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Is ownership by institutional investors beneficial for or detrimental to the market performance of firms? A causal analysis based on non-financial industries of Pakistan

Maryam Jabeen
Lecturer, Institute of Management Sciences, Peshawar
Email address: maryam.jabeen@imsciences.edu.pk

Afia Saleem
Lecturer, Institute of Management Sciences, Peshawar, Pakistan
Email address: afia.salim@imsciences.edu.pk

Aisha Jabeen
Lecturer, Institute of Management Sciences, Peshawar, Pakistan
Email address: aisha.jabeen@imsciences.edu.pk

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Abstract: The present study examines the relationship between ownership by institutional investors and market performance of public listed companies in Pakistan from 2006-2015. Different categories of investors are differentially successful in driving organizations to high levels of efficiency and performance, as they themselves differ in terms of their preferences for stability, growth, and risk; capacity to monitor and discipline corporate managers and ability to contribute to managerial capabilities and firm resources. It is imperative to identify and categorize institutions into diverse classes rather than just treating them in a holistic way as a homogeneous group. From the panel data regression and dynamic GMM estimation analysis, we find that NIT and banks have a negative and significant relationship with Tobin's Q. However, the insignificant value of the lagged market performance variable does not confirm the dynamic nature of the model specification for both the non-financial industries. In corporate sector of our country, the average proportion of equity stake held by the institutional investors is less than the required minority percentage. The findings verify that the presence of institutional shareholders is not perceived to be viewed positively by the external market in Pakistan. Small shareholdings by institutional investors signal reduce monitoring and a strong preference to use the threat of exit strategy.

Keywords: banks, NIT, firm-specific risk, insider ownership, leverage, market risk

1. Introduction

The major shareholders in emerging economies are absentee landlord of the investee companies and that is detrimental to the protection of minority shareholders rights and corporate stability. The directors cum shareholders such as family members in concentrated market economies operate the company to safeguard their own political and financial interest at the cost of the company. Agency costs increases as an outcome of managerial opportunism. The political interference in emerging economies is due to the prevalence of strong family business ownership. The benefits of family ownership and control may offset the costs in countries with more developed institutions as having a pyramid ownership structure by family firms may provide an effective access to resources and improved internal control mechanism. However, more control through pyramid structure or family CEO may give controlling family members more opportunities to expropriate minority shareholders. The call for reforms made by media and western advisors in addition to international funding organizations for instance International Monetary Fund and World Bank Group in the aftermath of the financial crises in Asia 1997 to reduce concentration of family ownership, bring in more outside investors, professionalization of management, and breaking up of pyramidal groups needs to be embraced with caution (Peng & Jiang, 2010).

In developed markets, such as, UK, more than 87% of the equity shares in the investee companies listed at London Stock Exchange are owned by institutional investors. Being stewards of their companies, these investors play an imperative role in overall governance mechanisms of their investee companies (Hafeez 2015). Institutional investors like hedge funds (Klein and Zur, 2009), Hermes in the UK (Becht et al. 2009) and TIAA-CREF and CalPERS in the US (Gillan and Starks, 2007) use multiple approaches and proxy process to pressurize corporate management for change. In Japan and continental Europe, bank-based financial system is found to be a dominant investment pattern. Banks are the fundamental financial institutions and are strongly engaged in ownership of industrial sectors. Corporate sector in Japan depends mainly upon bank financing. A strong corporate monitoring is provided by Keiretsu system. Keiretsu is an industrial group that includes clusters of inter-linked firms that maintain strong financial and business ties through cross-shareholdings (Birch et al. 2017). In Latin America, substantial assets in financial markets are controlled by institutional investors. In particular, significant volume of assets is held by pension funds in Latin American countries. Chile and Brazil account for almost 80 percent of all the pension fund assets in the region. Domestic pension funds are probably the most influential group of institutional investors in enhancing firms performance and governance mechanisms (OECD, 2000, 2011; Blume & Alonso, 2007; De-la-Hoz & Pombo, 2016).

