T.C

ISTANBUL COMMERCE UNIVERSITY

GRADUATE SCHOOL OF FINANCE

INTERNATIONAL FINANCE PROGRAM

INSTITUTIONAL INVESTORS AND FIRM MARKET PERFORMANCE: A COMPARATIVE ANALYSIS AMONG SELECTED FINANCIAL MARKETS

MA Thesis

Aygun GURBANOVA

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MASTER'S THESIS APPROVAL FORM

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ABSTRACT

Many studies have examined the impact of institutional ownership on firm financial performance, but few researchers have studied institutional investors' effect on the firm-market based performance. The relationship between firm market performance and institutional investors is not clear, because it has been studied so far in a few numbers of countries. It is clear that the US and the UK market is an important part of the global stock market. In the world, the top asset managers, institutional investors are almost the UK and US-based organizations. This thesis has investigated these investors on how to affect their investment companies' market value. In this study, financial sector companies' market-based values are examined. The aim is to discover the importance of institutional ownership structure on firms' ownership profile. In this thesis, companies' financial and stock data have examined. The study demonstrates that institutional investors have a significant and positive impact on the financial sector companies' market value in the UK and US stock markets. This might be regarding the capabilities of institutions in monitoring and controlling functions of management. Firms can not neglect the institutional investors voting rights and voice when the firms build their corporate governance system. In this way, this thesis has been illustrated that firm market performance can be enhanced by the institutional investors' investment and monitoring behaviors.

Keywords: Institutional investor, Tobin's Q theory, Firm market performance, The UK financial market, The U.S. financial market.

ÖZET

Birçok çalışmalar, kurumsal mülkiyetin firma finansal performansı üzerindeki etkisini incelemiştir, ancak çok az araştırmacı kurumsal yatırımcıların firma pazarına dayalı performans üzerindeki etkisini incelemiştir. Firma piyasa performansı ile kurumsal yatırımcılar arasındaki ilişki sadece çok az ülkede araştırıldığı için çok da açık değildir. ABD ve İngiltere pazarının küresel borsanın önemli bir parçası olduğu bellidir. Dünyada en büyük varlık yöneticileri, kurumsal yatırımcılar neredeyse İngiltere ve ABD merkezli kuruluşlardır. Bu tez, bu yatırımcıların yatırım yaptıkları şirketlerin piyasa değerlerini nasıl etkileyeceklerini araştırmıştır. Bu çalışmada, finansal sektör şirketlerinin piyasa temelli değerleri incelenmiştir. Amaç, kurumsal sahiplik yapısının firmaların mülkiyet profili üzerindeki önemini keşfetmektir. Bu tezde şirketlerin finansal ve stok verileri incelenmiştir. Çalışma, kurumsal yatırımcıların İngiltere ve ABD borsalarındaki finansal sektör şirketlerinin piyasa değeri üzerinde önemli ve pozitif bir etkiye sahip olduğunu göstermektedir. Bu, kurumların yönetim işlevlerini izleme ve kontrol etme yetenekleri ile ilgili olabilir. Firmalar, kurumsal yönetim sistemlerini oluştururken kurumsal yatırımcıların oy haklarını ve sesini ihmal edemezler. Bu tez, kurumsal piyasa yatırımcılarının yatırım ve izleme davranışları ile firma pazar performansının artırılabileceği gösterilmiştir.

Anahtar Kelimeler: Kurumsal yatırımcılar, Tobin's Q teorisi, Firma piyasa performansı, Birleşik Krallık finans piyasası, ABD finans piyasası.

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LIST OF ABBREVIATIONS

ATM – Automated Teller Machine

AUM – Asset Under Management

CARs – Superior to Cumulative Abnormal Returns

CCC – Committee on Climate Change

CFA – Chartered Financial Analyst

CFI – Corporate Finance Institute

DB – Defined Benefit

DC – Defined Contribution

DY – Dividend Yield

EFAMA – European Fund and Asset Management Association

EPS – Earning Per Share

ESG – Environmental, Social and Governance

ETF – Exchange Traded Funds

FCA – Financial Conduct Authority

GAAP – General Accepted Accounting Principles

IEB - Instituto de Estudios Bursátiles

IFRS – International Financial Reporting Standards

IO – Institutional Ownership

JIT – Just in time

LSE – London Stock Exchange

MFG – Manufacturing

MFS - Massachusetts Financial Services

MTBV – Market-to-Book Value

MVA – Market Value Added

NGFS – Network for Greening the Financial Systems

OCF – Operating Cash Flow

OECD – Organization for Economic Co-operation and Development

PE – Private Equity

PER – Price-Earnings Ratio

PL – Profit and Loss

PM – Profit Margin

R&D - Research and Development

RET- Annual Stock Return

ROA – Return on Assets

ROE – Return on Equity

ROI – Return on Investment

ROS – Return on Sales

RoW – Rest of World

S&P – Standard and Poor's

SEC – Securities and Exchange Commission

SPSS – IBM Statistical Package for the Social Sciences

SWF – Sovereign Wealth Fund

TMT – Technology, Media, Telecommunication

TQC – Total Quality Control

UIT – Unit Investment Trust

UK – United Kingdom

UNCTAD – United Nations Conference on Trade and Development

US – United States

INTRODUCTION

Institutional investors are the main actor in the emerging and developed countries' financial market. Studies are showing that investors play a necessary role in corporate governance (M. Mohamed 2016). Institutional investors have the direct effects on the managers' activities via ownership and also, through indirect ways selling their shares in the company (Gillan and Starks, 2003).

This thesis aims to explain the relationship institutional ownership structure on the companies' market-based performance in the US and UK stock markets. Defining the percentages of institutional ownership stakes in companies and other needed information have been extracted from the different database and government websites. According to the previous foreign studies have been applied to other stock markets and have resulted in institutional investors have controlling and monitoring capabilities on the firms more than individual investors. They are more informative, experienced about capital markets.

In the first part of the thesis explain which sources and methodology were used, a literature review of the study. The following section demonstrates general information of institutional investors like the historical development of them; their different types of classifications; previous studies about their impact on the firm performance; domestic and foreign investors, etc. The next chapter is related to approaches of firm performance measurements; Tobin's Q ratio; and also institutional owners' contributions to the stock and financial markets. While section 3 presents the UK and US financial markets' institutional owners; greening financial system, and investors' investment position in this system; institutional investment preferences by industries and sectors. The 4th section indicates the research analysis, its results, compares these countries' results, and summarises the study. Finally, the last section presents the conclusions and recommendations of the study which might help the next studies, practitioners, policymakers.

Literature review

Although in the last decades, institutional ownership has developed significantly, there are different approaches related their importance on the firms' market based-value. As provided in an empirical study by Hartzell & Starks (2003), "concentrated institutional investors in a firm are positively correlated with pay-for-performance sensitivity of executive compensation"[1], but inversely correlated with the level of compensation payments even though you assume firm size, industry, and investment options variables as constant. Based on the conclusion of these outputs, institutions' accountability is not only to monitor the relationships between shareholders and managers, but also to avoid any agency problems between these two parties. On top of that, it is obvious to observe clientele effect for some firms that own solid compensation arrangements, which helps to conclude that, compensations models can be affected by the institutions through their preferences.

Chung et al. (2002) testified that companies with a concentrated institutional ownership structure, are pressured to carry out better accounting policies by their investors, as a result, companies' managements try to present more reliable information in financial statements. (Jusoh & Ahmad, 2014) emphasize that supplying a robust system to distribute data and information within any investor communities is an additional perspective role of institutional investors according to the Signalling theory proposals. The main reason behind that is due to having varied information between inside and outside of an organisation. The outcome of this information discontinuity creates a requirement for firms to maintain signals regard to the firm performance, overall, to the market and other investors. Based on the Signalling theory principles, investors can understand and interpret the position of the firm in the long run, by utilizing the signals which transferred from any signalling methods. This signalling method can be dividend announcements, its leverage ratio, and any changes in ownership of the organization. As a result of that, corporate investors are one of the key parties among the firm signalling players. Under these circumstances, there is no need for any other contributors to highlight productivity since institutional investors and other strong shareholders have this capability. According to Gillan and Starks (2003), sharing information with outside the

[1] Jay C. Hartzell and Laura T. Starks, "Institutional Investors and Executive Compensation", The Journal of Finance Vol. 58, No. 6 (Dec., 2003), p. 2351

organization like the stock market and other shareholders, is one of the key roles of institutional investors. Another important study by Chidambaran and John (2000) clearly demonstrates the importance of institutional shareholders' duty with mentioning that, institutional investors can transfer any private and confidential information, which was provided by management, to other shareholders.

(Yuan, Xiao, & Zou, 2008) consider there are two types of approaches to the relationship between firm performance and institutional investors: the first one is the performance development approach and second is the performance reduction approach. The first approach explains that institutional investors prefer to possess better corporate governance companies and more return in their new investment opportunities. According to Elysian and Jia (2010), the performance development approach is supported by the institutional investor's monitoring function with having more capabilities in monitoring management with low transaction costs. Yuan et al. (2008) state that, performance reduction approach is related to an inverse effect of corporate ownership on firm performance. David & Kochhar (1996), Bushee (1998, 2001) think that institutional investors with a short-term horizon want to get more return in a short period and avoid the R&D costs because of not existing any expectations for the long-term development. Some researchers (for instance: Drueker, 1986) call institutional investors as passive shareholders since they intend to sell their shares when the company underperforms instead of improving company performance like acting to monitor operations and management or support additional resources.

Methodology

According to this study, a quantitative research methodology is applicable to this research. It was aimed to examine and confirm the earlier proposed theory, instead of constructing a new theory. We have applied different statistical method to test and analyse my collected data. Analytical tests are multiple regression, Pearson correlation coefficient, and Anova. In this study, the IBM SPSS statistical software 26 was utilized to assess data and obtain assessment results. We think that comparative techniques that used for the US and UK markets in separate approach help to understand the correlation between institutional ownership structure influence on firm market performance. The impact of concentrated institutional ownership on the company market performance with applying statistical model is as in the following:

$$TOBIN'S\ Q = \alpha + \beta 1INST + \beta 2AGE + \beta 3SIZE + \beta 4LEVG + \beta 5GROWTH + \beta 6PRFT + \varepsilon \text{ ---}$$

Tobin's Q	- company's yearly Q ratio value
A	- constant term of equation
$\beta 1 \rightarrow \beta 6$	- coefficients of variables.
INST	- institutional ownership percentage
AGE	- company listing years
SIZE	- company size (according to employees)
LEVG	- leverage
GROWTH	- market growth
PRFT	- profitability
ε	- error term of equation

Sources of Data

In this study, data was gathered from secondary sources. Secondary data was obtained from firms' annual audited reports, company filings, statistical reports, from official websites like the Companies House (https://beta.companieshouse.gov.uk/), London Stock Exchange (https://beta.companieshouse.gov.uk/), and U.S securities and exchange commission (https://www.sec.gov/) and some database websites such as Fintel, Ycharts, Gurufocus, and others. Chosen companies' financial statements have been prepared by the GAAP and IFRS standards according to being US and UK based companies. Financial

figures that have been used in this study are more reliable because of being audited by independent auditors. In this study, the samples selected from the largest 70 companies listed in the US and UK stock market and operated in the financial sector. The period for sampling covers the 2015-2018 financial years.

Problem Statement

In literature, most researchers focus on accounting-based measurements when assessing firm performance and put less attention to market-based indicators. Chakravarthy (1986), Oswald et al. (1991) claimed that accounting-based measurements were insufficient indicators for assessing company performance effectiveness. Another approach is that, even though the accounting-based information is significant for evaluating firm performance, but they do not reflect agency costs totally (Wiwattanakantang, 2001).

In the last decades, some researchers have begun to use market-based indicators for evaluating firm performance such as Tobin's Q, stock prices because of having some limitations of accounting measures. In this study, it has used market-based measurement, which was Tobin's Q ratio, as a tool to assess firm market performance and tried to investigate the link between this ratio and firm institutional owners, in the UK and US financial sector companies.

Research Objective

This study's main objective is to investigate concentrated institutional investors' effects on their investee companies market performance, in the UK and US financial markets.

Research Question

It is believed that based on previous studies, the company's institutional investors impact its performance. Considering these approaches, we have proposed the following hypothesis for this study:

How do concentrated institutional investors affect the Tobin's Q ratio of the companies operating in financial sector?

1. INTRODUCTION TO INSTITUTIONAL INVESTORS

1.1. Development of institutional ownership

Since 1970s, institutional owners have been played an important role like to collect savings, asset managers and holders of companies, as operators in financial and securities markets (International Monetary Fund, 2004). (Philip, 1996) researched the reasons why the developments of institutional institutions have demand and supply sides. The supply aspects are related innovations and technological progress of the money market such as the lowest level of transaction costs, reachable information system, and accessibility risk assessment in derivatives. Coming to the demand aspect historically the institutions have been successfully achieving their saving plans with low risk and high return. Especially, aging of the population affected the growth of life insurance and pension funds, mutual funds because of increasing lack of trust in social pension systems cause to the growing demand for these types of institutions (Huiser 1990).

The major types of institutional investors, which are banks, insurance companies, mutual funds, pension funds, have a long history. (Fichtner, 2019) points out in the history the Dutch East India Company was the first publicly-traded company that began to increase the capital by attracting different types of investors. Petry (2019) explains that being publicly-traded have given a chance to corporations to issue their shares and to raise their capital which created an additional and different instrument for bonds.

Historians give different information about the genesis of the investment companies. Some of them cite that the origin of investment funds derived from the Netherlands about in the 19th century, others think that called Adriaan Van Ketwich was the first investment trust which was created in 1774. (Sekhar, 2017) emphasizes spreading risk and increasing capital by closed-end investments began to be popular in Europe and the US market. In the United States, it caused the creation of the first closed-end fund which was formed in 1893 and called the Boston Personal Property (Collins Advisors LLC, 2020). The structure of its was the modern hedge fund's type instead of today's mutual fund and was based real-estate. In the 1920s, Massachusetts Investors' Trust which today is called "MFS Investment Management" was created and was known as the first modern mutual fund. It affected the US stock market as increasing prices and it was the first-time small investment companies had overspread in the stock. (Levitt, 2014) points out there were about 700 closed-end and 19 open-end investment companies in the US stock market in 1929 years and like mushrooming investment companies cause collapse

between 1929-1933 years. After this collapsing stock market, the US government put strict regulations for all investment funds and there was founded U.S. Securities and Exchange Commission (SEC) for oversighting fund industry. According to (Tyson, 2016), during the period 1940s-1960s funds grew at a quite high rate. If in the 1940 year the asset under funds was $1 million, in the late 1960s this figure reached more than $50 million. In the 1970s, the establishing of the first index fund by Vanguard in the 1970s accounted for a quite growth in the mutual funds. In this new concept, the fund kept all the stocks in particular indices, replicated the S&P 500 and aimed that retail investors could achieve to diversify their equity portfolio in the low cost against high return and they could act passively (Bogle 2016). Therefore, at the end of the 1970s, almost all main institutional investors types had been improved. (Mosselaar, 2018) shows Vanguard's leading fund as known as 'Bogle's Folly' had about more than $100 billion in assets in 1999 and excelled the $300 billion in the late of 2017. Today the BlackRock, Vanguard, and State Street are dominated in the index fund industry, they are labelled by Fichtner, Heemskerk and Garcia-Bernardo (2017) as "Big Three". After the 1990s many institutions began to act as passive investors and increasing of passive investing encouraged in the creation of the Exchange Traded Funds (ETFs). The total value of the ETF market excelled at $4 trillion in 2017 and go on increasing.

