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The Relationship between Distribution of institutional ownership and corporate firm performance in Tehran Stock Exchange

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ABSTRACT

Institutional investors are known as an effective external mechanism in monitoring company. These groups of capital market participants can be have basic role by having the knowledge and necessary expertise as well as access to the effective communication channels in improving corporate governance systems, consequently lead to increase effectiveness and efficiency. Therefore, these features make difference between institutional investors from other shareholders. Thus, researchers have most attention on decisions, goals and behavior of the shareholders and its relation to company performance. So at this research, we are studying about effect of stabilizing institutional ownership on the performance of listed companies in Tehran stock exchange during 2008-2012. In this case, we used QTOBIN's index to assess company performance and used retention of institutional ownership to measure institutional ownership stability. As the data are combination data types, so we examined the hypostasis of this study using Panel Data. The results of hypotheses testing showed negative and meaningful correlation between stability institutional ownership and firm performance.
KEY WORDS: company performance, Stock Exchange, investors, QTOBIN

INTRODUCTION

Company management is one of the most important factors that could affect company performance.one of the important issues that researchers have addressed is who manage the company and influence on the individuals decision making. The result of such views, cause more researchers have attention on issues such as ownership structure, shareholders combination, stability of ownership and such issues. Structure of company ownership contains different shareholders. Investment firms and other corporations are main institutional investors at the company that have major part of the company's own shares and they have considerable influence. So at this study, we are studying about the stabilizing effect of institutional ownership's performance of listed companies on the Tehran Stock Exchange.

QTOBIN index: (the value of ordinary shares + book value of total liabilities) ÷ the total book value of firm assets at the end of t year

Return on assets
Ratio of net book value of assets of firm i at the end of the t year

Institutional ownership stability
Institutional ownership stability means that a shareholder averagely being responsible for what percentage of ownership of a particular company at a particular period of time and the rate of fluctuation of percentage of his ownership at that time. The criteria of institutional ownership (i) stability for (t) years will be calculated as follows:

Institutional ownership stability =

$$\frac{\text{Average of percent owned by institutional investors (I) of property firm (I) at the 5-year period ending in (t)}}{\text{Standard deviation percent owned by institutional investors at the 5-year period ending in (t)}}$$

Since it is possible that firm (j) have more than one shareholder, so the proportions' stability of the ownership of all institutional shareholders of that firm will be average at the (t) year to calculate the stability of institutional ownership of firm (j) at the (t) year.

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The main Idea

The owners, administrators and managers were owner in the late of eighteenth century and before the emerging of very large companies, but a new approach was introduced after separation of ownership from management, emerging of the appearance of the Stock Exchange and group of professional managers that named joint-stock as social phenomenon.

This situation made conflict of interest between managers and owners. The combination of shareholders may vary in different countries, therefore, shareholders have main role in firm operating system. So combining the different shareholders haw different effects on the performance of companies and also affects the method of company information reflecting in the market and company information symmetry. Thus, monitoring of the management's performance of a company may also vary because of type of ownership. Meanwhile, what is more catch attention it is the increasing presence of institutional investors in in the circle of owners' Public companies and their effect on the administration as well as their performance.

Institutional investors have the potential impact on activities of managers in two ways. The first one is through direct ownership and the second one is indirectly through its stock exchange and their direct or indirect effect can be very important. Therefore, the present study seeks to the effect of institutional ownership on firm performance and stability of listed in Tehran Stock Exchange.

The Concept of Research: The main objective of this study is to evaluate the effect of institutional ownership stability performance of companies listed on the Tehran Stock Exchange. The results of this study can be useful for many shareholders, officials in Tehran Stock Exchange, and the drafters of accounting standards and other researchers.

Hypothesis: There is a positive and meaningful correlation between Stability of institutional ownership and firm performance.

Data Analysis method

As was discussed in the previous sections, this study is descriptive- correlation. So for this purpose we consider using methods and techniques such as correlation analysis and regression. Statistical data analysis was done by using panel data regression. And an applied tool was Eviews 6 Software. T-statistic is used to determine the meaningful level and to test the hypothesis. Excel software was used to tabulated and Calculation, as a result statistical analysis.

The results of the stability of the variables SIZ, ROA, LOP and QTOBIN shows that there is stability despite of time process.