Institutional investors have become the dominant players in financial market of Pakistan. Our financial industry has a strong resilience to the challenging global and macroeconomic developments. Financial sector in our country is comparatively sophisticated and diversified, even though it remains dominated by commercial banks (Malik, 2011). Pakistan's banking industry focuses on lending either to public sector entities or to corporate sector. According to Khalid and Nadeem (2017), nearly 70% of the total bank lending in Pakistan is received by corporate sector. According to the Asian Development Bank CPS assessment report (Country Partnership Strategy, 2015-2019) of Pakistan, banks dominate financial sector

with 73.9 percent of the assets held by them at the end of fiscal year 2014. The single largest equity fund, National Investment Unit Trust NI(U)T fund, is the flagship fund of the country (Mutual Funds Association of Pakistan, MUFAP, 2013). NIT has nominee directors in 100 investee companies from all the major industries of the economy. In comparison to regional mutual fund industries, Pakistan's mutual fund industry is still very small in size and therefore has significant room for expansion.

Extending the work of Jabeen and Ali (2017a, 2017b) on the governance role played by different types of institutions in Pakistan, the present study contributes to the extant literature by further demonstrating the importance of typologies of institutional investors and their impact on the market performance of firms listed in non-financial sectors of Pakistan. Considering the prominence of institutional investors in financial sector, it would be interesting to investigate how the representation of NIT and Banks as shareholders influences the market performance of firms in sugar and allied industry and auto industry of Pakistan.

2. Literature Review and Hypotheses Development

There are three perspectives on the impact that ownership by institutional investors have on corporate performance: the hypotheses based on active monitoring, passive monitoring and exploitation view. Using the 'active monitoring' approach, institutions lessen asymmetric information and agency problems by actively monitoring management actions and thereby boosting firm performance in two ways. These investors on one hand apply their vastly developed management skills, professional expertise, and voting power to persuade management to enhance both firm governance mechanisms and corporate efficiency, besides providing guidance for navigating key corporate decisions. On the other hand, when businesses need finance for expansion purposes, institutional investors either make available funds or make use of their networks to assist the companies source financing. The 'passive monitoring' perspective suggest a weak relationship or no relationship between ownership by institutional investors and corporate performance. This view considers institutions as short-term investors that take interest in short-term speculative capital gains based on information advantages to satisfy the requirements of their portfolio requirements rather than monitors concerned about improving firm performance and corporate governance. The 'exploitation view' suggests a negative correlation among ownership by institutional shareholders and firm performance if managers undertake activities that reduce firm value. According to this view, institutional investors are more likely to take management's side to harm the interest of small minority investors and deteriorate corporate performance. In particular, institutional investors might choose to overlook the frauds of corporate management as long as they can afford to benefit from it (Shleifer & Vishny, 1986, 1997; David & Kochhar, 1996; Elyasiani & Jia, 2010; Lin & Fu, 2017).

Institutional investors are financial intermediaries with extensive heterogeneity in their strategies and objectives. The regulatory and institutional environments are different for different groups of institutional investors (Ryan and Schneider, 2003). A number of studies have classified institutional investors into categories based on their potential business relationships with the investee companies, size of their shareholdings, their geographic origin and their ability to pressurize firm management (Ferreira and Matos,