In 1949, in the US, the first hedged fund was created by Alfred W. Jones. According to his idea, overall market movement effect was neutralized and protected by investment fund such as preferring to buy new assets which suggested to increase in future and to sell short assets which its price assumed to decrease. (Lhabitant, 2007). It was getting popular and in 1968 in the world, there were about 200 hedge funds, and it was created the fund of hedge funds which was the first time till 1969. (Association, 2020). However, hedge funds popularity was fluctuated past years. Jan Fichtner (2019) points out after 1980s the hedge funds were begun to develop significantly, their investment strategies were changed, they didn't limit their risks and employed new financial instruments like derivatives and foreign exchange. By late 2007, in the period of pre-crisis, the number of hedge funds reached 10.000 and had around $ 2000 billion. In 2017 this figure was approximately $3.200 billion covered by 8300 hedge funds.

According to (The CFA Institute Research Foundation, 2016), Rutterfor et al. (2016) emphasize in the 18th-century insurance companies began offering life policies. They made long-term savings and benefit through after covering the administrational

costs and policyholder's death benefits and developed as institutional investors and also, (The CFA Institute Research Foundation, 2016) (ibid. Hannah, 2016)researched Till World War II, the pension funds were not popular investments companies, but after 1950s it grew significantly. The UK pension funds and insurance companies valued about at £2 billion and £4.9 billion respectively in 1957. Most financiers show that, the government encouraged life insurance companies and pension funds in the different time periods. According to Daunton (2002) (ibid., life insurance got benefit relief of tax, from 1853 until 1984. Also, at life insurance companies were put less limitations on marketing. Gradually, tax incentives were reduced by government for developing private pension funds.

WillisTowersWatson (2017) (ibid, (Fichtner, 2019)) states that in 2016, the 20 of 500 global assets manager's portfolios had $34.5 trillion in assets under management and it is about 42% of the top 500 global asset manager's portfolios. According to the same year statistical data, the top assets managers are in the US, UK, France, Germany and Canada and they manage 53%, 8%, 7%, 6%, 5% of global total assets respectively.

1.2. Classifications of institutional investors

Institutional investors play an significant role in financial markets (Gillan & Starks, 2007) and this chapter will explain the different classification of institutional ownership types based on legal type, tax-motivated trading type, investment style type, and others.

The legal type of classification is a widespread approach to institutional owners. They are insurance companies, banks, pension funds, hedge funds, investment funds like mutual funds, private equity firms and others. The investment strategies of these differ from each other and have different fudiciary requirements. According to B (Bushee, Do Institutional Investors Prefer Near-Term Earnings Over Long-Run Value?, 2001), the pension, endowment funds and the banks face stringent fiduciary constraints more than other types of corporate investors. Pension funds are formed by public and private pensions, the endowments are formed from donated money by universities, foundations, colleges. The investment funds manage individual investments by professional managements and sometimes are represented as fund managers of pensions. In historical, any investment funds have not been faced with more restrictive fiduciary regulation (Del

Guercio 1996). We will give more detailed information about the legal types of institutions in further parts.

(Camara, 2004) defines institutional owners pay attention to not only shareholder's wealth but also their controllers. Because making wrong decisions and unfair actions by its controllers which may be caused to decrease in shareholders. The monitoring role of institutional investors prevents bad news (related corporation's real condition, worsening stock price) withheld by managers (Fang & Callen, 2011). However, institutions monitoring view may be different types, and (Bushee, The Influence of Institutional Investors on Myopic R&D Investment Behavior, 1998) categorizes three groups of institutional investors by past investment behavior: dedicated, quasi-indexer, transient. He emphasizes transient institutional investors prefer high portfolio turnover, short-term return, and target and tend to decrease corporation's R&D costs. It is clear that being short investment horizons and owning small stakes create to not understand the long-scale values of company managers (Publication, A Morgan Stanley, 2004). (Dobrzynski, 1993) characterizes that dedicated institutional investors tend to take large positions and monitoring roles in corporations and also are described by stable, long-term ownership and large interests. Quasi indexers Quasi-indexers are described by low turnover, stable ownership, and buy-and-hold investment strategy (Porter, 1992). Morgan Stanley Publication researchers (Publication, A Morgan Stanley, 2004) point out Quasi-indexers invest in companies that disclosure high-quality and fair annual, quarterly financial reports, disclosing of historical information in fully reduce monitoring costs. However dedicated type institutional investors don't concern with disclosure quality.

Another kind of classification is based on sensitivity to taxes like tax-sensitive and tax-insensitive, according to (Blouin, Bushee, & Sikes, 2016). It is considered that this classification method was not exist before 1991. Some countries might offer tax relief or reduce tax rates to some kinds of companies because of improving these sectors, motivating innovation and growth, especially stimulating R&D projects. (Nicastro, 2014) explains that tax-sensitive investing strategies can decrease taxes and increase returns. There are a lot of approach to correlation with legal types institutional investors and sensitivity to taxes, Grinstein and Michaely (2005) think the insurance and investment companies are classified as tax-sensitive, the bank trusts, pension funds are as tax-insensitive. Jin (2006) & Chyz & Li (2012), both of which focus on sensitivity to capital

gains taxes, exclude banks because they are unable to distinguish which tax attribute dominates; some bank holdings are tax-sensitive (e.g., those held for their own account or for trust customers) whereas others are not (e.g., those held in retirement accounts).[2]

(Abarbanell, Bushee, & Raedy, 2003) split institutions investors based upon investment preferences into four groups: — value styles: large, small, growth styles: large, small. According to them, small-growth style investors prefer to hold small companies that are high on the growth by both the historical sides and expected sides. Small-value institutions hold companies that have dimensions such as less on the previous growth risk and but high value. Large-value funds are proxy to hold large firms that have great value, trusty, and fallen historic growth-risk. The last one is large-growth style institutions, they take large firms that have higher expected growth more than companies took large-value institutions.

According to (Kim & Yi, 2015) and other researchers, institutional investors are classified as domestic and foreign investors according as location of their headoffice. We will give more detailed information about foriegn and domectic institutions in further part.

1.2.1. The main types of institutional ownerships

We have mentioned above about the legal types of institutions investors. In this paper, we will cover the major types of institutional investors which is the same classification to legal types of institutions are hedge funds, different types of mutual funds, pension funds, insurance companies, and private equity funds.

1.2.1.1. Hedge Funds

Hedge funds are classified as "alternative" institutional investors. Defining the definition of alternative investments may be difficult. (Çelik & Isaksson, 2014) think that these funds are a complement to other types of institutional investors (traditional) and getting reliable, comprehensive data about them and even other alternative institutions are very shortage.

Hedge funds are investment pool and the main aim is to make a higher return in the short positions means that they have very riskier strategies (Maverick, 2020). They

[2] Jennifer Blouin, Brian J. Bushee, Stephanie Sikes, 2016 "Measuring Tax-Sensitive Institutional Investor Ownership"., p.8.

invest in highly liquid assets and it gives a chance to change one investment into another one and take profits immediately. Although less studied about hedge funds performance, in the last decades it has been increased interest in them (Davis & Steil, 2001). (Bourgi, 2018) points out generally, hedge funds are suitable to only accredited investors who were characterized by the SEC. Being accredited investors require some requirements like that the net worth of a person or that person spouse in excess of $1 million, had to income at least $200,000 by individually and at least $300,000 with their spouse in recent two years and etch. (Institute, Legal Information). Hedge funds are now commonly defined by their structure. They are private investment pools organized as limited partnerships or limited liability corporations with the investment manager as general partners and investors as limited partners[3].

Hedge funds have developed many types of strategies including short or long equity, market-neutral, event-driven, fixed-income arbitrage, merger arbitrage, global macro and other types (O'HARA, 2020). Every fund strategy shows different types of portfolio risks (CFA Institute, 2020). For example, using considerable leverages are specific to arbitrage-oriented hedge funds and it can be risky to limited partners use considerable leverage which can be dangerous to limited partner investors. Long/short equity and event-driven strategies have more hedge fund fees. return in assets, but it can create higher volatile return (CFA Institute, 2020). Being a many different funds strategy help investors to satisfy their investment objectives.

Hedge funds fee structure contains of two types of fees: a management fee and performance fee. The management fee is calculated 2% of total assets under management, it shows that yearly management fee for managing assets. 20% performance fee is charged on profit which is made by hedge fund and must be more than predefined amount (Elvis Picardo, 2020).

As per LCH Investments information, that is a fund of hedge funds, in 2019 the top 20 hedge funds manager made $59.3bn gain for their investors which was the 33% of the $178bn all returns and was the biggest annual return in last decade (Winck, 2020).

[3] Ezra Zask, January 2003, "All About Hedge Funds: The Easy Way to Get Started", The Journal of Alternative Investments 6(1), p.34

Figure 1. Largest Hedge Fund Managers by Assets under Management

Manager	Location	Year Established	Assets under Management
Bridgewater Associates	US	1975	$162.9bn as at 31 December 2018
AQR Capital Management	US	1998	$113.8bn as at 30 September 2018
Man Group	UK	1983	$78.5bn as at 30 September 2018
Renaissance Technologies	US	1982	$60.1bn as at 31 December 2018
J.P. Morgan Asset Management	US	1974	$53.5bn as at 31 March 2018
Two Sigma Investments	US	2001	$38.8bn as at 30 June 2018
Marshall Wace	UK	1997	$35.4bn as at 1 October 2018
Millennium Management	US	1989	$35.0bn as at 30 June 2018
Elliott Management	US	1977	$34.8bn as at 30 September 2018
Adage Capital Management	US	2001	$32.4bn as at 31 December 2017
Citadel Advisors	US	1990	$31.7bn as at 30 September 2018
D.E. Shaw & Co.	US	1988	$31.2bn as at 1 October 2018
Baupost Group	US	1982	$31.0bn as at 30 June 2018
BlackRock Alternative Investors	US	2005	$30.1bn as at 30 September 2018
Davidson Kempner Capital Management	US	1990	$29.8bn as at 30 September 2018
H2O Asset Management	UK	2010	$27.4bn as at 30 June 2018
Wellington Management	US	1994	$27.0bn as at 30 September 2018
Canyon Partners	US	1990	$25.1bn as at 30 September 2018
Farallon Capital Management	US	1986	$25.1bn as at 31 December 2018
Viking Global Investors	US	1999	$25.0bn as at 30 June 2018

Source: www.statista.com/statistics/273133/assets-under-management-of-the-largest-hedge-fund-_rms/ and https://docs.preqin.com/reports/Preqin-Largest-Hedge-Fund-Managers-February-2019.pdf

1.2.1.2. Mutual funds

Mutual funds are the most important kind of pooled vehicle, which differs from hedge funds. In general, Mutual funds use buy-and-hold strategies in long-term positions almost in liquid assets. However, hedge funds are appropriate for active trading strategies and also, they can also choose long and short positions, that they can take illiquid assets in return target, occasionally (Agarwal & Naik, 2005).

According to (Commission, 2016), that investment funds are divided three types by structure basis: open end funds, closed end funds and unit investment trusts (UITs). (Davis & Steil, 2001) point out, the open-ended mutual funds are structured differently from closed-ended mutual funds like that open-end funds have an obligation to trade at share's net asset value which is then defined at the end of each trading day. However, the closed-ended funds sell and buy at some discount and premium to the net asset value. (Anspach, 2019) shows another difference, if any investor wants to buy shares of open-ended funds, the management company increase the number of share and sell new shares

and can only buy from the fund, not a secondary market. But the closed-ended mutual fund issue shares only one time when they are created, the buying process happens between the secondary market and new investors. Unit investment trusts offer fixed and not dynamic managed portfolios and put investment resources, which financed by many investors, in one-shot public offering (U.S. Securities and Exchange Commission).

The main pro of mutual funds is giving permission to individual investors to enter the market and to offer professional advisers. Other types of institutional investors maybe give a chance to access professional management but, in these cases, investors must possess almost always more than $1 billion assets. Other advantages are being diversified portfolios across industries and companies it helps to investors decreasing market risks, converting their shares to cash immediately by shareholders, good regulated rules for example, in US mutual funds are regulated and controlled by SEC, every fund must ensure potential shareholders with a prospectus and a paper which shows costs, risks, targets (Gremillion, 2005).

(Bourgi, 2018) emphasizes mutual funds invest in different types of securities like stocks, bonds, futures and others. The most well-known mutual funds are Fidelity 500 Index Fund (FXAIX), Vanguard Fed MM (VMFXX), Goldman FS Gov (FGTXX), Vanguard 500 Idx (VFIAX) (MarketWatch, n.d.)

1.2.1.3. Pension Funds

According to (Davis & Steil, 2001), pension funds are such investment funds, they use sponsors and future pension beneficiaries' money for investing and pooling and they provide worker's pension retirements who contributed them before. They are like a vehicle for employees to collect their money when they work and they support these people financially in the future when they are in retirement. Pension funds are financed by firms, public companies, employees, individuals and other sponsors. In several countries the superannuation funds are accepted as pension funds (Consultancy.uk, 2019). Historically pension schemes have been administered by steady and less risky investments, but after happening changes in the capital markets, pension fund portfolio is more diversified and international (Kumar, 2014). Pension funds have two types, according to how pension income are computed and who will be risky: Defined benefit (DB), defined contribution (OECD, 2019).

Returns to retirees depend on either the market, which belongs to DC type funds, or sponsor's return rate guarantee (DB type funds). Blake (1997) emphasized that, it is important to define the rate of risk allowance of the fund members, they must pay attention to key points, that taking higher risks equal to higher expected retirement returns. Bodie (1990) points out in the defined benefit plan, sponsors are obliged to guarantee and it is a simple type of corporate debt. The guarantees are related to being sponsor's bankruptcy risk and risk sharing between old and young retirees. Being this type of risk makes DB plans complicated insurance projections for guarantees and higher costly administration expenses. In the DC plan, beneficiaries are riskier and they don't have a guarantee related to retirement returns by sponsors (OECD, 2019). The DC pension funds are formulated by people and their employer's contributions as a part of their salary. Also, there is exist other benefits like as tax relief and investment return.

According to (Kumar, 2014), the pension plan types are a) private and public pension plans b) personal and occupational plans. A public pension fund is administered and accumulated by the state and central government; private pension plan is established by private sector organizations, employers. Occupational and personal pension plans are characterized as voluntary or mandatory to law. Occupational pension plans are administered by labour or professional associations. Personal pension plans are managed by pension providers such as financial institutions and pension schemes.

1.2.1.4. Insurance Companies

(Gründl, Gal, & Dong, 2016) explain that insurance companies take risks for their policyholders in return for premiums. (Kale, Ryan, & Badrinath, 1996), Insurers receive large amounts premium from their clients, but they pay to their customers smaller amounts than their premiums, also it may occur rarely their larger liability. Insurance companies invest the main parts of these premiums in equity securities. According to (Maurer, 2003) insurance policies are the sign of their customers' future guarantees in cases of any possible incident, it creates risk-bearing functions of the insurance industry.

In the book of Rajesh Kumar insurance companies are mainly divided into two groups: the life insurance industry and property insurance. (Davis & Steil, 2001) emphasize that if insurance companies are appraised as institutional investors, we must focus on especially life, property, and casualty insurance companies. The property and casualty insurance companies' main features are being unknown cash flows that can be

affected by major disasters, government regulations and also courts of the cases. The portfolio differences of these companies from life insurance companies are short running assets and equities. Life insurers are long time investments and traditionally in the earlier they provide to the risk of death insurance services for their customers, but then they began to propose long-time savings like pension funds.

