

CORPORATE GOVERNANCE, INSTITUTIONAL INVESTOR TYPE AND FIRM PERFORMANCE: EVIDENCE FROM AN EMERGING MARKET

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Abstract

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The study analyses the role of institutional investors in improving firm performance. Unlike in developed economies where firm ownership is widely dispersed, firms in emerging economies such as India have substantial promoter shareholdings (often in a majority or close to a majority). Given the promoter control of Indian companies, the role of institutional investors as external monitors is analysed. Following Brickley, Lease, and Smith (1988) and Almazan, Hartzell, and Starks (2005), the study categorises institutional investors as pressure-sensitive and pressure-insensitive institutional investors. Panel data for non-financial firms from India included in National Stock Exchange (NSE) 500 over the period 2008–2017 is studied using fixed-effects models. The study finds that the increased ownership of pressure-insensitive institutional investors is positively associated with firm performance. Also, the increased ownership of pressure-sensitive institutional investors is negatively associated with firm performance. These findings are consistent with the view that pressure-insensitive institutional investors are more effective monitors compared to pressure-sensitive institutional investors. The study offers insights into the role of institutional investors in economies where firms have a substantial promoter shareholding. The study documents that even with a substantial promoter shareholding and control, pressure-insensitive institutional investors aid in enhancing firm value.

Keywords: Corporate Governance, Board of Directors, Institutional Investors, Firm Ownership, Firm Performance

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1. INTRODUCTION

Corporate governance mechanisms can be viewed as internal and external governance mechanisms. For instance, the composition of the board and the compensation structures can be regarded as part of internal governance mechanisms. Other mechanisms like the market for corporate control, the environment in which the firms compete and the legal environment can be perceived as part of the external governance mechanisms (Walsh & Seward, 1990). Proposed governance reforms like

the Sarbanes-Oxley Act of 2002¹ in the US or the Companies Act of 2013² in an emerging economy such as India emphasize the need to strengthen monitoring of management decisions. One of the key aims of these proposed governance reforms is to include more “independent” actors on the board. At the same time, in developing economies like India, the evidence with regards to independent members on the board and metrics of firm

¹ <https://www.congress.gov/bill/107th-congress/house-bill/3763>

² <http://ebook.mca.gov.in/default.aspx>

profitability is counterintuitive. For example, recent studies (Bansal & Sharma, 2016; Arora & Sharma, 2016; Vinjamury, 2020) report a negative relationship between increased board independence and the profitability of firms. Therefore, a uniform approach across economies in enforcing corporate governance mechanisms may not be appropriate.

Ngwu, Osuji, and Stephen (2016) highlight that governance outcomes in emerging economies are likely to be different from developed economies. In developing economies like India, where firm shareholdings are dominated by promoters (Jameson, Prevost, & Puthenpurackal, 2014) the function of institutional investors as external monitors may not be clear. Conventional wisdom suggests that, in addition to the board, the institutional investors are often viewed as monitors who have incentives to safeguard the interest of the shareholders. Prior studies in developed economies starting from Brickley et al. (1988) and later (Almazan et al., 2005) posit that all institutional investors are not equal. For example, institutional investors such as banking institutions and insurance companies may have existing relationships with firms. To continue their business relationship, these institutional investors may not be willing to confront and challenge the management decisions. Such investors can be considered pressure-sensitive institutional investors. At the same time, institutional investors such as mutual funds and foreign institutional investors are less likely to get into business relationships and are in a better position to monitor and enforce discipline on the management. Such investors can be considered as pressure-insensitive institutional investors.

Following Brickley et al. (1988) and Almazan et al. (2005), the study classifies institutional investors as pressure-sensitive and pressure-insensitive institutional investors. Because of the emerging evidence from studies such as Ngwu et al. (2016) that the governance outcomes in emerging and developing economies can often depart from developed economies, the study seeks to analyse whether all institutional investors are created equal in the context of an emerging economy. Specifically, the study seeks to analyse the relationship between pressure-sensitive institutional investors and pressure-insensitive institutional investors concerning firm performance. The findings of the study support the view that the increased ownership of pressure-insensitive institutional investors is positively associated with firm performance. On the other hand, increased ownership of pressure-sensitive institutional investors is negatively associated with firm performance.