2008; Lin and Fu, 2017). One group of institutional investors is called as pressure-insensitive and the other group is termed as pressure-sensitive. The former group is more prone to vote against the managers and is therefore believed to be active monitors. This group includes investment advisors, mutual funds, investment companies, public pension funds etc. These investors face less regulatory restrictions and are more likely to collect information. Due to their monitoring capability, they can mitigate the tendency of corporate management towards overinvestment. The incentives and the ability of institutions to pressure managers are affected by the size of their shareholdings. These pressure-insensitive owners being long-term investors have greater incentives to monitor investee companies as they can reap superior rewards in comparison to investors with small shareholdings. The monitoring effect is strongest for institutional investors that are pressure-resistant. The underlying theory behind their operationalization is the 'efficient monitoring hypothesis' by Pound (1988). The theory argues that in comparison to small atomistic shareholders, this category of institutional investors can exert direct influence on monitoring the activities of corporate management as they have access to enormous expertise and resources. The categorization is also in conformance with the hypothesis on active monitoring, which postulates that this category of investors is more likely to call for change and exercise their influence in comparison to the institutional investors that are pressure sensitive. Pressure-insensitive institutional investors have the fiduciary responsibility to guard their investments as they typically have established a relationship as an investor with their portfolio companies. These investors are in a better place to engage actively in scrutinizing the behavior of corporate managers, therefore, the monitoring cost is perhaps lower for pressure-resistant institutional investors (Almazan, Hartzell & Starks, 2005; Cornett, Marcus, Saunders and Tehranian, 2007; Hutchinson, Seamer, & Chapple, 2015; Muniandy, Tanewski & Johl, 2016). On the other hand, the pressure-sensitive group comprises banks, bank trusts, and insurance companies, etc. The conflict-of-interest hypothesis is the underlying theoretical argument behind the categorization of pressure-sensitive institutional investors (Pound, 1988). The monitoring cost is generally high for these investors. They want to safeguard their business relationship with the investee companies and for that reason, they are reluctant to challenge the decisions made by corporate management. The above arguments lead to the following hypotheses:

H_1: *Firms' market performance is positively associated with the proportion of equity held by NIT*

H_2: *Firms' market performance is negatively associated with the proportion of equity held by banks*

3. Methodology

3.1. Sample Framework and Data Sources

The sample comprises non-financial firms from the sugar and allied industry and auto industry of Pakistan. According to the Economic Survey of Pakistan 2017-2018, the sugar industry plays a significant role in the economy of Pakistan as the second-largest agro-industry sector after textile. Sugar is one of those food components that has shown remarkable growth in the fiscal year 2018. In the same year, Pakistan produced surplus sugar because of which the government lifted the export ban and a subsidy was announced hence resulting in sugar exports of US $ 278.8 million. The production of sugarcane, an important raw material

used in the production of sugar outperformed in the year 2017-2018 by showing a growth of 8.65%. The automobile industry is one of the most important sectors for the industrial development of any economy. Pakistan has consistently demonstrated to be a growing market for the automobile sector. In the first quarter of the fiscal year 2017, a remarkable growth of 29% was observed by the automobile industry among the large-scale manufacturing sectors. One of the reasons why the automobile sector outperformed in the year 2018 was the fact that auto financing increased due to the government's well-designed monetary policy and a reduced policy rate ultimately resulted in higher car sales in Pakistan.

The study used panel data for estimation analysis covering a period of a total of 10 years ranging from 2006 to 2015. Data for the study is primarily secondary; the major source is the company's official website, Business Recorder, Pakistan Stock Exchange, and State Bank of Pakistan. The details about the industry population and the sample are given below:

Industry	Industry Population	Number of Sample Firms
Sugar and Allied	34	22
Auto	21	17

3.2. Model Specification and the Variables

In order to test how ownership by institutions is associated with firm market performance, the following model is developed:

$$Tobin's\ Q = \alpha + \beta_1(NIT)_{ij} + \beta_2(banks)_{ij+} \beta_3(AGE)_{ij} + \beta_4(LEVERAGE)_{ij} + \beta_5\ (SIZE)_{ij} + \beta_6(MktShare)_{ij} + \beta_7(InsiderOwn)_{ij} + \beta_8(SE)_{ij} + \beta_9(Beta)_{ij} + \epsilon \ldots.$$ ***(Model 1)***

The variables and their detailed computation is mentioned in Table 1 below:

Table 1: VARIABLES DEFINITIONS		
Variables	**Symbol**	**Measurement**
Firm Market Performance	Tobin's Q	The ratio of the sum of the book value of long-term debt and market value of the equity to the book value of the total asset
National Investment Trust	NIT	Percentage shares owned by NIT
Banks	Banks	Percentage shares owned by banks
Firm Age	AGE	Log of (current year – year in which the firm was established)
Leverage	LEVERAGE	Total debt to total assets
Firm Size	SIZE	Log of total assets

