

## SESSION 4: GENERAL ISSUES OF CORPORATE GOVERNANCE

# INSTITUTIONAL INVESTORS AND CORPORATE GOVERNANCE: A STUDY OF LISTED COMPANIES IN GREECE

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## Abstract

Institutional owners represent the most important category of investors, play a key role in corporate governance and their decisions act in the market as a signal to other investors. Poor corporate governance could become a significant motive for the exit of an institutional investor (McCahery et al., 2016), whereas strong corporate governance structures act as a magnet that attracts investors. Although research suggests that corporate governance has evolved to a significant investment criterion, empirical findings are limited. Current research suggests that institutional investors are less likely to participate in the share capital of firms with larger boards, with chief executive officer (CEO) duality and state-controlled entities (Hong & Linh, 2023); are more likely to demand high-quality audits to mitigate information asymmetry (Kim et al., 2019); and tend to avoid investing in family firms (Fernando et al., 2014). In addition, board gender diversity is valued positively by institutional investors and has a beneficial effect, especially for firms with male CEO duality and few women on the board of directors (Groenig, 2019).

Considering the above studies and findings, this study aims to investigate the impact of corporate governance on institutional

ownership in a small European capital market, which is characterized by family ownership, underrepresentation of women on the boards and weak corporate governance structures. For this purpose, a panel regression model was constructed to examine the impact of board size, board independence, board and audit committee gender diversity, CEO duality, audit firm type, and family and government ownership on institutional holdings, after controlling for firm-specific attributes (firm size, liquidity, leverage, profitability, and efficiency). A sample of large and middle capitalization non-financial companies listed on the Athens Stock Exchange (ASE) for the five-year period from 2014 to 2018 was selected for the study. This period is characterized by several events in Greece that complicated investment decisions and included political instability, capital controls in 2015 and exit from bail-out programs in 2018.

The estimated panel regression model is depicted in the following equation:

$$\begin{aligned} inown_{it} = & \beta_0 + \beta_1 bsize_{it} + \beta_2 bindep_{it} + \beta_3 wboard_{it} + \beta_4 waudcom_{it} + \\ & \beta_5 ceodual_{it} + \beta_6 afsiz_{it} + \beta_7 famown_{it} + \beta_8 govown_{it} + \beta_9 fsize_{it} + \quad (1) \\ & \beta_{10} liq_{it} + \beta_{11} lev_{it} + \beta_{12} prof_{it} + \beta_{13} eff_{it} + u_{it} \end{aligned}$$

where,

- *inown*: institutional ownership measured by the percentage of shares owned by institutional investors;
- *bsize*: board size, measured by the total number of members of the board;
- *bindep*: board independence, measured by the percentage of independent members to the total members of the board of directors;
- *wboard*: presence of women on the board, measured by the percentage of female directors on the board;
- *waudcom*: a dummy variable that takes the value 1 if there is at least one woman on the audit committee and 0 otherwise;
- *ceodual*: a dummy variable that takes the value 1 if the position of the president and the CEO are held by the same individual and 0 otherwise;
- *afsiz*: a dummy variable that takes the value 1 if the firm that conducted the audit of the annual financial statements is one of the Big 4 audit firms (Ernst and Young, PwC, KPMG, Deloitte) and 0 otherwise;
- *famown*: family ownership, the percentage of the shares owned by the founding family of the firm;
- *govown*: government ownership, the percentage of shares held by the state;
- *fsize*: firm size, measured by the natural logarithm of total assets;
- *liq*: liquidity, measured by current assets to current liabilities ratio;

- *lev*: leverage, measured by debt-to-equity ratio;
- *prof*: profitability, measured by return on assets ratio (ROA);
- *eff*: firm efficiency, measured by asset turnover ratio;
- *u*: error term.

Descriptive statistics indicate that boards on average comprised 10 members and about one-third of them were independent (29.32%). Women appear to be underrepresented on the boards as on average, only 11.96% of board members were female. Family ownership is high, with a mean value amounting to 27.88% and a maximum value of 82.05%. On the contrary, low levels of government ownership are observed (mean value 6.78%). As far as the categorical values are concerned, 28.33% of the firms had at least one woman on the audit committee, CEO duality was observed for 33.33% of them and 46.11% were audited by a Big 4 audit firm.

Hausman test was performed to decide between fixed and random effects and indicated the selection of the fixed effects model (Prob > chi2 = 0.0013 < 0.05). Modified Wald test showed the presence of heteroskedasticity (Prob > chi2 = 0.0000 < 0.05) and hence, heteroskedasticity robust standard errors were estimated. The results of fixed effects panel regression are presented in the table that follows:

**Table 1.** Panel regression results

<i>Variables</i>	<i>Coef.</i>	<i>Robust std. err.</i>	<i>t</i>	<i>P &gt;  t </i>
<i>bsize</i>	-0.002886	0.006233	-0.46	0.646
<i>bindep</i>	0.047559	0.052839	0.90	0.374
<i>wboard</i>	-0.438735	0.133782	-3.28	0.002***
<i>waudcom</i>	0.062607	0.016785	3.74	0.001***
<i>ceodual</i>	0.016401	0.020362	0.81	0.426
<i>afsize</i>	-0.037756	0.038035	-0.99	0.328
<i>famown</i>	-0.566949	0.137734	-4.12	0.000***
<i>govown</i>	-0.929976	0.061620	-15.09	0.000***
<i>fsize</i>	0.086977	0.070268	1.24	0.224
<i>liq</i>	0.022870	0.014335	1.60	0.120
<i>lev</i>	0.001347	0.002219	0.61	0.548
<i>prof</i>	0.096379	0.092922	1.04	0.307
<i>eff</i>	0.013407	0.024683	0.54	0.590
Constant	-1.305790	1.455819	-0.90	0.376

Note: Number of obs. = 180, number of groups = 36.

$R^2 = 0.5602$ ,  $F(13.35) = 39.14$ ,  $\text{Prob} > F = 0.0000$ . \*\*\* = significant at 0.01.

Results of the study show that institutional ownership is positively associated with the presence of women on the audit committee, which indicates that institutional investors prefer firms with strong audit committees and enriches the results of prior research which also found a significant positive association (Kim et al., 2019). A negative association is found with family and government ownership verifying the findings of prior research that institutional investors tend to avoid family and government firms (Fernando et al., 2014; Hong & Linh, 2023).

Finally, although institutional ownership is positively related to audit committee gender diversity, a negative relationship is found with the percentage of female board directors. The remaining corporate governance attributes of board size, board independence, CEO duality and type of audit firm were not found to exert a significant influence on the level of institutional ownership in Greece. The results of the study may provide useful insights for capital market regulators, investors, academics and all parties involved in corporate governance.

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