

# The Relationship between Institutional Investors, Risk /Performance and Corporate Governance Listed in Companies in Tehran Stock Exchange

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**Abstract:** One of the most important tools is foreign institutional investors in corporate governance. Importance of attending institutional investors for growth and economic and social development to the extent that. So, the purpose of this paper is to examine the relationship between institutional investors, risk/performance and corporate governance listed in companies in Tehran Stock Exchange. In this study used a sample of 80 companies in the years 2010 until 2014. The results show that there is a positive relationship between institutional ownership and risk level and there is a positive relationship between risk and performance depend on the size of institutional investors.

**Keywords:** Institutional Investors, Risk, Performance, Corporate Governance.

## Introduction

Prior research argues that because all shareholders, both large and small, benefit from the actions of monitoring shareholders without incurring costs, only large shareholders have significant incentives to monitor management (Shleifer & Vishny, 1986). In addition, large investors are more active monitors of management because they receive more of the benefits of monitoring (Jensen & Meckling, 1976) and have more to lose from agency conflicts (Alchian & Demsetz, 1972) particularly management horizon problems. When ownership is spread amongst a large number of smaller shareholders, there is no incentive for any single owner to effectively monitor management. Consequently, institutional investors have the ability to influence management's activities directly through ownership in the firm, and indirectly by trading their shares in the firm. Heavy selling by these investors can cause the share price to decline, or can be interpreted as bad news thereby triggering sales by other investors, further contributing to a decline in share price (Baysinger et al., 1991) Institutional investors (and portfolio managers) are under pressure to show short-term returns, as they are rewarded and reviewed based on quarterly, or at most, annual performance results (Aguilera et al., 2007; Graves, 1988). As such, these investors are predisposed to supporting investments when there is an immediate association with profits, such as mergers and acquisitions, to maintain short-term competitiveness rather than taking a long-term view in their investment decisions (Graves, 1988; Hutchinson et al., 2015).

Also, Shareholders the corporate governance framework is built on the assumption that shareholders engage with companies and hold the management to account for its performance. However, there is evidence that the majority of shareholders are passive and are often only focused on short-term profits. It therefore seems useful to consider whether more shareholders can be encouraged to take an interest in sustainable returns and longer term performance, and how to encourage them to be more active on corporate governance issues. (Rock, 2015). So are

there relationship between institutional investors, risk / performance and corporate governance listed in companies in Tehran Stock Exchange?

### **Review of literature**

As early on as Black (1998), empirical studies have tested the elusive - do institutional investors have any impact on the performance of listed companies? Prior studies examine various events or outcomes such as CEO turnover and attribute this to institutional monitoring based on the size of ownership. Moreover, there are various ways to measure performance, including stock price movements, as well as accounting measures such as Tobin's Q, which may contribute to the lack of consensus regarding the impact of institutional investors. In our study, we model the size and type (distinguished by active or passive investment) of institutional ownership as a function of corporate governance. Next we determine whether the size and type of institutional investor has any influence over the association between risk and performance, measured as return on assets. This is important for two reasons: first, the study distinguishes between active and passive institutional owners, not just the size of ownership, and second, the investigation is during the period leading up to and including the global financial crisis, when risk is high and performance at the firm level is critical (Hutchinson et al., 2015).

Further investigation reveals that this association is only significant for pressure-resistant institutional investors. Research defines pressure-resistant investors as those who do not have the scope for economic bonds and who are less averse to challenging management. Pressure-sensitive institutional investors have the potential for business relations with investee firms and are therefore less likely to challenge management for fear of losing business (Brickley et al., 1988).

Gordon (2010) explains diversified investor attitude to risk: "Competitors of the failed firm may do better; suppliers to the failed firm may do worse, but the consequences are 'unbiased.' If all firms are taking good bets, however, then on average the diversified investor will be better off." Consequently, shareholders are risk neutral. Institutional investors can invest in different equities to diversify risk and maintain liquidity. We expect a positive association between the size of institutional ownership and firm risk, because research tells us that shareholders prefer more risk (Jensen & Meckling, 1976; Pathan, 2009).

### **Development of hypotheses**

According to high content our hypotheses are:

*H1.* There is a positive relationship between institutional ownership and risk level.

*H2.* There is a positive relationship between risk and performance depend on the size of institutional investors.

## **Materials and Methods**

In this survey the independent variable is *INSTITUTIONAL INVESTORS*. *Institutional investors* are banks, insurance companies, and investment companies. Furthermore, dependent variables are *RISK*, *PERFORMANCE AND CORPORATE GOVERNANCE*. *Risk* is the standard deviation of daily returns of shares of the firm for each financial year. This measure is included systematic and unsystematic risk. *PERFORMANCE* is including return on assets and Tobin's Q. Also, Statistical population this review is all listed in companies in Tehran (IRAN) stock exchange during the period of 5 years (2010-2014). We use the method to remove systematic for sample selection. In this research to collect data of Tehran Securities Exchange Technology Management Company website and the Tehran Stock Exchange website. However, study sample shall be made with respect to following limitations: (Table 1 shows these limitations)

