

Institutional Investors and Firm Market Performance: A Comparative Analysis in a Selected Financial Market

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Abstract:- This study focused on investigating institutional ownership's impacts on financial sector firms' market performance. The research involved data selected from 12 financial sector companies in the US market. The data was gathered from official government websites and some database sites. This study finding release that institutional ownership structure had an important and significant effect on the selected companies' market performance. The aim is to discover the importance of institutional ownership structure on firms' ownership profile.

Keywords:- Institutional ownership, Firm market-based performance, Tobin's Q.

I. INTRODUCTION

The role of institutional investors has grown in the last decades by increasingly competition between asset managers (Conference Board, 2002). According to their report, invested equities by institutional owners in the capital market has been increased about three times in 2001 compared to the 1970 year. The percentage of them is 19.4% in 1970, while in 2001 this figure is 55.8%. Moreover, institutional investors are the main source of debt financing (Iglesias - Palau, 1999-2000).

(Iglesias - Palau, 1999-2000) thought that, pension funds in the equity market impact corporate governance positively in several ways: a) independent board members quantity have risen, b) monitoring and controlling costs have reduced because of developed publicly available information, c) shareholder conferences have been more relevant d) also, the preserving of bondholder has been made better.

(Gompers & Metrick, 1999-2000) found that in the stock market institutional ownership structure could help to predict its oncoming return and they provide this relation is derived from an estimated power of demand concluding from compositional changes towards institutional ownership structure. In general, this change intends to raise the demand for large organizations and lessen the demand for small organizations.

Considering above thought and reviewing the previous literatures, this study has reached the conclusion, the role of institutional investor has more in stock market, companies financial and market performance.

II. LITERATURE REVIEW

In the literature, some researchers claim that between institutional investors and companies market value have positive relation, others think the contrary to this opinion.

(Sakawa & Watanabel, 2020) studied Japanese market foreign and domestic institutional investors' effects over the corporations. They summarised their results in three points: Firstly, foreign and institutional investors are more efficient structure as monitors and controllers for Japanese companies. The next result is related to domestic and stable investors, being their monitoring and controlling functions are anticipated for the Japanese corporations. The last one is the monitoring role of foreign and institutional shareholders is presumed to enrich the companies which have higher development opportunities. However, (Thanatawee, 2014) examined institutional owners' crucial roles of the Thailand companies and after controlling of companies' characters and inside problems of companies, prove that assets held by domestic institutions are positive correlation with firm performance, while a higher proportion of foreign institutions in the company's ownership structure is correlated with lower firm value. These results are related to having more monitoring roles of domestic investors, but foreign institutional owners don't play an active role in management monitoring.

(Yeung, 2012) findings suggested considerable thoughts for policymakers and stock market participants. The findings are that institutional shareholders are experienced investors and can achieve more returns in any company events like merging, acquisitions, etc. But, generating higher returns don't create ideal outcomes in a company. Because the existing of institutional owners can make such an environment like "under-pricing and poor performance" cycle for issuers of young listed firms.

III. RESEARCH OBJECTIVE

The main purpose of this study is to evaluate the firm market value and its institutional ownership structure relationship. This research will achieve its aim by using multiple linear regression models and other statistical tests.

IV. METHODOLOGY

The quantitative methodology is suitable for this study. This research was aimed to analyze and validate the previously proposed theory. In this study, statistical methods were used and different analytical tests were utilized to examine for gathered data in the IBM SPSS 26.

(Thomsen & Pedersen, 2000) and (Jusoh & Ahmad, 2014) examined the correlation between the institutional ownership and companies' market performance, and resulted in the concentrated institutional ownership structure had a significantly positive influence on the market performance of firms. In this paper, it was used a similar equation to Jusoh & Ahmad's equation (2014) but with some changes. Thus, the effects of institutional investors on firm market-based performance with the following model was studied:

$$TOBIN'S Q = \alpha + \beta1INS + \beta2LEVG + \beta3SLSGrowth + \beta4PRFT + \epsilon$$

- Tobin's Q - firms market performance indicator
- α - constant
- β1...β4 - coefficients of variables.
- INS - % of institutional ownership
- LEVG - leverage
- SLSGrowth - sales growth
- PRFT - profitability
- ε - error term

This study primarily concentrated on the medium-sized and up to 40 years listing companies from financial sectors in US market. Companies financial and stock data were

covered 2015-2017 financial years' figures. The main point for these companies was percentage of institutional investors on companies' ownership structure.