Market Share	MktShare	Taking the firm sales as a proportion of total industry sales
Insider Ownership	InsiderOwn	The proportion of shares owned by directors, CEO, and their families
Firm-Specific Risk	SE	Taking the standard error of the regression on observed stock returns and market index returns
Market Risk	Beta	Taking the ratio of covariance between assets return and market return to the covariance of market returns

4. Empirical Analysis

4.1. Descriptive Statistics

The descriptive statistics of the sample companies for all variables used in the model are shown in Table 2A and Table 2B. To minimize the effect that leads to spurious outliers, the control variable leverage is winsorized at 1% and 99% levels to limit the extreme observations. The average value for Tobin's Q is 62.50%. The mean value for the percentage shares owned by NIT and banks is 6.5657% and 4.221% respectively. The mean value for firm age is 1.4575, which implies that the average age of sample firms is between 28 years to 30 years. The maximum value for leverage, firm size and market share is 85.73%, 10.5273, and 19.18% respectively. The average value for insider ownership is 25.3245%. Firm-specific risk and market risk have a maximum value of 1 and 2.0462 respectively.

Table 2A- Descriptive Statistics (Sugar and Allied Industry)

	Mean	Standard Deviation	Min	Max
Tobin's Q	0.6250	0.6178	0.0802	4.2276
NIT	6.5657	7.2386	0	26.41
Banks	4.221	6.2435	0	22.38
AGE	1.4575	0.2768	0	1.8573
LEVERAGE	0.6501	0.1812	0.0291	0.8573
SIZE	9.3086	0.4769	7.8896	10.5273
MktShare	0.0312	0.0326	0	0.1918
InsiderOwn	25.3245	21.0005	0	76.56
SE	0.9035	0.2481	0	1
Beta	0.3975	0.4780	-0.4665	2.0462

For the auto industry, the average value for Tobin's Q is 69.80%. The mean value for the percentage shares owned by NIT and banks is 3.8306% and 4.0056% respectively. The mean value for firm age is 1.4978, which implies that the mean age of the firms is between 29 years to 32 years. Leverage, firm size, and market share have a maximum value of89.82%, 10.4405, and 32.22% respectively. The average value for insider ownership is 21.3091%. Firm-specific risk and market risk have a maximum value of 1 and 2.0335 respectively.

Table 2B- Descriptive Statistics (Auto Industry)				
	Mean	**Standard Deviation**	**Min**	**Max**
Tobin's Q	0.6980	0.5263	0.0476	3.1543
NIT	3.8306	5.2552	0	24.23
Banks	4.0056	6.2101	0	34.21
AGE	1.4978	0.1614	1.1461	1.7853
LEVERAGE	0.5231	0.2224	0.1100	0.8982
SIZE	9.5259	0.5147	7.9525	10.4405
MktShare	0.0566	0.0766	0	0.3222
InsiderOwn	21.3091	26.6947	0	75.19
SE	0.9036	0.1127	0	1
Beta	0.6100	0.4935	-1.9688	2.0335

4.2. Test of Multicollinearity

Variance Inflation Factor (VIF) is used to measure possible multicollinearity amongst the independent variables. If VIF has a value of 10 and above then it's a cause for concern. The results in Table 3 indicate that multicollinearity is not a serious problem as none of the variables has a VIF value of more than 10.

Table 3: Multicollinearity Diagnostics Test		
	Sugar and Allied Industry	**Auto Industry**
Variable	**VIF**	**VIF**
NIT	1.36	1.20
Banks	1.10	1.31
AGE	1.95	1.58
LEVERAGE	2.52	1.19
SIZE	3.31	3.80
MktShare	2.09	3.41
InsiderOwn	1.74	1.54
SE	1.71	1.15
Beta	1.30	1.14

4.3. Analysis and Discussion on Results

Panel data regression (Panel A of Table 4) and dynamic panel data GMM estimation technique (Panel B of Table 4) is employed to investigate whether there are effects of ownership by NIT and banks on firms' market performance.