Descriptive Statistics

variable	Symbol	Minimum	Maximum	average	Standard deviation	skewness	Elongation
QTOBIN	QTOBIN	0.2	1.2	0.6	0.2	-0.2	2.8
Stable ownership	LOP	0.5	8.2	4.4	1.9	0.0	2.3
Return on assets	ROA	-0.1	1.0	0.2	0.2	1.3	6.8
Company Size	SIZ	10.5	15.1	13.0	0.9	0.0	4.0

The reliability test results

variable	Level or Difference	Possibility's level	T statistics	Result
LOP	Level	0	-374.6	Permanent
ROA	Level	0	-336.2	Permanent
SIZ	Level	0	-24.1	Permanent
QTOBIN	Level	0	-14.0	-

Housman and F.Limer test results

The method used	Statistics	Possibility's level	Test
Panel Data	374.8	0	F.Limer
Fixed effects	3116.0	0	Housman

The result of estimates Panel model stabilizing effect of institutional ownership on performance of listed companies on the Stock Exchange Tehran Stock:

Time series	C	LOP	ROA	SIZ
factor	-0.754	-3.74000	0.067	0.110
t_{mw}	-5.765	-6.692	-3.525	10.887
Prob	0.000	0.000	0.001	0.000

The result of estimates model shows that there is a negative and meaningful correlation between institutional ownership and performance of listed companies on the Stock Exchange Tehran Stock.

It could be state the possible reasons for the results: negative and meaningful relationship between institutional ownership stability and firm performance it can be because of institutional investors do not have enough incentives to improve performance and to get profit. Since, in most cases, the purpose of institutional investors is not getting high profit and benefit, and theirs purposes are protection of society against external violation, maintenance of regularity and security in society and public services and infrastructure facilities. May even, some of the firms have special protection of the state, such as subsidies. So, it seems to be considering thinking method and perspective of owners to get better performance and profit in firms. It means that, the ownership structure should leads to private investors if a company looking for profitability and better performance. From this perspective, the issue of privatization was introduced in most countries including Iran.

The results of this study have accordance with the following researchers:

Elisiyayie and Jia (2010): they introduced condition that indicates misuse of institutional owners' influence on managers to exploit minority shareholders [1]. This state shows that institutional shareholders use their power and considerable influence against manager as a tool for the exploitation of minority shareholders in order to theirs benefit, and this is immoral. It should be consider that the likely of this state is lower than two former states.

It is expected that the relationship be unfavorable between institutional ownership and firm performance. Berkeley et al. (1988) Count et al. (2007) agreed with Elisiyayie and Jia [1]. The results of this study with results Elisiyayie and Jia in 2010 are the same line.

Limitations of the study

1. It should be available the information on the year and four-years ago in order to calculate the stability's ownership variables in each year. For example, to calculate the stability of ownership in 2008 needs the ownership's percentage of 2004 to 2008.

2. Another limitation is about ownership' percentage data, that available only at the end of fiscal year (Solar Hijri calendar), but the studies will be more detailed if the ownership's percentage be available for the period (For example, monthly or seasonal)

3. Obviously, the data used in this study were derived from the financial statements and the database. The accuracy of the information at the mentioned data resources will be affect accuracy of the results. Also, the results of study related to years Between2008-2012. So, should be cautious when generalizing these results.

Practical suggestions from results

1. The main objective of this study was to determine the effect of institutional ownership and firm performance. The results can be considered by investors in financial markets, analysts, firms' executives and many Individuals in order to invest favorable efficiency and risk, Prediction of company and market trends, as well as selecting appropriate combinations of firms' ownership to move in the right direction.

2. One of the most important processes that is underway in the country, transferring shares of public companies to the private sector as part of privatization process. Sometimes some experts criticized that most of these firms are related to government or transfer to firms so-called quasi-governmental (institutional investors), according to this they allocated significant percentage of shares to themselves. The results of this study help to detail the effect of stockholders on firms' performance, and generally, help to the process of privatization is successful or not.

3. Others users of financial information are brokers and investment companies. Theirtask is using of information and analysis on the data in order to predict the future of market and firms' trends, then, to reach favorable efficiency, they organize appropriate baskets investment and Investment in stock of firms that have good performance. The result of study revealed the role of institutional investors in combination of firms' ownership and its effect on performance, and helped analysts in more accurate decision making towards firms' performance.

Suggestions for future research

1. The relationship between institutional ownership's stability and firms' performance will be compare between shareholders with high percentages' ownership and shareholders with less percentages' ownership.
2. The result will be more realistic if institutional shareholders divide in to pressure sensitive institutional shareholders and insensitive to pressure(more explanations in chapter two)
3. Relationship between institutional ownership stability and firm performance is achieved by using Gasper criteria and, the results will be compared with results obtained from this study.
4. It can be replacing criteria with some criteria such as return on assets, economic value added (EVA), economic value added modified and so on for measuring firms' performance.

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