The rest of the paper is organised as follows. Section 2 provides a review of the literature. Section 3 presents data and research methodology. Section 4 discusses the results of the study. Section 5 concludes the study.

2. LITERATURE REVIEW

Prior studies have considered institutional investors as corporate monitors. Grossman and Hart (1980) posit that the institutional investors due to their relatively large shareholdings have an incentive to monitor. The larger shareholdings allow these

investors to achieve sufficient benefits by monitoring. In a similar vein, Shleifer and Vishny (1986) argue that investors with larger shareholdings may have a greater motivation to keep track of the management decisions than the board of directors since the board members may have little or no ownership stake in the firm. Consistent with this view, other studies such as Nesbitt (1994), McConnell and Servaes (1990), and Smith (1996) show that monitoring by institutional investors can stem the self-serving behaviour of managers and can enhance firm performance.

An argument can be made that large investors will have a greater incentive to monitor managers. Maug (1998) highlights that monitoring by institutional investors is partly dependent on the size of their ownership stake. When institutional investors have substantial ownership stakes (which may be potentially illiquid), investors have a greater motivation to monitor. On the other hand, if the institutional investors hold fewer shares, they can liquidate their holdings quickly and may not have a strong incentive to monitor. Consistent with the later view, studies such as Coffee (1991), Bhidé (1994), and Maug (1998) document that the institutional investors are likely to be driven by short-term profits and may have less incentive to monitor the management.

Nevertheless, with greater emphasis given to governance mechanisms at the firm level, the function of institutional investors has received greater attention in developed economies. Evidence attests to the important function of institutional investors in “taming” the management. For example, Parrino, Sias, and Starks (2003) document that the selling of shares by institutional investors is linked to forced CEO exits and that the replacement is likely to be an outsider. Similarly, Chung, Firth, and Kim (2002) document that the presence of large shareholders in a firm may hinder managers from adopting accrual choices that are discretionary and opportunistic. Other studies have analysed the impact of institutional investors on the enhanced performance of the firm. Prior studies such as Karpoff, Malatesta, and Walking (1996), Duggal and Millar (1999), Agrawal and Knoeber (1996) and Faccio and Lasfer (2000) find a statistically insignificant relationship between institutional investor shareholdings and metrics of firm profitability. However, McConnell and Servaes's (1990) are one of the early studies that document a significant positive between institutional ownership and market-based firm performance measures. In a similar vein, Nesbitt (1994), Smith (1996) and Del Guercio and Hawkins (1999) show a positive association between increased institutional shareholdings and various metrics of firm profitability. More recently, Michel, Oded, and Shaked (2020) document that initial public offering (IPO) operating performance is positively associated with institutional ownership, and show that institutional ownership is important for a firm's operating performance in its initial years after going public. In a similar vein, Kao, Hodgkinson, and Jaafar (2019) using a set of listed firms domiciled in Taiwan, show that institutional ownership is positively related to firm value. Also, Hunjra, Perveen, Li, Chani, and Mehmood (2020) show that among other factors, institutional ownership impacts stock market liquidity.

Brickley et al. (1988) provide a framework where they categorize institutional investors as pressure-sensitive and pressure-insensitive. They argue that the latter category of investors is better placed to discipline the managers. The pressure-sensitive investors are likely to have an existing business relationship with the firm and are less likely to be effective monitors. Consistent with this view, Almazan et al. (2005) show that the pressure-sensitive institutional investors' ownership is negatively associated with the level of executive compensation. In a similar vein, Cornett, Marcus, Saunders, and Tehranian (2007) document a positive relationship between pressure-insensitive institutional investors and corporate operating performance. However, the presence of pressure-sensitive institutional investors has no impact on a firm's operating cash flow returns. Recently, Lin and Fu (2017) using a sample of Chinese firms show that pressure-insensitive institutions had a pronounced impact on the firm performance. Similarly, Aggarwal, Hu, and Yang (2015) analysing Chinese firms document that pressure-insensitive investors are better at preventing corporate scandals.

3. RESEARCH METHODOLOGY

Many studies exploring the relationship between different categories of institutional investors have focused their attention on large firms in developed economies such as the US where firms are characterised by dispersed share ownership and are not dominated by promoter shareholdings. On the other hand, most Indian firms have concentrated ownership with substantial promoter shareholdings (Jameson et al., 2014). Given the difference in the ownership structure, the study intends to explore the relationship between institutional ownership and firm performance in the Indian context.