Insurance companies have a procyclical investment movement. Impávido and Tower (2009) identify those life insurance companies in the US financial market affect market crash like selling their equities at the beginning of the XXI centuries. (Procyclicality Working Group & Bank of England, 2014) discover that the US, UK insurance company's investment behaviour and between stock market performance is positively correlated from 1996 till 2012. According to Claessens and Kose (2013), insurance companies as institutional investors affect financial stability, real economic system, and the market price in several ways. (Duijm & Bisschop, 2018) find non-life insurance companies demonstrate more procyclical behaviour in the period of global crisis and times when equities value is less than other assets. On contrary to non-life insurers, for life-insurance companies depict more procyclical behaviour when equities' performance is better from fixed-income investments' performance.

According to (Kale, Ryan, & Badrinath, 1996), Insurance companies are highly regulated and restrictive institutions compare with other institutional institutions. In some countries, insurance companies have restrictions that they can't put investment in corporate equity more than their certain asset fraction.

1.2.1.5. Private Equity Funds

An important source for identifying and evaluating the expectation which institutional investors bring to the private equity fund area is the 1996 report (the "Mercer Report") entitled "Key Terms and Conditions for Private Equity Investing" prepared by William M. Mercer Incorporated.[4] The private equity funds have been experienced significantly since the 1990s and this growth reached to the $4.11tn assets under management by private equity funds on the June 2019 (Preqin Global, 2020). Private Equity is professional asset managers and consists of different types of asset classes which are raised by private investors', private and not traded companies' equity investments. The

[4] (William M. Mercer , 1996)

private equity funds contain a different large debt and equities. Private Equity funds are divided into in different groups in different literature. According to the research paper by (Mergenthaler & Moten, 2008) the main types of private equity funds are:

- Buyout Funds – constitute approximately two of three of all private equity funds portfolios. The main characters of this types funds are to find hidden, unforeseen value and opportunities of investment companies.
- Venture Capital Fund – is the second large type of PE, and this type of fund's investment behaviour is to invest in new, start-up companies which are very risky to the public market.
- Mezzanine Funds – This fund's portfolio consists of both debt and equity. Mezzanine Fund's investors make a return about 15-20%, which is more than normal type of debt financing. The main reason is being illiquid capital and holding all liabilities of the company (CFA institute)[5].
- Distressed Securities Funds – Mostly, they finance companies that have financial difficulties.

Private equity funds are structured as partnerships in the types of general partnership (private equity companies) and limited partnership (large institutional investors) ((Metrick & Yasuda, 2010).

1.2.2. Domestic and foreign institutional investor's behaviour and performance

Institutional investors are such a structure that they collect funds and invest these resources in different types of investment and financial assets, securities, bonds and etch. They have a crucial role in the stock market because they can easily affect both their home country's stock movement and foreign country's stock movement. According to (Garg & Chawla, 2015) divide institutional investors into two parts: a) domestic b) foreign. Domestic institutional investors invest in their own country's corporations, foreign institutional investors invest in corporations abroad.

(Khorana, Servaes, & Tufano, 2005) point out financial globalization and rise of liberalization in emerging market have given diversified investment chances for global institutional investors. Karolyi and Stulz (2003) state that although many limitations

[5] https://corporatefinanceinstitute.com/resources/knowledge/finance/mezzanine-fund/

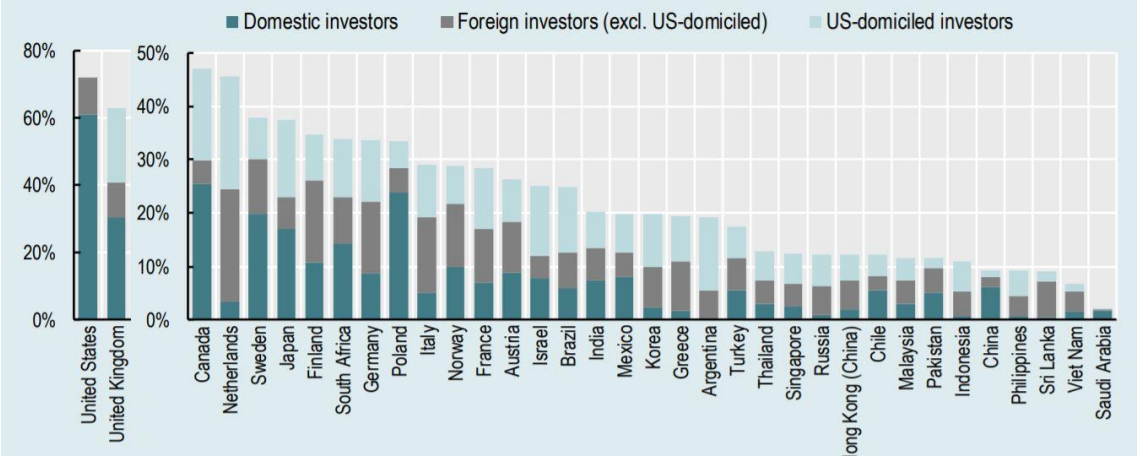
related to global investment have been eliminated with coming liberalizations, foreign institutions have yet some indirect obstacles.

(Magnus & Robertsson, 2001) have large cash and cash equivalent on their financial position but paid low dividends. According to (Covirg, Lau, & Ng, 2006), foreign fund managers' preferences are for the number of foreign sales and whether listed in foreign stock. Also, according to their research, foreign investors are less informative about investment country stock. Investors of the US tend to invest in out of country's companies that are adopted more deeply US GAAP standards (Bradshaw, Bushee, & Miller, 2004) but, they have the unwillingness to make an investment in firms having low-quality disclosure regulation (Leuz, Warnock , & Lins, 2009). (Covirg, Lau, & Ng, 2006) shows local investors have investment strategies such as paid higher dividends, expected high growth and taken less financial risks.

Many researchers investigate how the geographical distances, different languages, and cultures have affected to institutional investors' investment behavior and performance. (Coval & Moskowitz, 2001) explain if money managers firms' headquarters are close to investment companies by geographically, they have advantages in accessing needed information. However, some researchers (Grinblatt & Keloharju, 2000) and testify that foreign investors do better performance and are more informative than locals in Finland, Japan and Taiwan respectively. On the other hand, being local investors are better than being foreign investors in the countries which have an ineffective stock market and less strict regulations for protecting investors and also high-level of corruptions ((Ferreira, Matos, Pereira, & Pires, 2017)). Also, foreign institutional investors face difficulties to gain private information that insiders access it easily. Kim and Yi (2006) study the Korean market and reaches results that there are powerless corporate governance and more related parties transactions in Korea. Besides, to contact between local investors and insiders are reachable in informal ways easily. However, if foreign investors want to gain access to these types of information, it is very costly and it maybe discourages foreigners. (Thanatawee, 2014) studied the role of institutional investors on Thai listed companies and resulted that a higher level of domestic institutional ownership effects to firm value positively, but its value may be deteriorated by a high level of foreign institutions. Also, he put forward ideas related to links between corporate governance and corporate ownership. Domestic institutions can provide to control and monitor a firm easily and it reduces agency costs and doesn't make extra cash outflow, thus managers

can manage a company with a large amount of cash. However, foreign institutions are passive controllers, and sometimes they bargain with management to use company resources at the cost of the minor investors.

Figure 2. Domestic and Non-domestic Institutional Ownership



Source: OECD Capital Market Series dataset, FactSet, Thomson Reuters, Bloomberg; see Annex for details. https://www.oecd.org/corporate/Owners-of-the-Worlds-Listed-Companies.pdf

According to (Cruz, Medina, & Tang, 2019), US institutional ownerships are dominant in the world stock market. Figure 2**.** gives us information about the portion of equity shares of the 35 countries around the world held by US-domiciled institutional investors, other foreign institutional investors (excluding US institutions) and domestic institutional investors. As per the following table, in the US and UK, more than 60% of the stock markets are owned by institutional investors; for the ownership structure, US institutions are almost significant fund managers of companies in the Netherland, Italy, Israel, Brazil, Argentina, and Canada; domestic institutional investors are dominant in the US, Poland, Sweden, China, and Saudi Arabia markets. We would like to mention that this data is based on the end of 2017 results.

1.2.3. Long-term and short-term investing strategies by institutional investors

As we mentioned above, the one differentiated characteristics of institutional investors are their investment strategies belong to different time horizon. For example, pension funds prefer long-term investment strategies, but it is the contrary in mutual and hedge funds (Kim, Mantecon, & Song, 2019). (Byrne) explain that non-life insurance

institutions assume they will meet insurance claims in the short-term periods, but SWF (Sovereign Wealth Fund) invest country resource revenues such as oil in the long term.

Institutions, that have long-time investment strategies for held firms, are willing to rise firm value and have strong monitoring activities ((Hao, 2014) and (Gaspar et.al , 2005)). According to Grossman, Hart (1980) and Graham (2005), large investors with long-term investments try to rise firm equity value by lessen agency conflicts between them and managers and monitoring them. Institutional investors in the short-term position tend to near-term earnings by affecting corporate policies and try to reduce the R&D costs of firms that can be harmful to future value-enhancing strategies. (Kim, Mantecon, & Song, 2019) point out sometimes, short term investment strategies by institutions maybe force held company management to increase their return, to buy back shares, these actions rise to credit risks like decreasing cash/cash equivalents and not paying for future debt obligations. Thomas Clarke (June 2016) emphasizes that the growing power of institutional ownership could either make sustainability for markets and companies affected by long-term or create economic instability in the short-term horizon.

Hirschman (1970) explains that institutional investors can impact portfolio firms either by creating the "voice" effect like participating in the management directly or with exiting companies by selling their's shares. Investors, who have long term strategies about held companies and large numbers of shares in these companies, try to monitor management decisions because they think that this intervention gives benefits for themselves (Burkart (1997), Gromb (2004) et al.). According to Admati, Pfleiderer (2009), investors with a long-term horizon tend to establish a good network with managers and control them, but short term investors don't care about firm future perspectives and if they are not pleased by management performance, they begin to threat to management existence of the firm and this threat can discipline to managements.

1.3. Advantages and disadvantages of institutional investors

A number of studies give us information about the pros and cons of institutional investors. Some of them show that they can add value to the investment companies, others show their negative sides. In the book of (Nix & Chen, The Role of Institutional Investors in Corporate Governance: An Empirical Study, 2013) was emphasized that institutional investors' advantages are being experienced, knowledgeable, improbably to invest in uneducated investments, sparring partner to management, good researcher and analytics

and having new ideas in the capital market. Institutional investors are good at networking between various companies and contacts. Institutions think new ways and perspectives of ideas especially related capital markets. The advantages of investment by institutional are being safe, less risky investment portfolios compare with retail investors because of possessing extensive knowledge and diversified portfolio (ECONOMYWATCH, 2010). Agrawal and Knoeber (1996) testify institutions can improve financial position of the firms. Another advantage is related to costs and charges. According to (Financial Conduct Authority, 2016), generally, because of large purchasing power, institutional investors pay to less annual charges compare with retail investors, non-institutional investors. But retail investors are exposed to pay more marketing, commission for trading (Financial Conduct Authority, 2016) and more administrative costs for keeping retail shareholders records (Palmer, 2019) than institutional investors. Fiscal advantages are specific to some types of institutional investors and these advantages impact their investment behavior. The tax exemption for asset return and contributions are appropriate to pension funds in which the provision of these type of funds is voluntary for people and firms. Also, life insurance companies and mutual funds take contributions's tax advantages in some European countires (Davis & Steil, 2001).

(Hirst, Cohen, & Bebchuk, 2017)believe that the growth of institutional ownership structure cause to agency problems between company's management and shareholders. There are some disadvantages for institutions, investors focus on only financial indicators, not industry characters and government regulations deeply, like an expert, and sometimes institutions can cause conflicts of interest (Nix, The Role of Institutional Investors in Corporate Governance: Evidence from German Corporations, 2012).

1.4. Institutional investors' direct and indirect effects on companies

There is no doubt that institutional investors are one of the most important performers in processes of chain with directing and controlling a cooperative. However, it is well known that, the correlation between institutional investors and firm performance can be not only positive, but also negative. One of the most well-known research has been conducted by Pound (1988) and he released three hypotheses to explain the correlation between institutional investors and firm performance. They are (1) Efficient-monitoring

hypothesis, (2) conflict-ofinterest hypothesis, and (3) strategic-alignment hypothesis[6]. In the first hypothesis Pound claims that, institutional ownership structures can monitor firm performance with lower costs comparing to other third-party organisations, since institutional shareholders have a broader experience on that. As a result of the efficient-monitoring hypothesis analysis, we can assume a positive correlation between the two variables mentioned above. Coming to the conflict-of-interest hypothesis, it states that institutions might have some personnel and business relationships with firms which can avoid them to perform fair institutional monitoring and intervention. The third hypothesis covers the strategic-alignment hypothesis and it suggests that both institutions and managers support this association and see it beneficial from both aspects.

Going through the literature, it is really challenging to find conclusive statements about the correlation between institutions and firm performance, referring to historical dataset. However, most of the economists highlight positive relationship more and we have summarised some of them in the following paragraph.

McConnel and Servaes (1990) mention remarkable positive correlation between institutional ownership and Tobin's Q, in their researches. The similar study completed by Han and Suk (1998) shows that, profits from company shares & dividends and their impact on organisational performance are linked with institutional structures positively. Analogous analyses have been conducted by Nesbitt (1994), Smith (1996), Guercio and Hawkins (1999), and Demiralp, D'Mello, Schlingemann, and Subramaniam (2011) stating about observation advantages of institutional investors.

As mentioned above, considering inconclusive studies have been completed so far, there are some researches mentioning about the negative relationship between institutional investors and firms. One of the key downsides highlighted by Pounds (1988) is underestimating small shareholders' rights in an organisation and collaborating with major shareholders and management to expropriate organisation assets. On that account, expropriation hypothesis suggests reverse correlation between our two parameters. Another solid research about the negative correlation has been conducted by Maug (1998) which is similar to 'conflict-of-interest' hypothesis. Maug states that that there is a correlation between institutional investors' share size and their stimulation and appetite to monitor managers. If institutional investors hold a big portion of shares, then they are

[6] Keasey, K, Thompson, S and Wright, M; 2005, "Corporate Governance: Accountability, Enterprise and International Comparisons", England.

interested in to monitor. However, in case of having small portion of shares, institutions are not willing to monitor, since preferable option is to sell and liquidate shares under these circumstances. Beside that Elyasiani and Jia (2010) published that, not only proportion, but also stability is a significant parameter affecting the monitoring efficiency of institutional investors.

1.5. Investment preferences of institutional ownership

Investors' preferences for invested firms may be different. We will give information about some priorities of institutional investors while they invest in it.

Firm size. According to (Muhammad & Ashrafi, 2013) opinion, institutional investors have a preference for large firms because investors believe that these types of firms don't have not more risk related to bankruptcy. Al-Najjar et al. (2008) think that large firms usually are exposed to less financial stress because of having enough financial resources and an ability to lessen their stock investment risk. Also, in Tong & Ning (2004) opinion, investing in medium and small-sized companies maybe require high costs but not give significant expected returns. Also, firm size affects the level of asymmetric information. In other words, investors of large companies don't have a problem related to information asymmetry, because they can reach out the information from different sources like capital markets, credit rating agencies.