➤ *Sample Size*

In this study was used secondary data resources. They were companies' annual reports and statistical reports, also data obtained various government websites (<https://www.sec.gov/>) and database sites like YCharts and Fintel. Selected listed firms' financial figures were prepared according to GAAP standards. The samples for this research were chosen from the 12 financial sector firms' data, and the number of samples were 36 according to 3 years information.

➤ *Variables*

Tobin's Q was the dependent variables in this study and was calculated with the (Chung & Pruitt, 1994) approximate Q equation:

$$Q = (MVE + BVL) / (BVE + BVL)$$

Institutional investors percentage, sales growth, profitability and leverage ratio were served as the independent variables. Percentage of institutional owners in the companies were computed by held by institutional owners' shares to common ordinary shares in yearly base.

➤ *Data analysis*

To define how correlated independent variables, reveal with the correlation coefficient matrix and general guide for this matrix is if the two variables are related with each other at more than 0.9, it is problem for the analysis (Katz, 2006).

		Correlations				
		Tobin's Q	Growth	LEVg	PRFT	INST.own
Pearson Correlation	Tobin's Q	1.000	-.056	.250	.673	.382
	Growth	-.056	1.000	-.023	.004	.023
	LEVg	.250	-.023	1.000	.087	-.213
	PRFT	.673	.004	.087	1.000	.261
	INST.own	.382	.023	-.213	.261	1.000

Fig 1:- Pearson Correlation matrix.
Source: IBM SPSS 26.

The above figure illustrates that, it doesn't exist any multicollinearity problems among independent variables, because of all independent variables are correlated with each

other not more than "0.8". In the next table (Table 4), VIF value will be analyzed for the detailed approach to multicollinearity issue.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change
1	.752 ^a	.566	.510	.030083	.566

a. Predictors: (Constant), INST.own, Growth, LEVg, PRFT

Fig 2:- Model summary.
Source: IBM SPSS 26.

Figure 2. indicates that, adjusted R² value is 0.57. This meaning is independent variables define 57% changes of Q0 value.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.037	4	.009	10.101	.000 ^b
	Residual	.028	31	.001		
	Total	.065	35			

a. Dependent Variable: Tobin's Q
b. Predictors: (Constant), INST.own, Growth, LEVg, PRFT

Fig 3:- Anova test results
Source: IBM SPSS 26.

In Figure 3, it is shown p value less than 0.05 in this model. It means that independent variables impact to dependent variable in significantly level.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.806	.086		9.352	.000	.631	.982		
	Growth	-.018	.037	-.059	-5.00	.620	-.094	.057	.999	1.001
	LEVg	.206	.097	.260	2.124	.042	.008	.403	.933	1.072
	PRFT	4.217	.909	.575	4.639	.000	2.363	6.071	.910	1.098
	INST.own	.047	.021	.288	2.278	.030	.005	.089	.875	1.142

a. Dependent Variable: Tobin's Q

Fig 4:- Results of Multiple Linear Regression
Source: IBM SPSS 26.

Figure 4. illustrates that selected independent variables' influence on Q ratio. As seen from the figure, the coefficient of institutional investors is at a significant level, (p= 0.030) and is correlated with Tobin's Q in positively. Thus, 1% of rising institutional ownership in the company's ownership structure will modify the company's "Q" ratio value at about 0.29%. In consequence, this study has provided that if the institutional ownership structure increase in the financial sector firm ownership structure, the same company's Q value will increase. This hypothesis is valid for the U.S. market and resulted in institutional investors influence firm market performance in a significant and

positive way. Moreover, some previous researchers have studied this relationship and found, institutions are the positive influencers on firm market performance because of having more experience in the market, and monitoring skills.

The same figure gives additional information related to profitability, sales growth, and leverage variables. Firstly, it is seen that sales growth and Tobin's Q ratio are correlated with each other in non-significantly and negatively (p. value 0.620 and -0.059). However, the leverage effect on market

value of the company positively and remarkably (p. value 0.042 and 0.260).

V. SUMMARY OF FINDINGS

It is very obvious, institutional owners have an increasing role in the global financial market and corporate governance. In this study, also, has been found institutional investors have a positive effect on the market value of companies, improve firm market performance. But this result might be related to their monitoring capabilities on the management, also as (Nix & Chen, 2013) mentioned they are more experienced in their investment actions. Moreover, being a positive result of this study might be associated with the selected companies' institutional investors are the top institutions in the U.S market, and they can easily handle monitoring of management function with additional incentives.

VI. RECOMMENDATION

Institutional owners ought to use their voting power on the managers' major decisions and monitor or control them in a direct way. Also, investors should get information not as distorted from managers, managers should present them with unmodified information related to the current situation of the firms.

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