For the analysis, data for firms (non-financial) included in NSE 500 index for the period from 2008 to 2017 was collected from the Centre for Monitoring Indian Economy (CMIE) database. Two models are considered for the study. In the first model, the impact of institutional investors (without any sub-categorisation) on firm profitability is analysed. In the alternative model, the impact of pressure-sensitive and pressure-insensitive institutional investors on firm performance is analysed.

The data for the analysis comprises unbalanced panel data. Given the nature of the data, pooled ordinary least squares regression models, structural equation models along fixed and random effects models can be considered for the analysis. In this context, models were considered to evaluate fixed and/or random effects. Specifically, fixed/random models allow us to measure any changes within the firm over time. Fixed-effects panel data regression models were used for the analysis in the study. Based on the Hausman (1978) test, the random-effects model was rejected. To account for outliers, independent variables were winsorized at a 1% level.

The following variables are used as controls for the analysis.

Corporate board size

In terms of the board size, previous studies in developed economies have documented that large

boards negatively impact the value of the firm (Yermack, 1996). From a theoretical perspective, Jensen (1993) argues that bigger boards are characterized by problems of coordination and communication. However, an argument can be made that more members on corporate boards can bring more knowledge and expertise to decision-making which potentially would increase the value to shareholders (de Oliveira Gondrige, Clemente, & dos Santos Bortolucci Espejo, 2012; Saibaba & Ansari, 2002). Put differently, smaller boards may not be well informed for taking effective decisions (Hambrick, Werder, & Zajac, 2008). Similarly, Alanazi (2019) shows that board size is positively associated with improved governance quality and leads to better corporate governance outcomes. The latter view appears to be more relevant in the Indian context. Studies on Indian firms showcase a significantly positive association between larger boards and metrics of firm profitability (Bansal & Sharma, 2016; Vinjamury, 2020).

Board independence

Conventional wisdom suggests that greater board independence may improve monitoring and aid the decision-making process. Weisbach (1988) documents that the boards which are more independent than those that are insider-dominated are significantly more likely to remove a CEO based on the CEO's lack of performance. This study also shows that greater board independence enhances firm value through these changes. Byrd and Hickman (1992) study the relationship between board composition of bidding firms and the associated impact on shareholders' wealth in tender offer bids. The study shows that lower negative returns are realized by the shareholders for firms that have constituted boards in such a way that at least fifty per cent of the board members are independent or unaffiliated. This evidence, the authors argue is in tune with the argument that more independent boards enhance shareholders' wealth. In another study, Fama and Jensen (1983) posit that outside directors on boards may be motivated to establish a reputation as experts in decision making. From this perspective, independent directors may pursue to augment their appeal and credibility as candidates for subsequent board appointments. These subsequent board appointments are likely due to their acquired favourable reputation as competent independent monitors. Supporting this view, Alqatan, Chbib, and Hussainey (2019) document a positive correlation between board independence and metrics of performance. Other researchers (Koerniadi & Tourani-Rad, 2012; Leung, Richardson, & Jaggi, 2014; Shan & McIver, 2011) show that more independent boards need not favourably contribute to firm profitability. The argument in this context is that the outside directors are less likely to have sufficient information regarding the firm and may not act as effective monitors.

CEO duality

Prior studies have shown that bifurcating the roles of CEO and chairman leads to enhanced firm operating performance (Bhagat & Bolton, 2008). More recently, Rompotis (2020) shows that not bifurcating the roles exerts a favourable impact on firm performance. However, other studies (Daily & Dalton, 1997) find no significant difference by bifurcating the roles.

Audit committee independence

Auditing is one of the crucial aspects of corporate governance mechanisms. The audit committee is expected to monitor the accounting, reporting, and auditing of financial statements. Needless to say, the independence of the audit committee is crucial for its effective performance (Cohen, Gaynor, Krishnamoorthy, & Wright, 2011). Beasley (1996) shows that firms with more independent members in the audit committee are less likely to be victims of fraud. With independent audit committees, earnings management can be curtailed (Bukit & Iskandar, 2009). Studies such as Abbott, Parker, and Peters (2002) show an inverse relationship between audit committees and earnings management due to enhanced monitoring. More recently, Masmoudi and Makni (2020) provide evidence that audit committee independence curtails real earnings management.