Business risk. Institutional investors are inclined to invest in firms that have fewer business risks, as the expected higher return may make higher bankruptcy and default risk A. Majid and M. Joriah (2013). Thus, Al-Najjar and Taylor (2008) testify the negative correlation exists between company business risk and its institutional investors.

ROA. Tong and Ning (2004) state that a negative relationship has between profitability and average shares invested by institutions. According to Ferreira and Matos (2008), stock's past profitability is used as a common index and impact on the fund owner's investment choice. In this case, profitability is correlated with institutional investment preference positively.

Dividend payment. Many empirical studies (Allen et al. (2000), Redding (1997)) show that higher dividend-paying companies are attractive for institutions because these types of investors are lower-taxed than retail and other investors.

A dividend pay-out policy is important for corporate governance and a control vehicle. According to Zeckhauser & Pound (1990), although the capital market monitors

the firms, institutional investors carry out alternative monitoring function for these companies and thus, can reduce the necessities of controlling by the capital market. Maury and Pajuste (2002) study that firms controlled by leading shareholders like institutional or managerial shareholders impact on a firm's dividend policy and in the firm's monitoring system, they form their private benefits that are not preferred to share out with "small" shareholders. Jensen (1986) points out, paying dividends to shareholders maybe cause conflicts of interests because managers want to use these resources for growth strategies, while shareholders want to take a dividend rather than kept as retained earnings. As a result, the importance of dividend pay-out policy increases for solving the conflict between them (Ullah, Fida, & Khan, 2012) and dividend payment lessens agency costs (Rozeff 1982). Han et al. (1999) testify that dividend pay-out is associated with institutional ownership structure positively.

Growth. A company, that has a high-growth opportunity, makes a good sign about its future performance. Hovakimian and Tehranian (2004) put forward an idea, the main difference of high growth companies from lower growth companies is bringing in more returns on capital for institutions. The higher the growth opportunities of companies, the more institutional investor's attention is intensive for them (Ferreira & Matos, 2008).

Other preferences. In Ferreira and Matos (2008) opinions, high debt ratio companies could cause a low level of institutional ownership structure. In addition, Tong and Ning (2004) explain high leverage ratio may create financial difficulties and bankruptcy risks for firms in the future, and it is not preferable for institutional investors. Sometimes, managerial ownership for institutions is an attractive point and they believe that a firm's agency costs could lessen by raising their managerial actions.

2. OWNERSHIP STRUCTURE AND FIRM MARKET PERFORMANCE

2.1. Importance of measuring firm performance

The new century business atmosphere has been exposed to more changes, uncertainty, and complexity. These changing features can be explained with globalization and strong competitive environment that firms try to work like low-priced, faster (Taouab & Issor, 2019). The firms try to overcome a number of increasing challenges and improve their performance. In this environment, it is more significant and harder to maintain, monitor and strengthen firm performance.

The evaluation of firm performance and firm future perspectives are an important issue for all stakeholders. Globalization and new generation technology help investors around the world to evaluate firm performance and to eliminate the trade limitations in the market (Al-Matari, Al-Swidi, & Fadzil, 2014). Measuring firm performance is important for knowing whether being effective management and without evaluating the results is impossible to reach any growth. Also, (Nudurupati, Bititci, Kumar, & Chan, 2010) argue, evaluating firm performance is the crucial for efficient workings of firm management. Ehikioya (2009) examines, firm performance is affected by corporate governance, if corporate governance is set up appropriately, it can positively affect investment decisions of investors, helps to increase company capital and strengths firm's pillars. As a result, firm performance will be getting better. One of the main purposes of firm performance measurement is to know whether financial and non-financial objectives will be reached (Acharyya, 2007). But, Michael and B. Philippa (2012) argue even though achieving the objectives is the sign of good performance, it is not enough, because firms should not put at risk their long-term success for achieving their short-term ones. According to Waggoner and Neely (1999), firm performance measurement provides valuable information to control performance, to increase motivation and communication, to determine problems.

Atkinson (1997) emphasize the importance of performance measurement in 4 cases:

- The company can evaluate its employee's and supplier's anticipated performance whether it is receiving;
- The company can identify whether all stakeholders are helping to reach out company's goals;
- Help the company forming processes that assist in reaching out to its goals;

- It assists the company to estimate and control strategic plans;

2.2. Approach to companies' measurement models

According to many researchers' opinions (Masa'deh, Tayeh, Al-Jarrah, & Tarhini, 2015), none of measurement method of performance could express the whole of aspects of firm performance. Although there are a lot of and different measurement ways for assessing firm performance, it doesn't exist universal guideline. Gentry and Shen (2010) suggest, performance measures which composed of financial results like return on assets, return on equity, sales and others are classified as "hard" measurements, measures related to innovation and customer pleasure are "soft" measurements. Organizational performance might be assessed in objective ways based on financial data and in subjective ways as per managerial assessment (Dess and Robinson,1984). In researchers' opinions, objective measurements, that are used as the base on organization performance assessments, are return on assets, return on sales, sales growth (Brews and Tucci, 2004; Pearce, 1987). Classified profit measurements as ROA and ROS indicate company operation productivity, sales growth that is known growth measurements indicate for the company how grow in an existing market or open for new markets. Moreover, measurements such as quality and social reactions, product-service innovation, company reputation belong to subjective criteria (Banbury et al.,1994; Chan, 1997; Brews and Hunt, 1999).

Economists have used accounting-based and market-based measurements to evaluate the financial aspect of company performance. Keats, Hitt (1988), et al. state that accounting measurements reflect short-dated and past performance, while market-based measurements reflect long-dated and future performance. In works of literature, different empirical findings exist that study relationship between both measurements. Some of researchers' considerations, these measurements are positively correlated (McGuire and Matta, 2003) some of the others report that negative (Nelson, 2003; Keats, 1988) or no relationship (Hilman, 2005) exists between them. In the case of having a high correlation between these measurements, they will start to indicate adequate convergent validity and can be considered as compatible and similar indicators of the company's financial performance (Nunnaly and Berstein,1996). This type of financial performance can be characterized as a unidimensional construct. However, if they have a poor correlation or none, firm performance is considered as a multidimensional construct and in this case, the variation among accounting profitability and market efficiency should be assessed

and investigated by economists separately (Gentry & Shen, 2010). Some researchers (Jacobsen, 1988; Hoskisson 1994) consider that the main reason for a positive relationship between accounting and market-based measurements is that past performance can be a better indicator for future performance in the steady period of company's financial performance.

Li and Miu (2010) consider, market-based measurements give reliable and reachable information about large debtors. If any financial institutions make a decision about the debtor's credit request, they focus on the debtor's market-based measures more. In other respects, Hillegeist et all (2004) illustrate market measures might provide valuable data predicting future cash flow and any bankruptcy problems. Reisz and Perlich (2007) indicate accounting risk measurements can be convenient for short-time default predictions, whereas market risk measurements are efficient for mid and long-time default estimations.

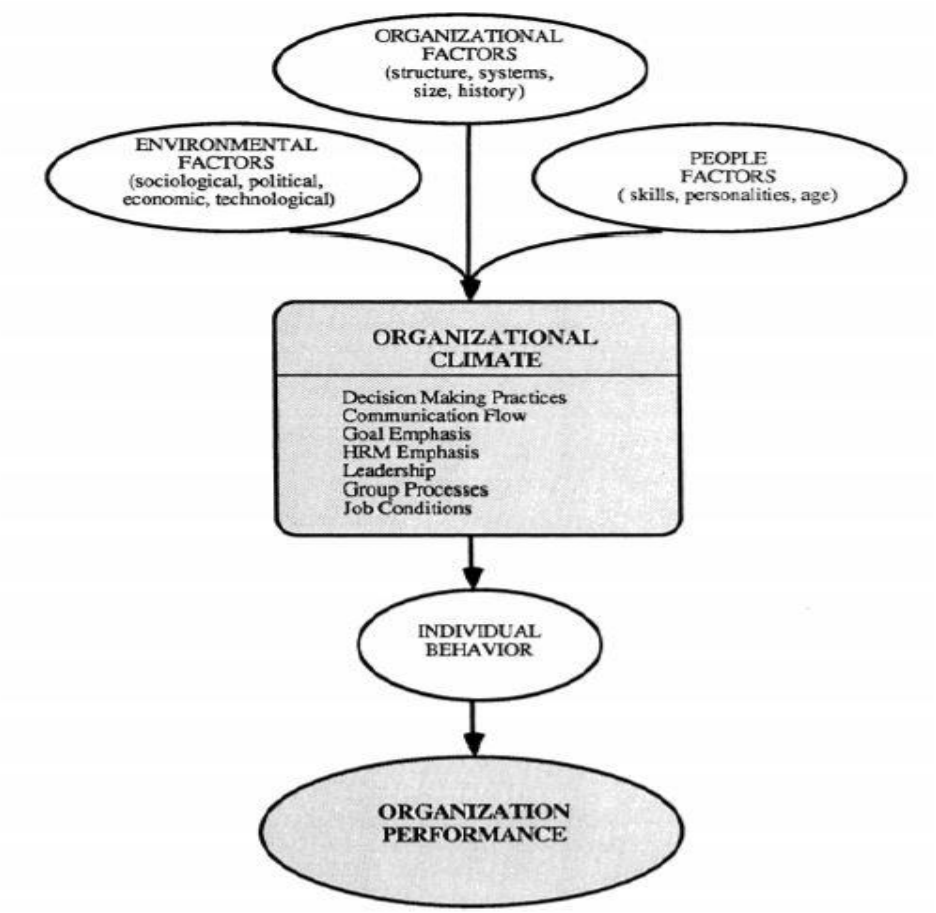
2.2.1. Historical perspective to firm performance definition

Approaches from 1950 till the beginning of 2000.

According to the 1950s' economists' considerations (Georgopoulos & Tannenbaum, 1957), firm performance is the same meaning with organizational effectiveness, which not do additional effort to achieve its objective and has limited resources, assets. Tension among organizations, organizational productivity and flexibility are the main dimensions for assessing its performance and organizational effectiveness. Suzaki (1987) points out, during the 1940s and 1950s years, in Japan, many companies faced an industrial assault, like producing defective and low-quality goods, wasting of inventories, and others. Schonberger (1982) interprets, the Japanese companies have been adopted to new systems and techniques such as the TQC and JIT for increasing efficiency, decreasing waste products and solving existing industrial assaults. In the same period, in the Western World, industries were contrastive to Japanese companies' strategies, they kept a lot of goods and inventories on the stock for supplying with costumers. Sales, productivity and ROI are used for controlling firm and management performance and cost (Nudurupati, Bititci, Kumar, & Chan, 2010). After the energy crisis (the 1970s), Japanese companies' operational success and technique, which were achieved with limited resources, were got

acceptance from all the world especially the West (Schonberger (1982), Hayes & Abernathy, 1980). It has resulted in paying attention to the importance of new indicators like cost, quality and time when assessing firm performance (Slack,1983).

Figure 3. A Traditional Model of Organizational Climate:



Source: Journal Article. Hansen and Wernerfelt (1989)

(Hansen & Wernerfelt, 1989) indicated that firm performance factors for traditional climate model combine with three main parts: organizational, environmental and people. As it seems from Figure 3, these factors develop organizational climate. And then, a developed organizational climate is driven to the organization's performance through individual behaviour.

Between the 1980s and 1990s years, using only financial measurements for evaluating firm performance has been criticized by many researchers (Kaplan and Norton,

1992, Keegan et al.,1989). Lupton (1977) considers that, a higher level of productivity, employee pleasure, and motivation, a lower level of costs and the absence of member's unrest exist in an efficient organization. The important measurement for performance is increasing all kinds of returns coming to the company (Katz and Kahn, 1978). According to Porter (1986), efficient performance is the power of being able to create value for a firm's customers. Cherrington (1989) emphasizes if the company can achieve its objectives with success, it can be classified as an efficiently managed organization. Harrison & Freeman (1999) testify organizational efficiency is in a company that satisfies its stakeholder's demands successfully. According to Lebas (1995), the main criteria for assessing firm performances are teamwork, motivation factors, training, and other stimulating activities.

From the beginning of 2000 till now.

At the beginning of 2000 years, the description of a successful organization's performance was the ability that used its available resources and assets efficiently for achieving objectives and satisfied its users (Peterson et al. 2003). Colace (2009) thinks that performance definition is a merger of different conceptions like return, productivity, growth, profitableness. The measures of performance have been splited into four segments by Man (2006). These are tangible, intangible, financial and non-financial. Lebans & Euske (2006) give some explanations for illustrating the organizational performance:

- The firm performance consists of both financial and nonfinancial measurements and shows information and results about whether realizing your objectives
- The firm performance must be judged and interpreted, and must be explained how current actions impact to future goals.
- It is important to understand every responsibility area's basic characteristics for illustrating the firm performance.

Sacer (2016) figures in financial statements, which are calculated through international or local standards, indicate a company's financial situation and performance and give valuable information for decision making. But for the being different calculation method between the major two international accounting model (US GAAP, IFRS) gives different results in financial figures. In this case, it is an important issue to know for investors which locations/companies use GAAP or IFRS, or when to apply both of them,

and what differences are between them (Sherman & Young; 2016). According to their opinions, auditors can assess a company's fair value, calculate its financial figures, estimate financial situations and measure assets value. But it is very hard for them to evaluate a company's intangible assets like licensing, goodwill and others. Accounting estimates done by audit companies are reliable and historical information for firm financial performance.

2.2.2. Accounting-based measurement

Organizations assess performance to give assurance that they are run so effectively as possible or ascertain whether it is reaching its objectives. Analysing firm financial performance is used with different techniques. One of them is the ratio analysis based on the firm's financial statements and financial statement analysis is derived from historical data and can give important information for future performance (Horngren and Sundem, 1990). Though there aren't any exact categorizations of these ratios, they can be divided into two groups: accounting as profitability ratios and market as investment ratios (Masa'deh, Tayeh, Al-Jarrah, & Tarhini, 2015).

There are notable advantages of measurements that accounting-based. These advantages are simplistic to use, easy to figure out without additional effort, and almost are grounded on audited figures (Aliabadi, Dorestani, & Balsara, 2013). Also, accounting-based measurements have some disadvantages, they are calculated with historical data, are easily handled by any alterations in accounting policies, are suitable for short-time decisions, might estimate intangible assets as insufficient. To use these measurements creates difficulty for comparing to the other companies' same figures because most of the companies adopt different accounting policies.

According to (Masa'deh, Tayeh, Al-Jarrah, & Tarhini, 2015), accounting-based measurements are important indicators for assessing a firm's profitability. These types of ratios demonstrate how much the company has earned money, how much profits on sales periodically. Kapopoulos & Lazaretou (2007) point out the profit rate is calculated by the accountant in accordance with the local or international standards, also it is affected by used different calculations method of tangible and intangible assets. We can give examples to accounting-based measurements such as return on assets, return on equity, return on sales, return on investment, profit margin, operating cash flow, operating profit, earning per share and others.