4.3.1. Panel Data Regression Results

Panel data regression technique has been used as the nature of the data is based on the grouping of cross-sectional and time-series variables. The analysis of the panel data set is based on three regression models: random-effect and fixed-effect model, and pooled ordinary least squares model. To choose the most suitable model among the three models, the Brush-Pagan Lagrange Multiplier (LM) test and the Hausman test have been applied. The Brush-Pagan LM test has been used to decide among the pooled OLS model and RE model, whereas, Hausman test has been used to decide between the RE model and FE model. The findings from these tests are reported in Table 4 (Panel A).

Table 4: Institutional Ownership and Firms' Market Performance					
Non-financial industries	**Sugar and Allied**	**Auto**		**Sugar and Allied**	**Auto**
	Panel A			**Panel B**	
	Regression Analysis Results			**Dynamic Panel-Data Estimation, GMM Results**	
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity (H_0:constant variance)	**Robust Std.Err.**	**Robust Std.Err.**			
Hausman Test (p-value)	**>0.05**	**>0.05**			
	Tobin's Q			Tobin's Q	
			L1.	-0.1543 (0.2453)	0.5453 (0.3414)
NIT	0.0033 (0.0048)	0.0085 (0.0077)	NIT	-0.0289 (0.0096) *	-0.0027 (0.0252)
Banks	-0.0077 (0.0034)**	-0.0181 (0.0111)	Banks	-0.0329 (0.0120) *	-0.0186 (0.0103) ***
AGE	-0.4984 (0.1444)*	0.8994 (0.9023)	AGE	-0.4538 (0.8098)	3.5655 (1.9074) ***
LEVERAGE	0.2768	-0.0974	LEVERAGE	0.4556	0.1643

	(0.0153)*	(0.1922)		(0.1171) *	(0.1738)
SIZE	-0.4950 (0.1221)*	-0.7546 (0.1844)*	SIZE	-1.4795 (0.2126) *	-0.9555 (0.4666) **
MktShare	2.5491 (0.6785)*	5.0021 (1.4956)*	MktShare	1.3218 (2.6043)	1.9983 (1.8175)
InsiderOwn	0.0005 (0.0019)	-0.0033 (0.0032)	InsiderOwn	-0.0005 (0.0038)	0.0044 (0.0080)
SE	0.1894 (0.2127)	-0.4955 (0.2577)***	SE	-0.3630 (0.5471)	-0.5694 (0.3247) ***
Beta	-0.0386 (0.0441)	0.0538 (0.0595)*	Beta	0.0418 (0.0852)	0.1695 (0.0784) **
Constant	5.4385 (1.1663)*	6.8333 (1.7814)*			
R^2	0.8247	0.1097	Arellano-Bond AR(1)	0.11	-1.80***
F Statistics (p-value)	1057.81 (0.0000)	45.16 (0.0000)	Arellano-Bond AR(2)	-0.77	-0.19

Panel A:

( ) standard error in parenthesis

*p<0.01**;**p<0.05; ***p<0.1*

The analysis used the option of robust standard errors to control heteroskedasticity. The null hypothesis of the Hausman test is that the preferred model is random effects vs. the alternative the fixed effects.

Panel B:

L.1 is the first difference of dependent variable; Tobin's Q. The first list of explanatory variables: gmm (dependent variable nit banks, lag (2 2). The first list has all the endogenous variables, with the second lag of the endogenous variables used as instruments. Second list of explanatory variables: iv(firmage, leverage, firm size,Mkt.Share,InsiderOwn , SE,Beta,) . Control variables are treated as exogenous variables.

The findings show that NIT does not have a significant influence on the performance of companies operating in both industries of Pakistan. The incentives to monitor management will be few if institutional investors own a comparatively small number of shares in a firm. Conventional agency literature posits that block-holders that own at least a 5% stake have sufficient incentives and the ability to act as effective monitors. The level of commitment by institutional investors will be low when they do not have substantial shareholdings (Burns, Kedia, & Lipson, 2010). For both industries, the outcome for banks shows an adverse impact on firms' performance. However, the significance of the relationship is confirmed only for sugar and allied sector of Pakistan. A convincing theoretical justification for our finding is that in our country, the foremost objective of creditors and/or banks is to safeguard their interests as corporate lenders. Institutional investors can challenge majority owners in concentrated ownership structures only when they have plentiful influence. The outcome for firm age is negative and significant for firms in the sugar and allied industry only. Due to organizational rigidities, the age of a firm can harm its performance. According