**Table 1.** Limitations and Sample selection.

Sample selection	number
The total number of listed companies in Tehran Stock Exchange at the end of 2014 (Firm)	342
Limitations:	
Listed companies after 2010	(35)
Deleted companies for 2010 to 2014	(50)
Investment and holding companies	(37)
Enterprise that changed the financial year	(46)
Companies that were not fully disclosed.	(85)
Final Sample	80

After restrictions remaining 80 companies. Also, the following model is used to test the hypothesis.

$$PERFORM_t = \beta_0 + \beta_1 PERFORM_{t-1} + \beta_2 INDADJSTD + \beta_3 ALLINST + \beta_4 LNMKTCAP + \beta_5 INDY + \beta_6 YEAR + \varepsilon$$

### Results

Table 2 shows the descriptive statistics data 80 Firm. The results show that average INDADJSTD is 62.26 and median is 52.10 and standard deviation in this variable is 64.27 and ALLINST is 0.89 and median is 0.93 and standard deviation is 0.11. Also, average NETGEARING is 0.75 and median is 0.80 and standard deviation in this variable is 0.16 Average NETINTCOV is 0.53 and median is 0.60 and standard deviation is 0.20 and average SIZE is 13.94 and median is 13.95 and standard deviation in this variable is 0.75. Also, average is LEV 0.71 and median is 0.59 and standard deviation in this variable is 0.93.

**Table 2.** Descriptive Statistics.

Statistics	INDADJSTD	ALLINST	NETGEARING	NETINTCOV	SIZE	Lev
Average	62.26	0.89	0.75	0.53	13.94	0.71
Median	52.10	0.93	0.80	0.60	13.95	0.59
Standard deviation	64.27	0.11	0.16	0.20	0.75	0.93
Skewness	1.37	-1.27	-0.89	-0.81	-0.007	6.62
Kurtosis	2.90	3.04	3.44	2.45	1.89	46.21
Number	80	80	80	80	80	80

One of the assumptions of the regression model is heterogeneity of variance test. We chose Bartlett's test among methods. The results indicated that the test error is greater than 5%. Therefore, there isn't heterogeneity of variance.

**Table 3.** Results reliability Test.

variable	(LLCH) F-statistic	(LLCH) prob
INDADJSTD	-4.05	0.0000
ALLINST	0.77	0.7807
NETGEARING	-3.90	0.0000
NETINTCOV	-3.57	0.0002
SIZE	-38.55	0.0000
LEV	-29.78	0.0000

Chow test applied to panel data set or combination. The results show that (Table 4) df is 17 and F-statistic is 1.081 and probe is 0.3888. Then, the null hypothesis is accept.

**Table 4.** Chow- Test.

H <sub>0</sub>	df	F-statistic	Prob	Result
Pooled data	17	1.081	0.3888	Accept

Results Table 5 shows the first hypothesis estimate. The estimated coefficient for ALLINST variable is negative. So, there is a significant negative correlation with ALLINSTe and INDADJSTD. Also, R2 in model is 0.95 and F-statistic is 29.84. So, 95 percent of the dependent variable depends on the following variables and hypothetically accepted. Thus, there is a significant relationship between ownership structure and return on investment.

**Table 5.** Results hypothesis 1.

variable	Coefficient	F-statistic	Sig
C	-4.138	9.188	0.46
ALLINST	-3.40	7.146	0.78
NETGEARING	916.9	74.67	0.89
NETINTCOV	93.613	35.513	0.24
SIZE	59.111	62.111	0.32
LEV	753.6	98.46	0.16
R-squared		0.95	
F-statistic		29.84	
Sig		0.000	
Durbin-Watson stat		2	

Results Table 6 shows the second hypothesis estimate. The estimated coefficient for PERFORMANCE variable is negative. So, there is a significant negative correlation with PERFORMANCE and dependent variable. R<sup>2</sup> in model is 0.38 and F-statistic is 1.84. So, 38 percent of the dependent variable depends on the following variables and hypothetically accepted.

**Table 6.** Results hypothesis 2.

variable	Coefficient	F-statistic	Sig
C	8.151	3.513	0.004
PERFORMANCE	-9.177	7.308	0.57
INDADJSTD	1.158	6.179	0.38
ALLINST	33.73	4.127	0.57
LNMKTCAP	-10.39	25.24	0.11
INDY	-11.10	57.31	0.001
YEAR	-23.88	41.133	0.50
R-squared		0.38	
F-statistic		1.84	
Sig		0.028	
Durbin-Watson stat		2.11	

### Conclusion

In this study mentioned the relationship between institutional investors, risk / performance and corporate governance listed in companies in Tehran Stock Exchange during the years 2010-2014. Prior research argues that because all shareholders, both large and small, benefit from the actions of monitoring shareholders without incurring costs, only large shareholders have significant incentives to monitor management. The results show that there is a positive relationship between institutional ownership and risk level and there is a positive relationship between risk and performance depend on the size of institutional investors. One of the important limitations in this study was period study. If the results of this study were longer, without a doubt, obtained was a better result.

At the last the following suggestions are addressed for the future studies:

1. Survey the relationship between political costs and benefits to other industries.
2. Survey the relationship other variable such as characteristics of the board of directors, external auditors, internal controls

### Conflict of interest

The authors declare no conflict of interest

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