Return on assets (ROA). ROA measures the financial and operational performance of organizations and how much return the company has been earned by using its assets for making a profit (Aggarwal, Klapper, & Wysocki, 2003). Haniffa and Hudaib (2006) consider, the higher ROA means the more productive management, which uses a company's resources efficiently, and as a result, it serves shareholder's interest. The most used ROA formula is as a follow (by Kim & Yoon, 2007; Mashayekhi & Bazazb, 2008; Shao, 2010 and others.):

ROA = Net Income / Total Assets

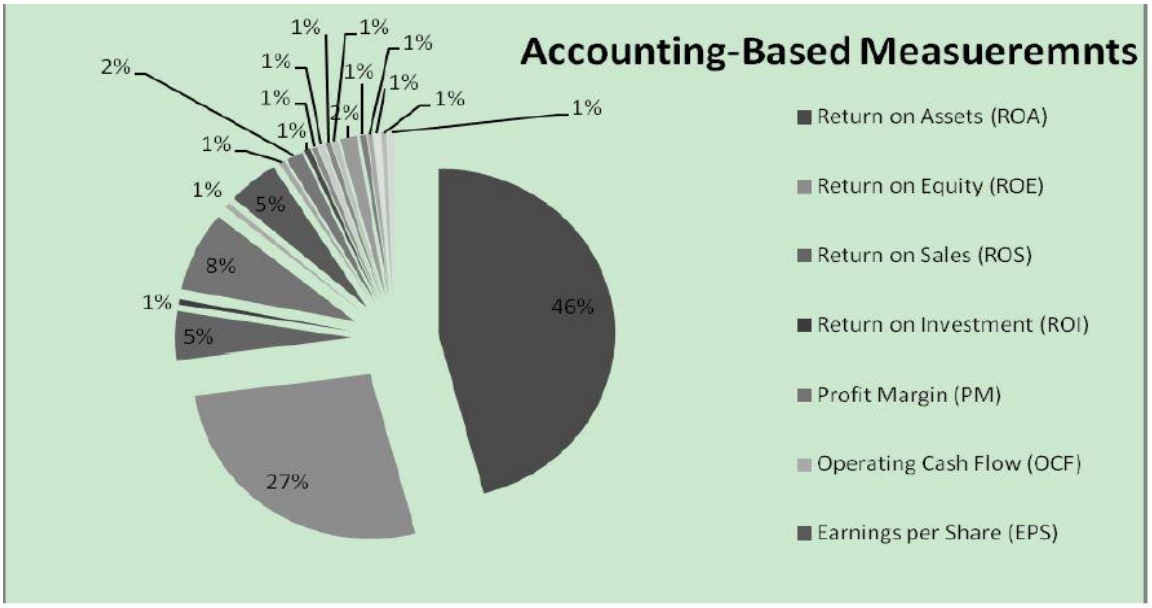
Return on equity (ROE). Alexander and Nobes (2001) explain that the ROE ratio demonstrates being management success or failure when using a firm's resources to make a profit and increasing shareholder's wealth. However, Duffy (1995) considers, despite the ROE is an important part of the ratio pyramid, this ratio does not show to shareholders either management increase or destroy the shareholder wealth, definitely. According to (Adetunji & Owolabi, 2016), the ROA and ROE ratios show the same figures when company doesn't have corporate debt. That is why these ratios are important for assessing firm performance if the company is leveraged. Thus, both ratios differ from each other from the financial leverage level point out of view. The ROE formula is calculated as a following (Al Manaseer et al., 2012; Uadiale, 2010; Juras and Hinson, 2008; Pandya, 2011):

ROE = Net income / Total equity

Return on sales (ROS). The ROS, that is known as net profit margin, shows how the firm is successful in making profits from its sales (Masa'deh, Tayeh, Al-Jarrah, & Tarhini, 2015). Though a higher-margin means better firm performance, this ratio is related to only PL accounts and is not used any financial position and cash flow elements when calculated it (Hennell and Warner, 2001). That is why it can give a lack of information about management performance. The formula for ROS from many researchers (Ghahroudi, 2011; Singh and Gaur, 2009; Bozec, 2005):

ROS = Net income / Sales

Figure 4. The Account-Based Measurement



Source: http://www.macrothink.org/journal/index.php/ajfa/article/view/4761

Based on Figure 4, illustrate using percent of the accounting-based measurements by corporate governance. The commonly used ratio is ROA at 46%, the following ratios are ROE and PM respectively 27% and 8%.

2.2.3. Market-based measurement

Market-based measurements are commonly made use by the shareholders, investors because they are interested in the firm future performance that is based on the firm's past and current performance (Ganguli et al.,2009; McIver Ron, 2011). Stickney (2007) emphasizes these measurements inform market participants about the firm's expected profitability in long term periods, especially. Idries et al. (2015) considers market-based ratios illustrate how a company is carrying out its operations in accordance with dividends, its share price, and other elements.

(Aliabadi, Dorestani, & Balsara, 2013) point out, the good point of measuring firm performance with the market-based ratios is that they show value created by share prices. However, sometimes market imperfections might cause to under or overestimation of a firm's market value. Other aspects for market-based measurements are, market variables are improbably less affected by the company's accounting policies; stock prices should be convenient for forecast objective because they can reflect expected cash flows; in the efficient markets, market prices reflect all available information about a firm, except

included in financial statements (Agarwal & Taffler, 2008). According to Lubatkin and Shrieves 1986, market-based measures have such advantages: market prices help investors to evaluate managerial decisions' effects; market prices maybe reveal any efforts by managers to manipulate accounting figures; market prices can be justified by any inflation, stock movements; market prices express all existing aspects of company performance.

The commonly used market performance ratios are Tobin's Q, Market Value Added (MVA), Market-to-Book Value (MBV), Price/Earnings ratio, Annual stock retun (RET) Capitalization ratio, Dividend yield (DY) and others (Abdullah Kaid Al-Swidi et al. 2014). According to Bozec and Dia (2010), Tobin's Q ratio is the most used measurement for assessing the firm's long-term performance. Kapopoulos & Lazaretou (2007) emphasize being high in Tobin's Q ratio illustrates that the market value of the company is more than book-value and the company has reached planned goals. In the next chapters detailed information will given about Tobin's Q because this thesis has been focused on relationship between Tobin's Q ratio and Institutional investors.

Market-to-Book ratio. This ratio is the figure to show how that is the firm market capitalisation, at a point in time, relative to its book worth. MB ratio is used, to evaluate financial sector companies like insurance, real estate, banks (CFA Institute). The formula is for economists (Maury, 2006; Romal et al. 2007; Karim et al., 2007):

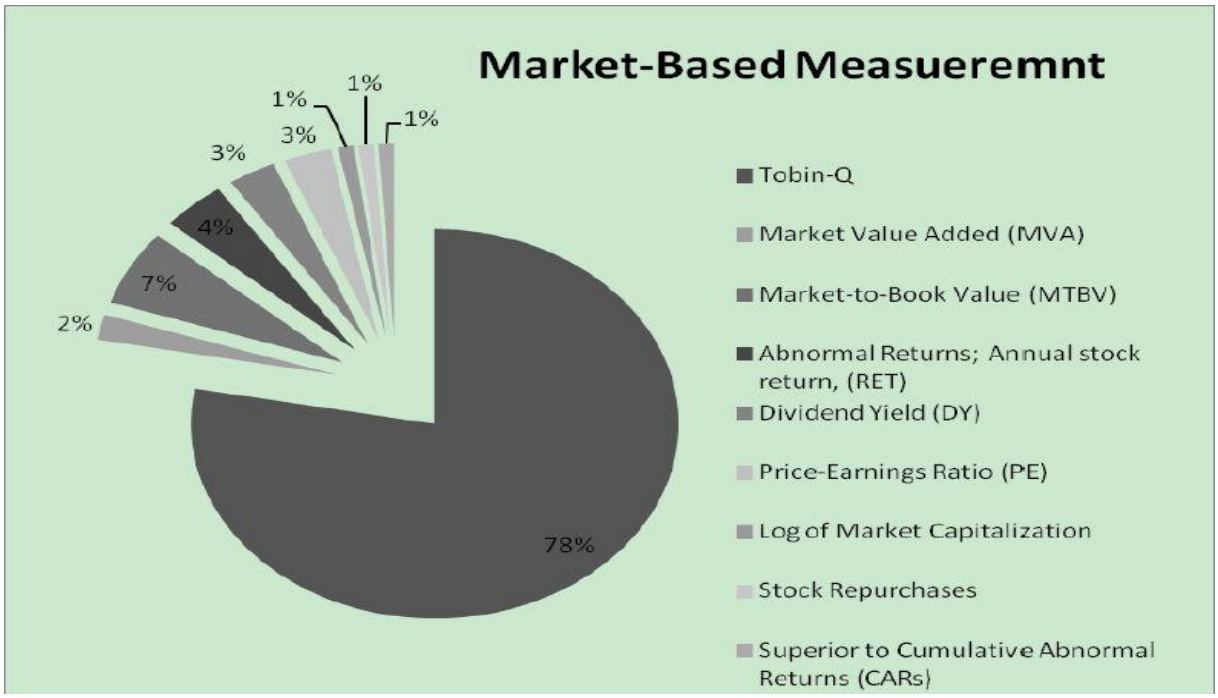
M/B = Market Capitalization / Book Value

If the result from this formula is less than 1, it means unsuccessful investment and the firm market value is undervalued, but if the result is more than 1, it indicates the well-performed company (Institute, n.d.)

Market value Added. The MVA ratio indicates the net difference from the firm's stock value to invested capital cost. (Steven M. Bragg, 2012). JAMES CHEN (2019) points out If investors want to know, how a firm performs on behalf of its investors, first they pay attention to the MVA ratio. A high MVA informs fulfilled a good job and raised shareholder wealth by the management. Also, a negative level of this ratio shows the insufficient management, and current investment value is lower than invested capital's value by shareholders. The MVA formula is as a following (Kula, 2005; Steven M. Mragg, 2012):

MVA = Market Value Equity – Book value of invested capital

Figure 5. The Market-Based Measurement



Source: http://www.macrothink.org/journal/index.php/ajfa/article/view/4761

The above figure illustrates the widely used ratios for measuring firm market performance by corporate governance. The Tobin's Q ratio comes first among ratios with 78%. MBV and RET are the next, respectively at 7% and 4%.

2.2.3.1. Tobin's Q theory

Tobin's q, that is one of the principal theories, derived from the named "Pitfalls in Financial Building" paper by (Brainard & Tobin, 1968). In that paper, a new model was mentioned for promoting the economy. Tobin's Q, explanation of the new model, was presented at firstly and like as (Acker, 2014): New investment is encouraged when the capital's stock value is high than its replacement cost, however, it demotivated, when its replacements cost is higher more than its market valuation. This theory is called for the name of James Tobin (Robert Bartlett and Frank Partnoy, 2018).

After the implementation of this theory by Brainard and Tobin, it has been improved by other economists and today has been a considerable market indicator. The original formula of Tobin's Q is as follow:

$$Tobin's\ (1969)\ Q = \frac{Value\ of\ capital}{Replacement\ cost\ of\ capital}$$

In the real world, the calculation of the firm assets' replacement cost is more complicated. As a consequence, the original formula has been changed, the economists use assets' book value instead of their replacement cost (CFI Institute, n.d.):

$$Tobin's\ Q\ Ratio = \frac{Equity\ Market\ Value + Liabilities\ Market\ Value}{Equity\ Book\ Value + Liabilities\ Market\ Value}$$

Another approach of Tobin's Q ratio is advanced by Chung&Pruitt (1994). We calculated with this formula in my research. This Q formula is as below:

$$Tobin's\ Q = \frac{Equity\ Market\ Value + Liabilities\ Book\ Value}{Equity\ Book\ Value + LIabilities\ Book\ Value}$$

(CFI Institute, n.d.) and (Kaijser, 2014), If Tobin's Q ratio > 1, it means that firm market value is higher than its assets book value, in another word, investors are advantage from investment, and this investment is lucrative. If this ratio result is less than 1, the firm is undervalued and investors lose from investment. But in this situation, many potential purchasers are ready to buy such a resulted firm in place of founding a new firm. An ideal case is Q match to 1 because it is considered that, the firm's assets are assessed at fair value and investors make neither profit nor loss.

The Q ratio, used in different financial situations, is developed by various financial aspects. Jose et al. 1986, Watson (1979) have examined in their studies connected with investment and diversification. Vishny et al. (1988) and Servaes (1990) have used to study managerial ownership and company value's association with each other. According to Cho (1998), Company value effects to its ownership structure, also Q ratio has an impact on company value and ownership structure. Q ratio is used for company performance measurement to assess in respect of share effects and industry significance (Wernerfelt & Montgomery,1988). According to Blose and Shieh (1997), a notable positive correlation exists between Q ratio and the response of capital investment news to the stock market. Tobin's Q is used to examine relationships among firm performance and different firm-specific factors which are advertisements (Wu & Bjomson, 1996) and R&D (Megna et al.,1993). Moreover, scholars have used this theory to learn market power's influence on the organization's performance, particularly when accounting measurements can't identify any performance impacts. To evaluate the company's intangible assets, it is very useful to use Tobin's Q (Anandhi, Sundar and Benn, 1999).

For long-term considerations, firm market value should be equal to its assets' replacement cost, and any deviation (especially in q > 1 case) from this assumption is explained with firm intangible value. Researchers (Klock et al.,1993; Hall, 1993) have examined firm intangible assets and firm performance relation, with Tobin's q.

The Q ratio is useful in many financial phenomena, but there are exist some limitations. Although, to define firm market capitalization is not hard, sometimes to value a firm's all types of equipment and other assets are hard because some of them might not exist at the secondary market. Another difficulty related to this ratio is that estimation of invested and amortized ads, R&D projects and like types of intangible assets' value is more complicated (Sanjay Bulaki Borad).

2.2.3.2. Tobin's Q ratio impact on firm institutional ownership structure

Many empirical studies have been examined the existence of a correlation between ownership types and firm performance using different techniques. One of these techniques is assessing this relation with Tobin's Q model. The managerial ownership performance of companies, listed in the Malaysian market, and earnings quality have been analyzed by Mahmud et al. (2010) and reveal that there is a substantial positive impact of managerial ownership structure on the Q ratio. However, (Nedelescu, Gherghina, & Vintila, 2014) testify this relationship negatively in Romanian market companies during 2007-2011 years. Moreover, according to them, concentrated ownership has a positive correlation with company value (Tobin's Q), while foreign investors and Tobin's Q correlate with each other in a non-linear way. Cheng (2016) studies that institutional ownership has a significant effect on Tobin's Q. According to Rodiat & Ola (Sep 2018), banks, that have a high level of Tobin's Q, are correlated with a high level of three types of ownership: corporate, managerial and foreign. Clay (2001), McConnell and Servaes (1990) investigated institutional investors effects to 8951 companies' performance, as assessed by the proxy Q ratio, and found that a rising of 1% in institutional ownership structure affects 0.75% firm performance increment. According to them, this relationship appears as a result of efficient monitoring by institutions.

(Lin, 2010) analyzes different industries' listed companies in Taiwanese for a 9 years period, and if the institutional ownership structure of a company is more than 81%, the Q ratio will be rise by 1.25% in accordance with 1% rise in institutions, if the smaller

than 81% no correlation has each other. But this hypothesis is right when the company has been effectively monitored by institutions.

Some scholars have studied the relationship between firm market value (Tobin's Q) and institutional investors relative to domestic and foreign institutions. Yordying Thanatawee (2014) examined that, there is a positive and substantial relation between the Q ratio and corporate ownership. Especially, Tobin's Q is highly associated with domestic institutions, but almost no relationship with foreign institutional investors. Moreover, the Q ratio, an amount of retained earnings, and capital expenditures of the companies that have more institutional ownership are greater than companies that have a lower level of institutional ownership structure. It is evident from his report, a large proportion level of institutional investors, (especially, domestic investors) on ownership structure will cause better company performance and value.