to Amran (2011), the performance of firms declines as it becomes older in the market. The value declines because the firm cannot sustain too long in the market to meet the demands. Leverage has a significant positive impact on the market performance of firms for sugar and allied industry. According to the free cash flow hypothesis, a large amount of debt helps to reduce the amount of free cash flow in the hands of managers. This reduction in the amount of free cash flow will in turn prevent managers from investing in negative NPV projects, thus increasing firm performance (Jensen, 1986). In our country, the corporate sector is heavily financed by the short-term loan. Nazir, Saita, and Nawaz (2012) findings advocate that short-term borrowing significantly reduces the agency conflict between managers and shareholders. It is imperative to mention here that for both the industries the findings for firm size and market share are significant. Firm size has a negative impact on Tobin's Q; however, the impact of market share is positive. Large firms can have poor performance as size is correlated with market power and an increase in market power can cause x-inefficiencies among firms (Majumdar, 1997). On the other hand, firms that have already retained a large share of the market may have done so by being more effective or innovative in the past. Firms with market power can earn abnormal returns as they tend to establish anti-competitive practices (Davies and Lyons, 1996). The evidence does not confirm the significance of insider ownership for sampled data. For the auto industry, the findings show a significant and negative impact of firm-specific risk on Tobin's Q; however, the outcome for beta (market risk) is positive. According to Zhao (2010), concentrated ownership structures seem to be correlated with low levels of diversification. Family-owned enterprises are not diversified perfectly. They should care about both firm-specific risk and market risk. The positive impact of beta on Tobin's Q is per the findings of Ahmed and Hadi (2017). Their findings suggest that the market performance of firms increases by taking more risk.

4.3.2. Dynamic Panel Data Generalized Method of Moments (GMM) Estimation Technique:

Both the valuation and performance of a firm are viewed as being dependent on corporate ownership and control structures. The issue of endogeneity is a first-order consideration when analyzing the relation between the value of a firm and institutional ownership. The study addresses the endogeneity issues in ownership structure-firm market performance relationship by applying the dynamic GMM estimation technique. Holtz-Eakin, Newey & Rosen (1988), Arellano and Bond (1991), Arellano and Bover (1995), and Blundell and Bond (1998) developed dynamic GMM estimator to overcome the estimation issues introduced by dynamic endogeneity, unobserved heterogeneity, simultaneity and arrive at consistent and unbiased estimates by making use of suitable internal instruments during estimation. The study control for endogeneity that arises from (1) simultaneity-increase in ownership by institutional investors can improve firms' market performance or better market performance can lead to higher ownership holdings by institutional investors (2) unobserved heterogeneity-firm-level fixed effects (3) dynamic endogeneity- the possibility that current performance of the firm is a function of past performance. The estimates of the dynamic GMM estimation technique are obtained by applying xtabond2 in STATA.

The insignificant value of the lagged market performance variable Tobin's Q does not confirm the dynamic nature of the model specification for both industries. Although we hypothesize a positive association between the percentage of shares held by NIT and market performance, a negative association between the two variables is noted only for companies in the sugar and allied sector, contrary to our hypothesis H_1. The