Audit committee meetings

Frequent audit committee meetings may help enhance monitoring. For example, Menon and Williams (1994) show that the frequency of audit committee meetings led to better monitoring of the firm. This enhanced monitoring can enhance the performance of the firm. Similarly, DeZoort, Hermanson, Archambeault, and Reed (2002) report that the frequent audit committee meetings allow the audit committees to be more vigilant in protecting the interest of investors. More recently, Al-Mamun, Yasser, Rahman, Wickramasinghe, and Nathan (2014) posit that frequent audit committee meetings may reduce asymmetric information and agency problems by providing timely information to investors.

Leverage

Many studies have documented that financial leverage is a significant determinant of firm performance. From a theoretical perspective, if agency costs can be minimized due to increasing leverage, one can find a positive association

between financial leverage and metrics of profitability (Jensen, 1986). On the other hand, studies in the Indian scenario document a negative and significant association between firm profitability and leverage (Bansal & Sharma, 2016; Arora & Sharma, 2016).

Firm age

Many studies in the Indian context have documented a negative association between the age of the firm and Tobin's Q (Arora & Sharma, 2016).

The variables used in the analysis are *BSIZE*, *BIND*, *AIND*, *AMEET*, and *INT_INV*. Four performance indicators were considered as part of the study. *ROA*, *ROE*, and net profit margin (*NPM*) were used as accounting measures. Adjusted Tobin's Q (*TQ*) is also considered. *TQ* was obtained using the methodology adopted by (Gompers, Ishii, & Metrick, 2003). *LEV*, *FAGE*, and *LOG_TA* are control variables. Table 1 provides a detailed description of these variables. The following models are considered:

$$Y_{it} = \alpha_0 + \beta X_{it} + \delta II_{it} + \gamma C_{it} + \varepsilon_{it} \quad (1)$$

$$Y_{it} = \alpha_0 + \beta X_{it} + \delta PS_PI_{it} + \gamma C_{it} + \varepsilon_{it} \quad (2)$$

where, Y_{it} represents metrics for firm profitability. X_{it} represents the array of governance variables. C_{it} represents control variables. II_{it} is institutional investor ownership for firm i at time t . Initially, the association between total institutional shareholdings and metrics of firm profitability is evaluated. For more detailed analysis, in equation (2) the relationship between the different sets of institutional investors on firm performance is evaluated. PS_PI_{it} represents the pressure-sensitive and pressure-insensitive institutional ownership for the firm i at time t . α_0 represents the intercept. Similarly, δ and γ represent the model parameters for the governance, institutional ownership, and control variables respectively. ε_{it} is the error term.

Table 1. Variable description

| Variables | Description | Measurement |
|--------------------------------|--|--|
| Performance | | |
| <i>TQ</i> | Adjusted Tobin's Q | (Total assets + market capitalization - book value of equity - deferred tax liability) as a proportion of total assets |
| <i>ROA</i> | Return on assets | Net income as a proportion of total assets |
| <i>ROE</i> | Return on equity | Net income as a proportion of (paid-up equity capital + reserves and funds) |
| <i>NPM</i> | Net profit margin | Net income as a proportion of sales |
| Corporate governance | | |
| <i>BSIZE</i> | Board size | Total number of board members |
| <i>BIND</i> | Board independence | Number of independent board members as a proportion of board size |
| <i>BODMEET</i> | Board meetings | Frequency of annual board meetings |
| <i>CEO_DUAL</i> | CEO duality | When CEO is also the chairman of the board, then the variable takes a value of 1; 0 otherwise |
| <i>AIND</i> | Audit committee independence | % of independent directors on the audit committee |
| <i>AMEET</i> | Audit committee meetings | Number of audit committee members times no of audit committee meetings in a financial year |
| Institutional ownership | | |
| <i>INT_INV</i> | Institutional investor ownership | % of shares with institutional investors |
| <i>P_INSENSITIVE</i> | Institutional investors who are pressure-insensitive | % of shares held by non-promoter mutual funds and foreign institutional investors |
| <i>P_SENSITIVE</i> | Institutional investors who are pressure-sensitive | % of shares held by non-promoter banks and financial institutions |
| Controls | | |
| <i>FAGE</i> | Firm's age | Firm's age (in years) since its incorporation |
| <i>LEV</i> | Financial leverage | Borrowings as a proportion of total assets |
| <i>LOG_TA</i> | The logarithm of firm total assets | Natural logarithm of total assets |