2.3. Institutional ownership contribution on stock market prices

The stock market plays an important role in any country's investment market. There are a lot of market participants like institutional investors, individual and small investors, medium investors and others. In general, institutions purchase better stocks than individuals because institutions make more expenses to analysts related to research and investment (Osho & Osagie, 2005). Institutions purchase stocks than individuals because institutions make more expenses to analysts related to research and investment. Institutions put preferred stocks together into funds for special investment goals (Carnahan, 2002). According to Gbolahan Solomon Osho et al. (2005), individual and small investors buy shares from these institutions' funds which are appropriate for their investment objectives. When they acquire shares from these funds, they pay fees, make different expenses and in the end, pay taxes from their capital gains as individually. As a result, their returns from investment reduce. However, there is an option to by-pass this return reduction by acquiring stocks in direct way and holding a portfolio which follows the portfolio of institutions like mutual funds and asset managers. Under these circumstances, individual and small investors will get advantage of researches by professional analysists, that are serves to institutional owners, in case of having linear relationship between stock price and institutions.

Ovtcharova (2003) points out, being a high-level institutional ownership structure in organizations results in higher market prices and good value, but less market price can

be observed in less level institution structure in organizations. Even, this case is right to small companies' stock prices. (Ying, Kong, & Luo, 2015) examined institutional investor's implications on the Chinese market and found that institutional owners help to adjust stock prices reasonably and to decrease return anomalies. These actions may impact the rising of market effectiveness.

Institutional investors are the experienced executives who can easily affect stock prices by used and examined current, historical information to focusing future earnings. Jiambalvo et al. (2002) point out when the institutional owners compute the firm's future earnings, they think of information, that is related non-earning, like sales agreements in the long-period and firm growth plans.

Institutional owners prefer to invest in equities as more shares. Besides that, they have accountability for trading size with their trading strategies and they track strategies of significant rising and trading stocks. Thus, institutional investors can impact substantially in ascertaining market prices. To understand the movement of the market price is indicated to know the institutions' investment strategies (Knight, 2002). On the other hand, large investors try to trade a given market simultaneously, it causes to form market prices on a large scale (Lakonishok, Shleifer, & Vishny, 1992). They describe this problem with the pension fund manager's interview answer like: ''Institutions are herding animals. We watch the same indicators and listen to the same prognostications. Like lemmings, we tend to move in the same direction at the same time. And that, naturally, exacerbates price movements''.[7] In the economic literature this type of trend is named institutional herd effect (Borges & Martelanc, 2018). Some researchers have analyzed institutional herd effect and stock price correlation. Wermers (1999) & Sias (2004) determine in the short-run, institutional demand is linear relationship with stock prices. Dasgupta et al. (2011) examine the US stock market, during 1983-2004 years, the price of stocks, purchased (sold) by funds in the continuous period, were reduced (risen) in the medium-run. Another point of view of the institutional herd effect is, institutions refrain from reputational risk derived from their investment strategies. According to Froot et al. (1992) and Titman et al. (1994), asset managers decide jointly because of getting almost the same information and using identical financial indicators. Falkenstein (1996) points out fund managers can share their risk avoidance in similar features stocks.

[7] John Knight, 2002, Performance Measurement in Finance, Elsevier Science Ltd.

2.4. Institutional investors and companies in financial market

The development of the financial market can be examined by many existing theories in the literature. (Theurillat, Corpataux, & Crevoisier, 2008) describe the growth of the financial market are on the point of two reforms in the global world. One of them is, the developing investment plans as a collective and intensifying of these plans in institutional investors' hands (Montagne, 2006 & Clark, 2000). The other one is both political and institutional improvements directed in encouraging of liquidity and mobility market (Corpataux et al.,2005). To form and promote financial market growth in the local and global level have caused institutional reforms and these reforms propose to reduce regulatory barriers to the mobility of the capital (Morin, 2006).

Historically, though many and large households' investors exist and these funds have, indeed, run and controlled by financial intermediaries. Giraud (2001) and other researchers point out starting at the end of the 1970s, institutional owners have been crucial intermediaries and asset managers in the US financial market. In the global world, capital flows among countries by made institutional investors increase capital market effectiveness worldwide by making returns equal among different markets (Davis & Steil, 2001). As we mentioned in previous chapters, institutional investors can affect financial markets in the last decades with both supply and demand sides. The existence of institutions makes diversified and distributed market risks (Lescrauwaet, 2006). Davis (2000) points out, different kinds and sizes of institutional investors, who have various investment strategies, provide more stability and efficiency, in the financial markets.

The development of corporate investors provides stability and brings efficiency, to the financial market. Efficiency term is described as the power to accomplish the financial systems' fundamental functions (E. Philip Davis 2003). Merton and Bodie (1995) define these functions are almost the similar in all economies no matter in East or West. In the case of thinking institutional variety in the national frame, the institutions' functional perspectives can adapt better to new conditions and a global environment in the financial system. Robert C. Merton (1995) points out the technological advancement and the global structure of financial systems' integrations create financial changes in the capital markets, regulations and intermediaries, such as "junk" bonds, the electronic transfer of funds, ATM and etch.

Though hedge funds impact financial systems significantly by providing liquidity, diversifying investment portfolios, actively taking risks also they can affect financial

stability in a negative way (Lescrauwaet, 2006). In the financial market, being unsuccessful of hedge funds may be caused to harm the financial solidity of their suppliers, banks and other counterparties (European Central Bank, 2005). Greenspan (2005) considers that another negative point is the implication for the financial stable situation, hedge funds' sharp movements in the market position make it harder to evaluate their status and to nativize risks in the economic system.

(Theurillat, Corpataux, & Crevoisier, 2008) think that, in some countries which Angla-Saxon model dominates, pension funds hold a significant position as household savings. Aglietta (2001) points out till the later 1980s, almost only banks fulfill household savings functions such as fundraising and distribution, but after this period pension funds have become vital as household savings. T.Thierry et al. (2008) note banks received money from different individuals and investors and reinvested these savings as forms of bank loans, real estate credits (mortgage). However, nowadays pension funds are collecting a big amount of savings and reinvesting these amounts in the financial markets in direct way. In this case, pension funds and banks are competing with each other in the markets. (Thakor, 2015) notes companies benefit from the financial markets for increasing their capitals, lessening their capital costs and reaching financial resources without additional efforts.

Institutionalization impacts the financial markets and economy and provides the financial system's fundamental duties effectively (Philips E. Davis 2001).

2.4.1. Financial market effect to economy and publicly traded companies

(Adjas, Sarpong-Kumankuma, & Doku, 2011) point out financial markets help organizations to increase their capital or lend debts. The enhanced stock markets create an environment for investors diversified portfolios, liquid assets, and informative data. Besides that, liquid stock markets offer easy and low-cost financial resources for companies to finance themselves with equity capital. Grossman and Stiglitz (1980) note that the active stock market gives valuable information to borrowers and creditors about listed companies' financial situations and as to whether riskier.

The global financial ecosystem contains financial markets and institutional units. Many researchers have studied the roles of financial system in long-run economic growth. According to Levine (2005), there is a positive correlation between the financial system and economic development. (Aslı Demirgüç-Kunt et al., 2012) consider that the

developed financial system encourages long-term economic development. Beck et al. (2000) examined this relationship from 77 countries data and there are causal links between economic growth and financial system, derived from rising productivity.

(Levine, 1997) emphasized that financial systems fulfil these functions: *a)* simplify the risk diversification and trade; *b)* allocate resources; *c)* monitor managers and implement corporate inspect; *d)* make easier goods and service's trade;

2.4.2. Financial stability

Institutional investors, having long-run investment strategies, impact on financial stability positively and economic expansion. But the economic crises have disclosed some deficiencies in the market of institutional investors: their "herding" behaviours, short-run investment strategies and dangerous behaviour of some institutions (Stojanović, Pavković, & Krišto, 2014)

Financial stability is the main character of the financial system. If any country's banking system is poor and the banks act “disbursing" money and giving loans without risk-taking and controlling, for a while the financial system might seem as effective until these credits situations going bad. It creates an unstable financial system and, in the end, would be resulted in a crisis in the economy (Aslı Demirgüç-Kunt et al., 2012). IMF (2004) in developing markets more than two-thirds percent of the boom is related to excessive given credits and concludes in economic crisis especially in the banking system. Morever, (Lescrauwaet, 2006) considers that the financial turbulence was created by institutions in the capital markets, in which banks have significant intermediations. The working group of the "Committee on the Global Financial System" thinks that the roles of central banks in financial stability are the monitoring, controlling and understanding the development of the financial system

Sometimes, not only institutional investors expose instability to financial markets but also, they affect to macro-economy as instability. According to Pim Lescrauwaet (2006), pension funds and insurance companies might cause systemic difficulties like as unsuccessful in managing savings and lose households and other individual investors' trust, these problems worsen the economic development and consumption (Bank for International Settlements, 2003).

On the other hand, the risk-sharing in the market makes it possible to lessen and differentiate risk exposure types, especially, for banks; reduces being vulnerable against

territorial, industrial or any adverse economic shocks and these make the financial market stable and efficient (Rule, 2001). Pim Lescrauwaet (2006) considers that, in the last decades, hedge funds' risk management is got better, because institutional investors like banks, insurance companies, and others, who made investments in hedge funds, are urging to be transparency and more information related to risk. Dierick and Garbaravicius, (2005) point out having good risk and control techniques, which is as in large banks traditional mechanisms, is leading to hedge funds' positive influence on financial stability. Moreover, investing in long-term illiquid assets that are with future high returns, by institutions promote to the restructuring and growing our local and global community (Lars Rohde, 2011).

3. THE ROLE OF INSTITUTIONAL OWNERSHIP IN THE UK AND US FINANCIAL MARKET

3.1. Structure of the financial market in the UK and US economy

The UK and the US are the world's developed centre of finance. Financial institutions are keener to operate in these countries' markets than anywhere else (Deloitte working paper).

The US and UK are the biggest centres for fund and asset management. At the end of 2017, in the US and UK total assets under management are $54.5trillion and €8.6trillion, respectively. These figures show that the US possesses the biggest fund management in the world, while the UK is dominant in the European fund management portfolio.

The UK stock market has developed highly in the world. LSE is one main stock exchange in the UK and is home to over 2,200 companies and offers a choice of four markets: the Main Market, the Professional Securities Market (PSM), the Specialist Fund Market and AIM, reflecting our responsiveness to the differing needs of companies from around the world, and across all sectors.[8] It is not surprising that the biggest stock market of the world is in the US stock market and its value is about $34 trillion as of the date 2018 (Ron Surz, 2018).

The UK and the US are well-developed banking systems, the UK is in a dominant second place in the world after the U.S. (Deloitte, 2007). Total assets amount of the US banks are around $17.3trillion and of the UK banks are about £5.28 trillion. London and New York have a lot of various branches or subsidiaries of foreign banks.

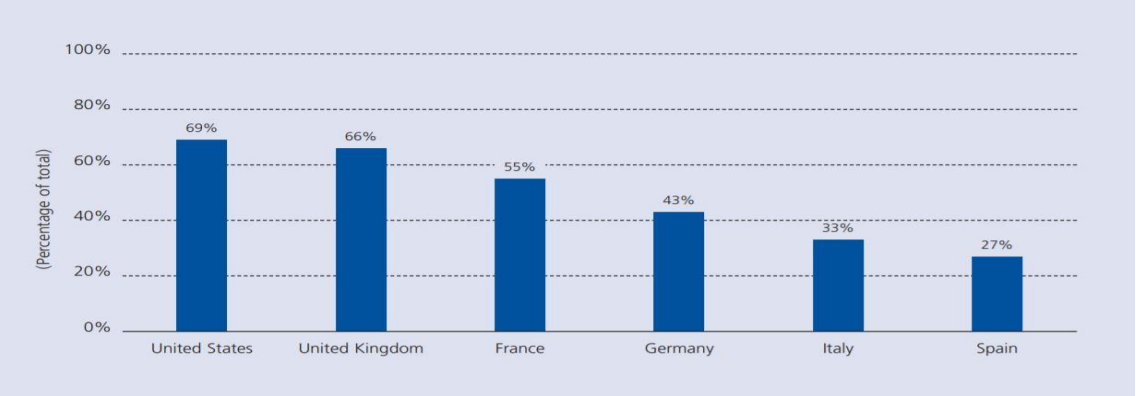
3.2. The difference and similarities of the UK and US financial market

In the 19th and 20th centuries, researchers approached the American and British financial systems with the same mindset, the Japanese and German financial systems with another mindset. In addition to this generalization, today, there are some common and unique characteristics of these financial systems. In this chapter, we have investigated Great Britain and the United States financial systems' models.

[8] London Stock Exchange Group plc, 2016. "Introduction to London Stock Exchange Capital Markets", London

The UK financial system is characterized by refined securities, a lot of capital, and also systematized money markets that financed companies if they seek additional financial resources. The UK and US financial systems are called market-oriented because the UK and US companies can obtain a great amount of external financial resources through money and capital market (Sylla & Wright, 2004). It is clear that this type of financial system might provide economic development by permitting companies to increase their capital from different kinds of investors and through equity and bond issues. These countries have universal banking traditions, and existing bankruptcy regulations in these countries put banks away from the controlling of companies that banks are informed about their financial difficulties (Frankel & Montgomery, 1991). As it is obvious, bank credits are the main significant source of financing.

Figure 6. Capital Market Financing (A) to the Cumulative Value of Bank (B) and of Capital Financing (A) (A/(A+B))



Source: IEB (Instituto de Estudios Bursátiles), Sep, 2015, "The Voice of Savings and Retail Banking".

At first glance at figure 6, between 2000-2010 years, the UK and US are dominant with the value of the capital market financing to the cumulative value of the bank and of capital market financing, comparing to other EU countries.

The main feature of the United States banking industry is to consist of a lot of small banks (Federal Reserve Bank of San Francisco, 2002). These banks have been restricted to fulfill from supplying other types of financial services related to insurance, real-estate, etc. Moreover, banks are allowed to invest in limited industrial firms. However, UK banking industry is dominated by very large banks like The Lloyds Group, Barclays, Royal Bank of Scotland and etc (United Nations Environment Programme, 2016).

3.3. Greening Financial system and greening institutional investment

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole.[9] Environmental or greening factors are important issues of responsible investing.

Climate change has negative impacts such as it could make financial instability and damage the world economy substantially. Employees may less productive because it is warmer weather; natural calamities may damage infrastructure and agriculture projects (Dell, Olken, & Jones, 2014)companies may delay their investment objectives because of possibility of negative future profit predictions; and other problems (Dafermos, Nikolaidi, & Galanis, 2018).

Central banks play an important role in the financial system related to fighting climate change issues (Financial Stability Review, 2019). (Dafermos, Nikolaidi, & Galanis, 2018) mentioned, the central banks put targets to stabilize the financial system and prices based on long-term periods, using their mandates related to decreasing climate-related financial risks. The "Network for Greening the Financial System" organization's supervisors and Central Banks (including the Bank of England) work together to develop the financial sector with climate-related risks and achieve a better environment (Network for Greening the Financial System, n.d.) Besides that, they try to improve financing opportunities to a low-carbon emission economy. According to https://www.ngfs.net/en/about-us/membership, (as per April 2020 data), NGFS's members are 65, observers are 12. According to climate issues, banks should provide funds not only to transition to clean energy but also to develop clean technologies, and avoid put investment the dirty energy (Fossil Fuel Finance, 2019).

