

## **THE RELATIONSHIP BETWEEN INSTITUTIONAL INVESTORS (ACTIVE/PASSIVE) AND THE ABNORMAL STOCK RETURN (EVIDENCE FROM TEHRAN STOCK EXCHANGE)**

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### **ABSTRACT**

Financial scandals in companies in recent years has challenged the role of corporate governance in effective overseeing of the management decisions and corporate performance. Such a situation requires an increase in effective monitoring of corporate performance. One of the corporate governance mechanisms which has a growing importance is the rise of institutional investors. It is expected that institutional investors have a better stock selection ability because they own a significant percent of the companies' shares, they are professional investors and they simply have more information. In this study, the role of institutional investors in acquiring the abnormal stock return of the listed companies in Tehran Stock Exchange between 2005 and 2011 has been studied using the regression analysis. The results suggested a positive and significant relationship between institutional ownership and abnormal stock return which supports the efficient monitoring theory; it means that institutional investors have a better stock selection ability. Furthermore, by dividing the institutional owners into two groups (active and passive), the relationship between different types of institutional investors in companies' ownership structure and abnormal stock return was examined. The results of the study indicates a positive and significant relationship between active institutional ownership and abnormal stock return and a negative and significant relationship between passive institutional ownership and abnormal stock return. According to the results of the study, investors are recommended to consider the company's ownership constitution in their investment decisions and invest in companies with higher active institutional owners, since active institutional investors gain more return due to their influence and efficient portfolio selection capabilities.

**Keywords:** *Institutional Ownership, Active Institutional Ownership, Passive (Inactive) Institutional Ownership, Abnormal Stock Returns*

### **INTRODUCTION**

Institutional investors play increasingly an important role in the capital markets and the costs that they are incurred for optimal portfolio selection is huge. Nonetheless, the answers to the question of whether these costs will result in an ideal portfolio selection by the institutional investors were not consistent and the results are contradictory in a way that it's not possible to reach a reasonable conclusion in this regard. Therefore, further research in this area can result in achieving a better understanding of the behavior of investors in capital markets. Accordingly, this study tries take a step towards promoting public awareness and literature by providing further evidence on this issue in the Tehran Stock Exchange.

### **Problem Statement**

Evidence suggests that there are many disagreements in the performed researches in the field of institutional investors regarding the impact the effectiveness of each type of active or passive institutional shareholders on abnormal stock return, and the environmental differences between the markets are in effect. Therefore, given that recent research results regarding the relationship between types of institutional owners and abnormal stock returns are not consistent, this study sought to examine the relationship between institutional investors and abnormal stock return and to determine if each one of the different constitutions of institutional ownerships (active / passive) will affect abnormal stock return.

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### **The Importance of Research Subject**

Institutional investors are the main players of financial markets. Since their influence on corporate governance has increased due to privatization policies adopted by different countries, it can be concluded that institutional investors are important in plenty of corporate governance systems. Moreover, given that most empirical research in this area is limited mainly to the USA and other developed countries that have similar institutional characteristics, bearing in mind the discussion of institutional ownership structure is important in developing countries.

### **Research questions**

#### **Main research question**

Is there a significant relationship between the level of institutional ownership and abnormal stock returns of listed companies in the Tehran Stock Exchange?

#### **Secondary research questions**

The first question: Is there a significant relationship between the level of active institutional ownership and abnormal stock returns of listed companies in the Tehran Stock Exchange?

The second question: Is there a significant relationship between the level of passive institutional ownership and abnormal stock returns of listed companies in the Tehran Stock Exchange?

### **Research hypotheses**

To answer the questions above, hypotheses were formulated as follows:

#### **The main hypothesis of the study**

There is a significant relationship between the level of institutional ownership and abnormal stock returns of companies listed in Tehran Stock Exchange.

#### **Secondary research hypotheses**

First hypothesis: There is a significant relationship between the level of active institutional ownership and abnormal stock returns of companies listed in Tehran Stock Exchange.

Second hypothesis: There is a significant relationship between the level of passive institutional ownership and abnormal stock returns of companies listed in Tehran Stock Exchange.

### **The overall aim of the research**

The overall aim of the present study is to investigate the relationship between the level of institutional ownership and abnormal stock returns. Obviously, the results of this research will be helpful for active investors and analysts in Tehran Stock Exchange.