coefficient of banks is negative and significant for both the industries, thereby, supporting hypothesis H_2. The negative and significant association among ownership by institutions and corporate performance conforms to the findings of Ferreira and Matos (2008) and Elyasiani and Jia (2010). Empirical evidence documents that institutional shareholder that hold less than 5 percent of the shares have a significant and negative effect on corporate performance. Shareholders who hold large equity stakes have more incentives and the ability to monitor firms as they stand to reap greater benefits and rewards in comparison to small investors. Given that, large ownership positions by institutional investors i.e., with 5 percent or more of the shares outstanding, have greater incentives to enhance corporate performance than those investors with relatively small stakes i.e., with less than 5 percent of the total shares outstanding. Elyasiani and Jia (2010) argued that the exploitation scenario is more likely to take place in emerging economies that offer less protection to the interests of minority shareholders. Institutional investors with large shareholders provide them sufficient incentives to vigorously administer the firms in which they own shares as the prices of shares would drop if investors start selling their shares, ultimately leading to deterioration in profits. Liquidity constraints have been seen as another factor, due to which institutional shareholders usually do not pursue an exit approach, and prefer to use voice mechanism to ensure huge returns on their investments (Maug, 1998; Gillan & Starks, 2003). Hutchinson, Seamer and Chapple (2015) findings suggest that an increase in institutional ownership is associated with improved accounting performance and value of the firm. Institutional investors who own a majority of shares have sufficient 'skin in the game' to put organizations under increasing pressure to identify and monitor all the business risks and enhance both short-term and long-term firm performance. Empirical findings by Agarwal and Elston (2001) suggest that banks in Germany are engaged in rent-seeking activities as they found a significantly higher interest coverage ratio among bank-influenced organizations. The empirical analysis of close firm-bank associations in Japan by Yao and Ouyang's (2007) showed that major financial institutions stabilize their income by persuading client companies to over-invest and over-borrow. The close firm-bank behavior results in the rise in the proportion of debt payments, higher proportions of loans, and higher expenditures on investment, which ultimately leads to the under-performance of firms.

The dynamic GMM estimation results for control variables: leverage, firm size, insider ownership, firm-specific risk, and market risk, reconfirms the robustness of our findings. However, an examination of the coefficient for firm age shows a significant and positive association with Tobin's Q for firms in the auto industry of Pakistan. The significant positive relation between the firm age and the market performance is following the findings of Buallay, Hamdan & Zureigat (2017) and Coad, Segarra & Teruel (2013). Empirical evidence confirms that the performance of firms tends to improve with age. Aging firms experience a general rise in the levels of profits, production capacity, organizational size, lower leverage ratios, and high returns on equity. Older firms are often able to effectively convert the growth in sales into subsequent growth in productivity and profits.

5. Conclusion and Recommendations

The empirical findings of panel data regression and dynamic GMM estimation analysis show that NIT and banks have a significant and negative effect on Tobin's Q. The dynamic GMM estimation procedure that is

robust to simultaneity, endogeneity, and unobservable heterogeneity, reveals no causal relationship between institutional ownership and market performance. The mean percentage of shares owned by institutional investors in both industries of Pakistan is less than the mandatory requirements for ownership. The presence of institutional investors is not perceived to be viewed positively by the external market in Pakistan. The insider-controlled businesses believe that institutional monitoring and effective legal systems are neither sufficient nor necessary for ensuring economic performance. Institutional investors can contribute significantly to capital market development by generating the need for proficient business transactions, a comprehensive corporate governance framework, and robust risk assessment. They can also put forth direct influence on the behavior of corporate managers through their ownership stakes and indirect impact through their ability to trade their shares (Gillian & Starks, 2003). Indeed, most of the literature on agency theory suggests that the interests of the outside investors are guarded when they have the authority to challenge the actions of corporate management, for this reason, institutional investors that have a large ownership stake in a company often rely on close monitoring of management to safeguard their ownership stakes in a corporation (Pound, 1988; McConnell & Servaes, 1990; Agarwal & Ann Elston, 2001; Anderson & Reeb, 2004). Professional auditors and creditors can play a responsible monitoring role in corporate sector that is dominated by family-owned businesses (Hafeez, 2015). Family-owned corporations have a shorter lifecycle and are generally unable to sustain growth (Gulzar and Wang, 2010). In Germany, a central role in governance mechanisms is played by banks, along with labor market and family investors. Banks not only own large equity stakes but have also been long-term lenders in German firms. The equity stakes have made it possible for banks to sit on supervisory boards and thereby exert long-term oriented influence over firm performance and governance choices (Birch et al. 2017). Agency theory suggests monitoring by institutional owners as an important governance mechanism. The findings of this study imply that institutional investors should be given substantial share-ownership so that they can play a valuable role in scrutinizing companies and in demanding governance changes.

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