4. RESULTS AND DISCUSSION

Table 2 reports summary statistics. The median board size (*BSIZE*) of the firms used in the analysis is 11. The median board independence (*BIND*) is 50%. The mean and median non-promoter institutional investor ownership (*INT_INV*) is 22.28 % and 20.82% respectively. Of the total institutional shareholdings, the mean *P_SENSITIVE* and *P_INSENSITIVE* institutional ownership is 5.25% and 16.85% respectively. Median audit committee independence (*AIND*) is 80%.

Table 2. Descriptive statistics

| Variable | Mean | Median | Std. Deviation |
|----------------------|--------|--------|----------------|
| <i>BSIZE</i> | 11.113 | 11.000 | 3.436 |
| <i>BIND</i> | 0.501 | 0.500 | 0.138 |
| <i>CEO_DUAL</i> | 0.011 | 0.000 | 0.103 |
| <i>AMEET</i> | 16.987 | 15.000 | 7.707 |
| <i>AIND</i> | 0.793 | 0.800 | 0.219 |
| <i>LEV</i> | 0.215 | 0.197 | 0.186 |
| <i>LOG_TA</i> | 10.497 | 10.384 | 1.406 |
| <i>FAGE</i> | 41.831 | 34.000 | 24.327 |
| <i>INT_INV</i> | 22.282 | 20.825 | 13.528 |
| <i>P_INSENSITIVE</i> | 16.854 | 15.765 | 11.857 |
| <i>P_SENSITIVE</i> | 5.258 | 3.115 | 6.444 |

Multi-collinearity may be a concern for the variables used in the study. Therefore, correlation analysis for variables used in the study was carried out. Table 3 documents the results of Pearson correlation coefficients. The highest value is 0.406 between the natural log of total assets (*LOG_TA*) and *P_SENSITIVE*. Also, variance inflation factors were within acceptable limits.

Results from Table 4 document a significant positive association between *BSIZE* and *TQ*. Accounting measures *NPM*, *ROE*, and *ROA* are not significantly related to *BSIZE*.

CEO duality (*CEO_DUAL*) is positively related to *ROE* and *ROA*. Also, CEO duality is not associated with *TQ* and *NPM*. *AMEET* is positively associated with *TQ* and audit independence (*AIND*) is positively associated with *NPM*. Non-promoter institutional ownership (*INT_INV*) is positively associated with *TQ*, *ROA*, and *NPM* used in the study suggesting an overall positive impact of the institutional ownership on metrics of firm performance.

Table 3. Correlation matrix

| | <i>BSIZE</i> | <i>BIND</i> | <i>CEO_DUAL</i> | <i>AMEET</i> | <i>AIND</i> | <i>LEV</i> | <i>LOG_TA</i> | <i>FAGE</i> | <i>P_INSENSITIVE</i> | <i>P_SENSITIVE</i> |
|----------------------|--------------|-------------|-----------------|--------------|-------------|------------|---------------|-------------|----------------------|--------------------|
| <i>BSIZE</i> | 1.000 | | | | | | | | | |
| <i>BIND</i> | -0.197 | 1.000 | | | | | | | | |
| <i>CEO_DUAL</i> | -0.045 | 0.067 | 1.000 | | | | | | | |
| <i>AMEET</i> | 0.274 | -0.051 | -0.018 | 1.000 | | | | | | |
| <i>AIND</i> | -0.012 | 0.431 | 0.027 | 0.058 | 1.000 | | | | | |
| <i>LEV</i> | 0.026 | 0.089 | -0.015 | -0.051 | 0.083 | 1.000 | | | | |
| <i>LOG_TA</i> | 0.430 | -0.065 | -0.051 | 0.272 | -0.007 | 0.132 | 1.000 | | | |
| <i>FAGE</i> | 0.066 | 0.007 | -0.041 | 0.130 | 0.032 | -0.057 | 0.122 | 1.000 | | |
| <i>P_INSENSITIVE</i> | 0.103 | 0.124 | -0.011 | 0.050 | 0.099 | -0.162 | 0.203 | -0.029 | 1.000 | |
| <i>P_SENSITIVE</i> | 0.250 | -0.133 | -0.022 | 0.203 | -0.035 | -0.015 | 0.406 | 0.316 | 0.002 | 1.000 |

Notes: Pearson correlation coefficients are reported above.