In the UK, the first transition stage of the decarbonization economic system has been with the redeveloping of the Green Investment Bank (Stirling, Powell , & Lerven, 2019). There is the CCC's supervisors (Committee on Climate Change) call for the government to reach net-zero level carbon emissions until 2050 (Meadway, 2019). (Griffith-Jones, 2016) points out the UK Green Investment Bank benefits from different green banks' experience such as being Germany's bank "Kreditanstalt fur Wiederaufbau". This bank is an important bank in green investment and funds low-carbon energy and

[9] Chatterjee S, Fabian N, and Feller E, 2016 Greening Institutional Investment https://www.unpri.org/download?ac=1423

supplies domestic and international investors a great deal of green financing with the government guaranteed and lower cost. Moreover, KfW makes loans to small and medium companies that promote green and clean energy projects (Nikolaidi, 2019)

(Dziawgo, 2014) considers that today, many public companies and institutional investors try to expand their business structure as environment-friendly. Sagarika Chatterjee et al. (2016) consider that institutional investors recognize that will be better market conditions with a greening economy. Investors are promoting projects and behaviors of stock exchanges related to green matters. Sustainable Stock Exchanges Initiative, organized by UNCTAD and is a global organization, supports sustainable investment and increases actions on ESG issues (https://sseinitiative.org/). Corporate and individual investors are utilizing particular market indexes series, like FTSE4Good, S&P Global Clean Energy Index, Nasdaq Clean Edge Index and others, for making better and clean investments, assessing their investment efficiency (Dziawgo, 2014).

Some countries are using payments and taxes against ecology pollutions. According to (Shekhova, Kireeva, Nazarov, Peskova, & et.al, 2016), for example, energy taxes are applied to energy products, like oil-gas, coal, fuel; pollution payments are related to canalization, emissions in the atmosphere, waste payments; transport taxes like plane tickets, road taxes, sale taxes of transportation; for using natural resources taxes and others payments. Also, they point out the ecological taxes are applied in many OECD countries for impacting the environmental behaviours of producers, entities, and consumers. Environmental tax statistics (2016), in Europe, these practices are more common and are useful in economically because of supporting the “pollutants pay" rule. Additionally, many researchers (Ebert, Welsch, (2011) and others.) concur with the consideration, that environmental principles encourage economic development.

3.4. Institutional asset managers in the UK market

Institutional asset managers help to build and sustain investment portfolios in the name of their clients, such as insurance companies, pension funds, individuals, banks (Bank for International Settlements, 2003). Assets under management consist of fixed-income bonds, equities, and commercial properties. Investors’ assets always remain the property of the investor and are held by third parties (called depositaries, custodians or

trustees).[10] These assets are preserved safely and might be withdrawn for managing by the other managers in the case of any necessities. These assets are preserved safely and might be withdrawn for managing by the other managers in the case of any necessities. In the last decades, the development of the asset management industry is on account of the financial system's structural shifts (OECD, 2001).

Table 1. Asset under Management in European Countries (December 2017)

Country	**Total AUM(€bn)**	**Market share**
UK	8,670	37%
France	4,142	17%
Germany	2,161	9%
Switzerland	1,887	8%
Italy	1,294	5%
Netherlands	844	4%
Denmark	425	2%
Spain	409	2%
Belgium	332	1%
Finland	223	1%
Other	3,363	14%
Total	**23,750**	**100%**

Source: The Investment Association Annual Survey, EFAMA report

Assets managers carry out many functions in the financial market and the global economy. One of them is the running and managing of European citizens' savings in direction to investments, effectively ((EFAMA, 2019)). The Table 1. shows assets managed by European countries in December, 2017. AUM in Europe is the total amount to 23.75 T in 2017 and the UK is dominant in the asset management industry with 37% of total European AUM market shares. As seen from the table, the first five countries' AUM market shares are more than 75%, and researchers linked these figures with the experiences of these countries in the financial market.

The biggest companies in the UK asset management industry possess various origins: some of them derived from accounting, law, banking or insurance companies; some others have long-established professionals; other ones are any part of foreign parent organizations, that have or not investment management (Paul Myner, 2001). The next table

[10] EFAMA, 2019, "Asset Management in Europe: An overview of the asset management industry" Asset Management Report, September 2019

(Table 2.) set outs the amount of assets managed by the top ten companies in the UK market by 2018.

Table 2. UK Asset Managers, 2018

Rank	Company	Total AUM (€M)
1	Legal & General Investment Management	1,107,666
2	Insight Investment	658,905
3	Aberdeen Strandard	648,519
4	Schroder IM	476,214
5	M&G Investments	395,400
6	Aviva Investors	397,924
7	HSBC Global AM	390,591
8	Baillie Gifford	202,331
9	Royal London Asset Management	129,150
10	Man Group	90,919
	Total	**4,497,619**

Source: https://hub.ipe.com/top-400/uk-asset-manager-tables-2018/10007231.article

The total amount of asset management market is €M 8,554,700 in the UK as at the end of 2018 (The Investment Association, 2019) and the top ten asset managers form more than about 50% of total this market.

Figure 7. Assets Managed in the UK by Client Type, 2018



Source: The Investment Association, "Investment Management in the UK 2018-2019".

There are different types of client group of asset managers. According to "The Investment Association Annual Survey" report, at the end of 2018, the UK asset managers' biggest client group is institutional clients with 80.2% (Figure 7). As per the same figure, 45.5% and 13.8% of the institutional client group belong to pension funds and insurance companies, respectively. The remaining parts of the client group are retail and private clients, by %18.8 and %1.

3.4.1. Sector analysis of institutional owners by industries

On 31 December 2018, issued shares of firms listed on the LSE and domiciliated in the UK were valued at £ billion 1,884. This figure had decreased by 7% compared with the 2017 year. Beneficial owners of these shares are different types of investors. As the Table 3, it seems that the high percentage of quoted shares in the UK held by rest of the world.

Table 3. Owners of UK Shares by the Percent and Value, for 2012, 2014, 2016 & 2018

Beneficial owners	**Percent**				**£ billion**			
	2012	**2014**	**2016**	**2018**	**2012**	**2014**	**2016**	**2018**
Rest of the world	53.3	53.7	53.9	54.9	933.2	1073.6	1100.5	1034.1
Individuals	10.6	12.4	12.3	13.5	184.6	247.5	251.5	254.0
Unit trusts	9.5	9.1	9.5	9.6	167.0	181.4	193.7	181.1
Other financial institutions	6.6	7.1	8.1	8.1	114.9	142.5	166.1	152.2
Insurance companies	6.2	5.9	4.9	4.0	108.8	118.3	100.3	75.5
Pension funds	4.7	3.0	3.0	2.4	82.4	60.0	60.6	44.8
Public sector	2.5	2.6	1.1	0.9	44.3	51.8	22.6	17.3
Private non-financial companies	2.3	2.0	2.2	2.6	40.1	39.2	45.0	48.1
Investment trusts	1.7	1.8	2.1	1.4	30.6	36.0	42.6	26.6
Banks	1.9	1.4	1.8	2.1	33.4	27.8	36.7	40.1
Charities	0.6	1.1	1.0	0.5	10.6	22.8	20.7	10.1
Total	**100**	**100**	**100**	**100**	**1750**	**2000.8**	**2040.4**	**1884.0**

Source: Office for National Statistics (https://www.ons.gov.uk/economy)

Table 4. ‘‘RoW’’ Holdings of UK Quoted Shares Owners, 31.12.2018

Beneficial owners	**Percent**		**£ billion**	
	North America	**Other RoW**	**North America**	**Other RoW**
Unit trusts	53.1	32.3	281.7	162.7

Other financial institutions	28.5	17.5	151.2	88.1
Pension funds	14.2	9.5	75.3	47.8
Insurance companies	0.9	4.0	4.8	20.1
Individuals	0.8	12.6	4.2	63.5
Public Sector	0.4	12.2	2.1	61.4
Charities	0.7	0.6	3.7	3.0
Banks	1.2	4.6	6.4	23.2
Private non-financial companies	0.2	6.7	1.1	33.7
Investment trusts	0.0	0.0	0.0	0.0
Total	**100**	**100**	**530.5**	**503.6**

Source: Office for National Statistics (https://www.ons.gov.uk/economy)

If the summarising above two tables (Table 3. and 4.), we have concluded with in the following results. Firstly, we have calculated all beneficial owners of UK listed companies shares both inside UK and outsite of UK. As seen from the following table, the unit trusts and other financial institutions are the dominant owners of quoted shares in the UK domiciliated firms. The higher proportion of these shares held by institutional investors and this figure was at the more than 70%.

Table 5. Beneficial Owners of UK Shares (including out of the UK shares) without ‘‘RoW’’ Title

Beneficial owners	**Percent**	**£ billion**
Individuals	17.2	321.7
Unit trusts	33.1	625.5
Other financial institutions	20.7	391.5
Insurance companies	5.4	100.4
Pension funds	8.9	167.9
Public sector	4.4	80.8
Private non-financial companies	4.5	82.9
Investment trusts	1.4	26.6
Banks	3.7	69.7
Charities	0.9	16.8
Total	**100**	**1884**

Source: Office for National Statistics (https://www.ons.gov.uk/economy)

The following table demonstrated that financial, manufacturing (MFG) and non-manufacturing (Non-MFC) companies’ beneficial owners by the ownership types. Owners outside of the UK preferred to invest in non-manufacturing companies. Generally, it seems from the Table 6, institutional investors made investments more in non-manufacturing companies than other industry types of companies.

Table 6. Types of Beneficial Owners and Industry Sector of Company

	Industry of company which issued shares							
Beneficial owners	**Financial**	**MFG**	**Non-MFG**	**Total**	**Financial**	**MFG**	**Non-MFG**	**Total**
Individuals	66.1	83.4	104.5	254	14.7	13.9	12.5	13.5
Charities	2.8	2.9	4.4	10.1	0.6	0.5	0.5	0.5
Insurance companies	16.9	24.6	33.9	75.5	3.7	4.1	4.1	4.0
Pension funds	9.7	14.6	20.4	44.8	2.2	2.4	2.4	2.4
Investment trusts	7.5	7.2	11.9	26.6	1.7	1.2	1.4	1.4
Unit trusts	36.5	62.6	82	181.1	8.1	10.4	9.8	9.6
Banks	4.4	8.7	27	40.1	1.0	1.5	3.2	2.1
Other financial institutions	29.0	45.9	77.3	152.2	6.4	7.7	9.3	8.1
Private non-financial companies	3.1	25.6	19.5	48.1	0.7	4.3	2.3	2.6
Public sector	16.5	0.3	0.5	17.4	3.7	0.1	0.1	0.9
Rest of the world	258.2	323.7	452.1	1034.1	57.3	54.0	54.2	54.9
Total	**450.7**	**599.6**	**833.7**	**1884**	**100**	**100**	**100**	**100**

Source: Office for National Statistics (https://www.ons.gov.uk/economy)

3.5. Institutional asset managers in the US market

The U.S is one of the major central hubs in the asset management industry like the UK and the state is dominant in this market all around the world (Epstein, 2019). According to different statistical data, we can see that in the last decades, assets under management are developing remarkably. According to Willis Towers Watson's report, at the end of 2017, the total AUM of the biggest 500 asset managers globally reached $93.8 trillion (www.willistowerswatson.com). US asset managers (generally, called North America) represented the $54.5 trillion of this table.

The Table 7. demostrates the top 10 asset managers in U.S ranked by AUM, as a date of 31 Dec, 2017. The first three asset managers are top positions in the U.S AUM industry at least the last 4 years.

Table 7. The US Market's Largest Asset Managers

Rank	Company	Total AUM ($B)
1	BlackRock Inc.	6,288
2	Vanguard Group	4,940
3	State Street Global Advisors	2,782
4	Fidelity Investments	2,448
5	J.P. Morgan Asset Management	2,034
6	Bank of New York Mellon	1,892
7	Capital Group	1,778

8	Goldman Sachs Asset Management	1,494
9	Prudential Financial	1,393
10	Northern Trust Asset Management	1,161
Total		**26,209.00**

Source: Thinking Ahead Institute 500/Willis Towers Watson

BlackRock is the world's biggest asset management organization and not only manages assets in the interest of its clients but also supplies additional professional services such as risk, advisory, and others. Its client groups are pension schemes, insurance companies, charities, retail, official institutions, wealth and mutual funds, individuals, and government. Related to retirements are predominated in their client groups. At December 2019, the BlackRock's institutional client base is $B 4,475 out of $B 7,429 (BlackRock Annual report, 2019). The other largest asset manager in United States is State Street Corporation. It is serving different types of clients, products in different regions. As the following figure, it is demonstrated that AUM changes by regions and years.

Figure 8. BlackRock AUM changes between 2018 and 2019.

(In billions)	December 31, 2019	December 31, 2018	December 31, 2017	% Change 2019 vs. 2018	% Change 2018 vs. 2017
North America	$ 2,115	$ 1,731	$ 1,931	22%	(10)%
Europe/Middle East/Africa	493	421	521	17	(19)
Asia/Pacific	508	359	330	42	9
Total	$ 3,116	$ 2,511	$ 2,782	24	(10)

Source: BlackRock annual Report.

(Epstein, 2019) point outs The US Asset management companies have changed and improved their strategies over the years in reaction to developments in economies and technological advances. Any happenings in the US AUM industry is important for all world, as the US economy and AUM industry have a great impact on the global market.

3.5.1. Portfolio of institutional investors by industry and institution type

When Investors make an investment, they focus on the specific industries as they assume these industries sectors will be successful and assist them to achieve an investment target. As far as we know that investors have different investment preferences. Some of them are risk-takers, while some of them concentrate only on non-volatile and

stable investing options. Asset managers and institutional investors also concentrate on sector-specific investments. Not all the fund managers concentrate on one sector investment, but also certain amount of them try to diversify their portfolios with different sectors.

We have compared the financial sectors' institutional owners in the US market as at the date January 2020. Table 8 demonstrates that in the US market institutional owners are the main proportion of financial companies' ownership structure. Especially, the various types of insurance sectors have been selected as preferred options to invest by institutions.

