE	0.019** (0.020)	0.322*** (0.083)	0.263*** (0.022)	0.013*** (0.001)	1.746
DB	-0.014*** (0.001)	0.005 (0.011)	-0.004 (0.003)	-0.013*** (0.000)	1.263
Constant	0.927*** (0.146)	-5.469*** (1.603)	-4.656*** (0.431)	1.022*** (0.028)	
Adjusted R^2	0.204	0.093	0.332	0.869	
Observations	756	756	756	756	

Reported values are test statistics with associated standard error in parentheses. ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

5. Summary and Concluding Remarks

This study examines the correlation between CSR, ownership structure, and financial performance within a sample of 14 domestic financial holding companies in Taiwan. The data covers a period spanning from the first quarter of 2009 to the second quarter of 2022, totaling 54 quarters. Aggregating data across all time periods and cross-sections, a total of 756 data points is compiled. The empirical findings are outlined as follows:

The empirical findings confirm a significant and positive correlation between financial performance and the adoption of CSR across all four models. These results are consistent with previous studies conducted by Preston and O'Bannon (1997) and Maqbool and Zameer (2018). The empirical evidence validates that the implementation of CSR practices indeed leads to enhanced financial performance within the financial industry.

By practicing "corporate social responsibility," the financial industry can gain an understanding of the interconnectedness between their environment, society, community, family, and employees. This self-regulating business model improves various aspects while simultaneously enhancing the corporate brand image and reputation. Internally, it also motivates employees, boosts morale, and deepens and broadens the relationship between the workplace and society. The financial industry not only takes from society and contributes back to it, but can also generate superior financial performance.

The significance of ESG (Environmental, Social, and Governance) has grown globally over the years, with Taiwan keenly embracing this trend. Post-2020, heightened concerns over climate change and environmental challenges prompted Taiwanese companies and the government to pursue more sustainable paths. ESG quickly became a pivotal element in Taiwan's corporate agendas and gained prominence in the capital markets. As ESG principles gain traction, CSR is being progressively seen as an integral part of ESG. This paper's findings validate that proactive engagement in CSR not only boosts a company's financial health but also supports the promotion of ESG initiatives that contribute to sustainable business operations.

Ownership structure plays a crucial role in shaping the corporate governance system and addressing agency problems. The institutional block-holder ownership and the individual block-holder ownership represent the ability and motivation of the external block-holder ownership to monitor and supervise managers (external pressure). Our empirical findings support the notion that a higher institutional block-holder ownership is positively associated with better financial performance in three models, which aligns with *the monitoring hypothesis*. However, the relationship between individual block-holder ownership and financial performance yields mixed results. It appears that institutional block-holders tend to play a more impactful role as a monitoring mechanism compared to individual

block-holders in the financial industry. This could be attributed to the capabilities of institutional investors to assimilate and process information, thus reducing information asymmetry. Therefore, the institutional block-holders, regarded as informed traders, are potentially able to offer effective monitoring, subsequently enhancing the financial performance of the company within the financial industry.

On the other hand, the insider ownership represents the internal motivation of the management team in effectively operating the firm. Our empirical findings support the proposition that a higher insider ownership shareholding ratio is positively associated with better financial performance in two models, in line with *the convergence-of-interest hypothesis*. As suggested by Jensen and Meckling (1976), DeAngelo and DeAngelo (1985), as interests of managerial insiders and shareholders converge through equity ownership, a positive relationship arises between insider managerial shareholdings and the firm performance.

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