Table 4. Model estimates (fixed effects)

| Independent variables | Model 1 (<i>TQ</i>) | Model 2 (<i>ROA</i>) | Model 3 (<i>ROE</i>) | Model 4 (<i>NPM</i>) |
|-----------------------|------------------------|------------------------|------------------------|------------------------|
| Intercept | -3.82962*** (-6.32) | 0.615014*** 17.73 | 1.231764*** (6.42) | 51.1768*** (5.08) |
| <i>BSIZE</i> | 0.032231** (2.5) | -0.00071 (-0.96) | 0.002855 (0.7) | -0.23958 (-1.12) |
| <i>BIND</i> | -0.37357 (-1.36) | -0.02489 (-1.59) | -0.08132 (-0.94) | -4.91989 (-1.08) |
| <i>CEO_DUAL</i> | 0.298961 (1.01) | 0.030739* (1.82) | 0.170737* (1.82) | 0.759452 (0.15) |
| <i>AMEET</i> | 0.008573** (2.09) | -0.00008 (-0.35) | 0.000953 (0.73) | 0.015114 (0.22) |
| <i>AIND</i> | 0.147072 (0.88) | -0.00553 (-0.58) | -0.02517 (-0.48) | 5.088743* (1.83) |
| <i>LEV</i> | -1.85835*** (-7.76) | -0.1917*** (-13.97) | 0.014301 (0.19) | -35.8576*** (-9.01) |
| <i>LOG_TA</i> | -0.05158 (-0.55) | -0.03251*** (-6.07) | -0.08047*** (-2.71) | 0.511389 (0.33) |
| <i>FAGE</i> | 0.115476*** (8.8) | -0.00055 (-0.74) | -0.00194 (-0.47) | -0.87615*** (-4.02) |
| <i>INT_INV</i> | 0.018833*** (4.92) | 0.000324 (1.48) | -0.00202* (-1.67) | 0.257011*** (4.04) |
| Observations | 2688 | 2688 | 2688 | 2688 |
| R-squared | 0.7344 | 0.6113 | 0.2538 | 0.4324 |
| Pr (F-statistic) | < 0.0001 | < 0.0001 | < 0.0001 | < 0.0001 |

Notes: Results from the fixed-effects models are reported above. T-statistics is in parenthesis. *** denotes significance at 1%, ** denotes significance at 5% and * denotes significance at 10%.

Focusing on the results in Table 5, the association between the governance variables and firm profitability is consistent with the results documented in Table 4. However, now *BIND* is negatively associated with *TQ*. Among the institutional ownership variables, *P_INSENSITIVE*

is positively linked to the metrics of firm performance *TQ*, *ROA*, and *NPM*. The increased ownership of *P_SENSITIVE* is negatively associated with *TQ*, *ROA*, and *ROE*.

In summary, the results from the analysis document a positive association between board size

and the market-based performance measure adjusted Tobin's Q. The increased frequency in audit committee meetings is also positively associated with adjusted Tobin's Q. The increase in non-promoter holdings positively impacts firm performance. This may be due to increased monitoring. On the other hand, CEO duality is positively related to accounting measures of firm performance ROA and ROE. The results show that

an increase in pressure-insensitive institutional ownership is positively associated with measures of firm performance. At the same time, an increase in pressure-sensitive institutional ownership is negatively associated with firm performance measures. The findings strengthen the view that pressure-insensitive institutional investors are better monitors compared to pressure-insensitive institutional investors.