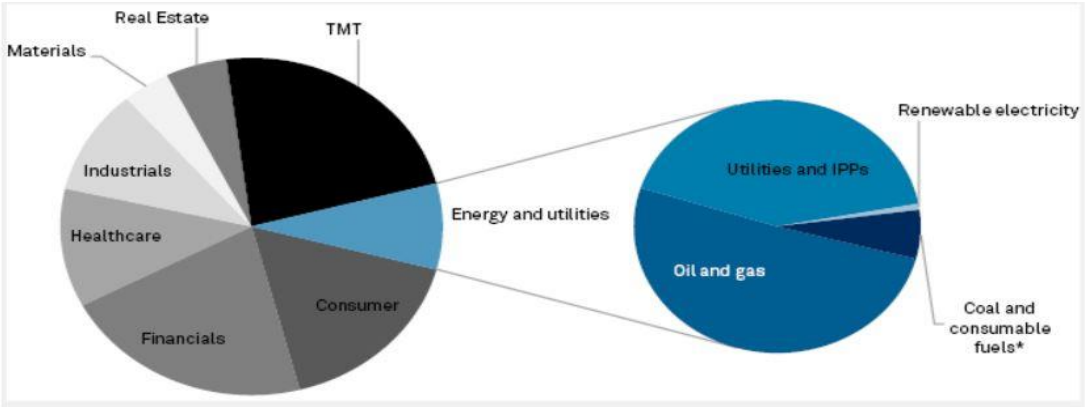
Table 8. Beneficial Owners of the Financial Sectors' Company in the US

Industry Name	***Institutional Holdings***
Bank (Money Centre)	58%
Banks (Regional)	35%
Brokerage & Investment Banking	66%
Financial Svcs. (Non-bank & Insurance)	39%
Financial Svcs. (Non-bank & Insurance)	39%
Insurance (General)	73%
Insurance (Life)	66%
Insurance (Prop/Cas.)	57%
Reinsurance	90%
R.E.I.T.	77%
Real Estate (Development)	31%
Real Estate (General/Diversified)	53%
Real Estate (Operations & Services)	34%
Business & Consumer Services	52%
Investments & Asset Management	47%

Source: www.damodaran.com

BlackRock is not only the biggest fund manager in the US but also in the world. We have analysed Black Rock investment portfolio in different sector types for the date January 15, 2020. Figure 9 showed that, this organization's investment portfolio is diversified: energy and utilities, technology, media and telecommunication (TMT), real Estate, consumer, financials, industrials, healthcare and others. But the main important proportion of this portfolio is related to the TMT, financial and consumer sector.

Figure 9. Breakdown of the BlackRock Investment Portfolio



TMT – Technology, media and telecommunication

Source: S&P Global Market Intelligence (https://www.spglobal.com/marketintelligence/en/news-insights/trending/CxrKyPgB7fj9eKhv5MTtwg2)

4. INSTITUTIONAL INVESTORS COMPARATIVE ANALYSIS ON FIRM MARKET PERFORMANCE

4.1. Data

To investigate the correlation between concentrated institutional ownership and firm market value, we have used a regression model to test my pooled OLS. The research has been performed by choosing samples of 35 companies selected from the London Stock Exchange (LSE) - listed companies in the UK market and covering the period between 2015-2018. Also, samples of 35 companies have been selected from the Nasdaq Stock Exchange - publicly traded companies in the US market and covering the same period of time. We have collected my data from different websites which we have mentioned in "data of sources" paragraph. The overall samples are the financial and stock figures from 70 financial and publicly traded companies.

Variables

Dependent variable

According to previous studies and global economy, we can see that intuitional investors have an important role in the company's capital structure and is the largest financial resources providers. Thomsen &Pederson (2000), Shleifer and Vishny (1986), A. Ch. Ahmad and M. A. Jusoh (2014) and others examined institutional ownership and firm value relations with Tobin's Q ratio. Coming to my study question and aim, we have called Tobin's Q as a dependent variable. Although different methods exist to calculate Tobin's Q ratio, in this study we have followed Chung and Pruitt's (1994) approach related 'Q' ratio because calculating replacement values is complicated. This ratio is calculated by the firm market capitalization divided to the book value of the firm assets.

Independent and control variables

Institutional ownership (shown by INST) served as an independent variable in this study and was defined by the percentage of institutional investors shares to the total company shares. Leverage ratio (shown by Levg) has been utilized in various studies as independent and control variables (Akhtar and Fattouh 2005, Abor 2007, Hasan et. al. 2014). While reviewing the literature, leverage has been described by the total debts divided to total assets[11]. Company size (shown by SIZE) was measured by the employees'

[11] https://corporatefinanceinstitute.com/resources/knowledge/finance/leverage-ratios/

numbers. If the number of employees is up to 50 that can be accepted as a small company. Based on that, companies with 50-250 employees are medium-sized and more than 250 employees are large organizations.[12] Age of the company was defined based on listing years. We have classified the companies' age groups as 0-25 years, 25-50 years, and more than 50 years old companies. In this study, market growth rate (shown by GROWTH) has been calculated with using the difference between two following years sales figures divided by previous year sales. Profitability (shown by PRFT) indicates the net income to total assets[13] which is the Return on Assets (ROA) formula.

4.2. Data analysis

In this section, we have tested each selected country data in the separate analyse with multiple regression model.

Firstly, there were the analysis results of the selected UK firms. The analysis commences with the multicollinearity test based on the Pearson matrix. The below Figure 10. demonstrates that the multicollinearity problem does not exist among variables, and the correlations are less than 0.80. Mitchell H. Katz (2006) states that if two variables are correlated with each other more than 0.8 value, it might result in a multicollinearity problem in the analysis. But the problem is in between two variables, for resolving this problem researchers can remove one of the variables from their analyses.

Figure 10. Multicollinearity Test Results by Utilising Multiple Linear Regression Model:

Correlations

		TOBINS Q	AGE	GROWTH	LEVG	PRFT	INST	SIZE
Pearson Correlation	TOBINS Q	1.000	-.141	-.074	.007	.349	.292	.152
	AGE	-.141	1.000	-.032	-.091	-.095	-.136	-.183
	GROWTH	-.074	-.032	1.000	-.088	.112	.095	-.066
	LEVG	.007	-.091	-.088	1.000	-.639	.023	.423
	PRFT	.349	-.095	.112	-.639	1.000	.277	-.231
	INST	.292	-.136	.095	.023	.277	1.000	-.089
	SIZE	.152	-.183	-.066	.423	-.231	-.089	1.000

Source: The SPSS statistical software. 26

[12] https://data.oecd.org/entrepreneur/enterprises-by-business-size.htm
[13] https://corporatefinanceinstitute.com/resources/knowledge/finance/profitability-ratios/

Figure 11. Model Summary:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.516[a]	.266	.232	.37724	.266	7.793	6	129	.000

a. Predictors: (Constant), SIZE, GROWTH, INST, AGE, PRFT, LEVG

Source: The SPSS statistical software. 26

Statistical analysis outcomes in Figure 11. demonstrate that R2 value is about 0.27 and adjusted R2 is 0.23. It means that independent variables determine 27% of total changes in the Tobin's Q value.

Figure 12. The Results of Anova Test:

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.654	6	1.109	7.793	.000[b]
	Residual	18.358	129	.142		
	Total	25.012	135			

a. Dependent Variable: TOBINS Q

b. Predictors: (Constant), SIZE, GROWTH, INST, AGE, PRFT, LEVG

Source: The SPSS statistical software. 26

The Figure 12. reported that, there is F-test value (7.793) and it is a statistically significant with the $p < 0.05$ level, that shows in this model, the independent variables have significantly influence on the dependent variable (Tobin's Q).

Figure 13. Results of Coefficients of Multiple Linear Regression Model:

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.486	.181		2.677	.008	.127	.845
	AGE	-.011	.046	-.020	-.249	.804	-.102	.079
	GROWTH	-.095	.063	-.114	-1.500	.136	-.219	.030
	LEVG	.330	.149	.247	2.215	.029	.035	.626
	PRFT	3.664	.775	.510	4.730	.000	2.131	5.196
	INST	.415	.205	.168	2.023	.045	.009	.821
	SIZE	.122	.062	.169	1.983	.049	.000	.244

a. Dependent Variable: TOBINS Q

Source: The SPSS statistical software. 26

The Figure 13. also showed different independent variables' effects on the dependent variable. Firstly, we can see that the institutional ownership coefficient is significant at a 5% level, (p-value is 0.045) and a positive relationship with Tobin's Q. In other sayings, one percentage of increasing institutional ownership structure will change a 0.168 percentage increase in 'Q' value. As a result, this analyze has supported the high concentrated institutional investors in the financial sector company impact company market-based performance is significantly and positively. This result is convenient with previous studies examined by Ahmad and Jusoh (2014), Shleifer & Vishny (1986), Jiang and Yamada (2011) who concluded that existing of institutional investors will impact firm market value positively because of more efficient controlling and monitoring activities.

In the Figure 13, the other control variables relationship with Tobin's Q is as: Company age (AGE) and market growth have negative (-0.020 and -0.114, respectively) and non-significant (0.804 and 0.136, respectively) impact; Leverage (Levg) and Company size (SIZE) have both significant (0.029 and 0.049 significant level, respectively) and positive impact (0.247 and 0.169, respectively). Also, profitability (PRFT) variable is positively and significant relationship with Tobin's Q.

The next step is analysis of the US companies' data. As you see from the Pearson correlation matrix (Figure 14), there is no high correlation between independent variables and does not exist the multicollinearity problem in this study, the correlations are less than 0.80.

Figure 14. Multicollinearity Test Results by Utilising Multiple Linear Regression Model:

Correlations

		TOBINS Q	AGE	SIZE	GROWTH	LEVG	PRFT	INST
Pearson Correlation	TOBINS Q	1.000	.243	.101	-.082	-.422	.455	.110
	AGE	.243	1.000	-.043	-.103	-.024	.171	-.310
	SIZE	.101	-.043	1.000	-.261	.011	.025	.497
	GROWTH	-.082	-.103	-.261	1.000	-.122	.058	-.034
	LEVG	-.422	-.024	.011	-.122	1.000	-.943	-.038
	PRFT	.455	.171	.025	.058	-.943	1.000	-.023
	INST	.110	-.310	.497	-.034	-.038	-.023	1.000

Source: The SPSS statistical software. 26

Statistical analysis outcomes in Figure 15. demonstrate that R^2 value is about 0.28 and adjusted R^2 is 0.24. It means that independent variables determine 28% of total changes in the Tobin's Q value.

Figure 15. Model Summary:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.527[a]	.278	.244	1.25208	.278	8.195	6	128	.000

a. Predictors: (Constant), INST, PRFT, GROWTH, AGE, SIZE, LEVG

Source: The SPSS statistical software. 26

Figure 16. The Results of Anova Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	77.082	6	12.847	8.195	.000[b]
	Residual	200.666	128	1.568		
	Total	277.748	134			

a. Dependent Variable: TOBINS Q

b. Predictors: (Constant), INST, PRFT, GROWTH, AGE, SIZE, LEVG

Source: The SPSS statistical software. 26

The Figure 16. reported that, there is F-test value (8.195) and it is a statistically significant with the $p < 0.05$ level, that shows in this model, the independent variables have significantly influence on the dependent variable (Tobin's Q).

Figure 17. Results of Coefficients of Multiple Linear Regression Model:

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	1.672	2.387		.700	.485	-3.051	6.396
	AGE	.643	.229	.245	2.808	.006	.190	1.095
	SIZE	-.021	.261	-.008	-.082	.935	-.538	.495
	GROWTH	-.772	.686	-.090	-1.125	.263	-2.128	.585
	LEVG	-2.021	2.689	-.192	-.752	.454	-7.341	3.299
	PRFT	10.095	10.770	.242	.937	.350	-11.215	31.404
	INST	.929	.467	.185	1.991	.049	.006	1.852

a. Dependent Variable: TOBINS Q

Source: The SPSS statistical software. 26

Figure 17. also showed different independent variables' effects on the dependent variable. Firstly, we can see that the institutional ownership coefficient is significant at a 5% level, (p-value is 0.049) and positive correlation with 0.185 coefficient value. In other sayings, one percentage of increasing institutional ownership structure will change a 0.185 percentage increase in 'Q' value. As a result, this analyze has supported the high concentrated institutional investors in the financial sector company impact company market-based performance is significantly and positively. This analysis has been concluded with similar result as the UK companies. In both analysis we have resulted in, the high concentration of institutional investors influence to companies' market-based performance in the positive significant way.

In the Figure 17, the other control variables relationship with Tobin's Q is as: Company age (AGE) has positive (0.245) and significant (0.006 level) impact; Leverage (Levg), company size (SIZE) and Market growth (GROWTH) have non-significant (0.454, 0.935 and 0.263, respectively) and negative impact (-0.192, -0.008 and -0.090, respectively), Profitability (PRFT) has positive (0.242) and non-significant (0.350) impact.

4.3. Summary of findings

The results of the institutional ownership structure effects of the developed countries, like the UK and US, have been analyzed in a scale of 70 companies data. In both countries, the chosen independent and control variables explain more than 25% of changes in the dependent variable. Another result explains that institutional investors improve and make better firm market-based performance. This could be related to institutional investors' good monitoring and controlling skill over the management and as stated by P. Nix and J. Chen (2013), institutional owners are more experienced and knowledgeable in their investment activities. Institutional investors have direct effects on the managers' activities via ownership and also, through indirect ways selling their shares in the company. Institutions can use their voting rights to impact the main decisions of the management though their experience and maintain both the firm financial and market performance at a higher level and preserve their wealth. It seems from the other results, growth, which is the independent variable, is in reverse relationship with Tobin's Q ratio, but the profitability is in a positive correlation with Q ratio. Under these circumstances, it means that if the Tobin's Q ratio increases, the number of revenues doesn't increase while increasing market value but the profitability (ROA) increases and this could be a result of reducing agency costs in the company.

In this study, one of the causes of having a positive conclusion could be related to the companies, which used in the pooled OLS have been invested by top institutional investors like BlackRock Inc., Vanguard Group Inc, Capital Research & Management Co., Legal & General Investment Management Ltd, Schroder Investment Management Ltd, etc. The reason coming to this conclusion is that they are top institutional investors in the global financial market and have extra incentives to control and monitor firms' managers. Also, they can reduce agency problems and increase not only firm accounting-based value but also market based-value.

CONCLUSION

It is unquestionable, that institutional owners are increasingly dominated in the global equity markets. They have become a significant factor in influencing corporate governance. As we mentioned previous chapters, both domestic and foreign institutional owners are keen to vote rights for fulfilling their fiduciary responsibilities. In turn, companies cannot neglect the voting rights of institutional investors on companies' main decisions and operations.

This study aimed to determine how the financial sector's companies' market-based value affected by the institutional ownership pattern. As shown in different economic and financial literature, this study has found that, overall, firm market-based performance has improved because of the impact of institutional owners. Institutional investors and also asset manager want to preserve reducing of their wealth in the investee companies. Reducing agency costs and conflicts, also monitoring managers' operations might be the main reasons for firm performance development. In addition to these considerations, institutional investors intend to get more and stable returns in their investment decisions and are more cautious in recognizing firms' future perspectives and performance. In this thesis, selected financial sector companies with institutional ownership structure, market values are a positive correlation with profitability like institutional ownership as well. The higher firm market value causes the higher profits and returns for investors, and under this circumstance these firms are preferable for not only institutional investors but also other types investors.

RECOMMENDATION

Recommendations could be introduced as follows:

1. Based on the aforementioned results, other countries similar to the US and UK should create a high-regulated financial system and convenient environment for the investors to trade their shares. The government and policymakers should try to preserve not only domestic but also foreign investors' rights. These regulations will impact investors' investment behaviours and preferences in a positive way. It seems from the UK and US countries statistics that the main proportion of ownership structure in the companies' profile is institutional ownership.

2. Institutional investors should utilize their voting rights in the main decision of the management, and monitor and control management directly. This will be to reduce agency costs and help to enhance a firm's performance, thus preserve investors' wealth from a decrease. Moreover, they should obtain not distorted information from management about the company's real condition, because sometimes foreign investors meet with these problems and struggle them.

3. In the last years, decarbonization of the economic system and the greening financial system are the key issues in the global world. Investors especially fund managers, asset managers, and other institutions should invest in the companies as environment-friendly and should finance low-carbon industries. It makes a better market environment and sometimes these investors are promoted with government guarantees and low-cost projects.

4. The top institutional investors have more experience and knowledge for the capital market situations and investment environment. Having voting rights of these types of investors can be the guarantee of better voting. Because any companies main decisions are in the good-scale, it leads to improving companies performance

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