Table 5. Fixed-effects models (with pressure-insensitive institutional ownership and pressure-sensitive institutional ownership variables)

| <i>Independent variables</i> | <i>Model 1 (TQ)</i> | <i>Model 2 (ROA)</i> | <i>Model 3 (ROE)</i> | <i>Model 4 (NPM)</i> |
|------------------------------|------------------------|------------------------|------------------------|-----------------------|
| Intercept | -3.24146*** (-5.37) | 0.627765*** (17.98) | 1.302233*** (6.74) | 54.91738*** (5.42) |
| <i>BFSIZE</i> | 0.038471*** (3.01) | -0.00058 (-0.79) | 0.003502 (0.86) | -0.19387 (-0.90) |
| <i>BIND</i> | -0.46936* (-1.73) | -0.02743* (-1.75) | -0.09724 (-1.12) | -5.20698 (-1.14) |
| <i>CEO_DUAL</i> | 0.2472 (0.85) | 0.029638* (1.75) | 0.165826* (1.77) | 0.390843 (0.08) |
| <i>AMEET</i> | 0.007363* (1.82) | -0.00011 (-0.47) | 0.000778 (0.60) | 0.009472 (0.14) |
| <i>AIND</i> | 0.1392 (0.84) | -0.00568 (-0.60) | -0.02653 (-0.50) | 5.039209* (1.82) |
| <i>LEV</i> | -1.62531*** (-6.81) | -0.1867*** (-13.52) | 0.048382 (0.63) | -34.4916 (-8.61) |
| <i>LOG_TA</i> | -0.06665 (-0.72) | -0.03272*** (-6.12) | -0.08524*** (-2.88) | 0.425127 (0.27) |
| <i>FAGE</i> | 0.105873*** (8.15) | -0.00077 (-1.03) | -0.00279 (-0.67) | -0.9375*** (-4.30) |
| <i>P_INSENSITIVE</i> | 0.031033*** (7.53) | 0.000567** (2.38) | -0.00003 (-0.02) | 0.33235*** (4.80) |
| <i>P_SENSITIVE</i> | -0.02774*** (-4.09) | -0.00078** (-1.99) | -0.00704*** (-3.24) | -0.00767 (-0.07) |
| Observations | 2688 | 2688 | 2688 | 2688 |
| R-squared | 0.741 | 0.6128 | 0.2563 | 0.4341 |
| Pr (F-statistic) | < 0.0001 | < 0.0001 | < 0.0001 | < 0.0001 |

Notes: Results from the fixed-effects models are reported above. T-statistics is in parenthesis. *** denotes significance at 1%, ** denotes significance at 5% and * denotes significance at 10%.

5. CONCLUSION

Prior studies posit that all institutional investors are not equal. Some institutional investors, to continue their existing business relationship with the firm, may not be willing to confront and challenge the management decisions. These institutional investors can be considered pressure-sensitive institutional investors. On the other hand, institutional investors who are less likely to have business relationships with the firms are in a better position to monitor and enforce discipline on corporate managers. The latter can be considered as pressure-insensitive institutional investors.

Given this background, the study analysed the role of institutional investors in monitoring and subsequently enhancing firm performance. Specifically, the study analysed whether all institutional investors are created equal in the context of an emerging economy such as India. Unlike in developed economies such as the US where ownership is widely dispersed, firms in emerging economies such as India have substantial promoter shareholdings (often in a majority or close to a majority). Therefore, analysing the role of institutional investors as effective monitors becomes important. The findings of the study show that the increased ownership of pressure-insensitive institutional investors is positively associated with firm performance. At the same time, the increased ownership of pressure-sensitive institutional investors is negatively associated with firm performance. These findings are consistent with

the view that pressure-insensitive institutional investors are more effective monitors compared to pressure-sensitive institutional investors.

The study has implications for firms operating in emerging markets such as India. Firstly, the study lends support to the view that not all institutional investors should be viewed from the same lens in terms of their monitoring role. The study shows pressure-insensitive institutional investors are better monitors and can enhance firm performance. The analysis shows that even with substantial promoter shareholding and control, the pressure-insensitive institutional investors' aid in enhancing firm value. In emerging economies where investor protection mechanisms are not as robust, pressure-insensitive institutional investors can act as active monitors and can contribute towards enhancing shareholder wealth. Secondly, the research evidence in emerging economies such as India shows that increased board independence often does not lead to better monitoring and improved firm performance. In this context, an increase in pressure-insensitive institutional ownership can be viewed by the investors and policymakers as an alternative corporate governance mechanism to monitor and discipline the management.

Since the study focuses on large listed firms in India, the evidence may not be generalized for smaller unlisted firms. Future research on smaller unlisted firms may help shed more light on this issue. Nonetheless, the current study offers insights for policymakers and investors about the role of different institutional investors in enhancing firm performance in emerging economies like India.

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