### **Theoretical background and research review**

#### **Theoretical background**

Institutional shareholders are of particular importance in corporate governance mechanisms. According to experts, institutional shareholders have high supervisory power due to the influence on management, therefore they are able to provide the interests of all shareholders in addition to their own interests. Undoubtedly, such influence is important in order to fulfill social goals of capital markets. Shleifer and Vishny (1997) believe that the high ownership centralization due to the presence of the institutional shareholders is beneficial because they believe ownership centralization leads to a decrease in the representation and protection of shareholder issues. However, we cannot ignore the negative effects of this centralization such as expansion of information asymmetry gap due to the access and possible misuse of confidential information. Institutional shareholders can minimize the agency problems because of their economy of scale and high diversity in their portfolios. In other words, presence of institutional

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shareholders leads to the separation of ownership and control, while their increasing involvement in corporates and ownership centralization creates a way to monitor the company's management. According to some researchers, institutional shareholders primarily have short-term tendencies and are analyzing stock prices based on current profits. So we can say that because of their focus on short-term profitability, they avoid any costs such as the cost of monitoring due to their long-term prospect (Porter, 1998). Another reason is the impact of short-term profitability on the management performance and management contract and rewards. In contrast to this approach, others believe that ownership centralization can reduce the problems of ownership and control separation. Such a focus can facilitate the monitoring process. As a result, institutional shareholders ownership is undoubtedly one of the corporate governance improvement mechanisms. Institutional investors are capable of monitoring the quality of the information revealed by the company, therefore they can have an impact in manager motivation, performance improvements and public profit from the improved performance of the company. According to the theoretical background, institutional investors are expected to have an advantage over true investors in accessing the confidential information of the company before their public release due to their superior expertise in finance, financial statements analysis, and estimating the effect of various ordinary and special events on the corporate functions, and also due to a closer relationship to administrative organs because of possessing higher percentages of the company's shares.

### **Literature review**

A summary of the earlier research with the most relevance to the topic of this study are offered below:

Hassas Yegane et al. (2007) investigated the relationship between institutional investors and company value in a study on the listed companies in Tehran Stock Exchange in the period of 1997 to 2004. Research findings suggested a positive relationship between institutional investors and the company's value. They interpreted the result of this study by stating that since institutional investors are motivated to improve the performance of investee companies, they will apply efficient monitoring on them and encourage managers of these companies to make ideal decisions, resulting in improved performance.

In a study titled "Effect of corporate governance on earnings management", Narges Yazdanian (2007) extracted the information on the four organization governance systems including institutional investors ownership, non-responsible directors in the composition of the board of directors, separation of the executive director from the head of the board of directors and the presence of internal auditing from 177 companies and tried to study their relationship with earnings management which was obtained using the modified Jones model. Her research results showed that the earnings management will reduce when the percentage of institutional ownership in companies exceed 45%. In other words, when institutional investors have a high percentage of the company's shares, they will have more control over the company's performance and management due to their high motivation.

Mahavarpoor (2007) reviewed 58 listed companies in Tehran Stock Exchange in a research titled "investigating the effects of ownership centralization on the performance of companies listed on the Stock Exchange". Her study showed that there is a positive and significant relationship between the centralization of ownership and the earnings per share. On the other hand, there is a significant relationship between institutional shareholders' ownership percentage and the performance measure.

Maryam Feli (2008) investigated the relationship between organizational governance and organization value in a study. This study examines the role of institutional investors and non-responsible managers on the firm value in a 4 years sample of 97 companies. The findings indicated that since the level of institutional ownership in listed companies in Tehran Stock Exchange is high, there is no significant relationship between institutional shareholders and the company value. Additionally, since there is at least one non-responsible member in the board of directors for all the companies in the sample, there is a significant relationship between non-responsible directors and company value.

Modarres et al. (2009) examined the role of institutional investors as one of the most important measures of corporate governance on investment returns. Thus, the information of 90 companies listed in Tehran

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Stock Exchange were analyzed for five years (2003 - 2008). The findings show no significant relationship between institutional investors and return even though the level of institutional ownership in listed companies at Tehran Stock Exchange is enormous.

Khodadadi and Aghajari (2009) examined the impact of corporate ownership structure (amount of institutional shareholder and real shareholder investment) on the dividend policy adopted by them. Their results showed a significant inverse relationship between ownership structure and dividend policy. In fact institutional shareholders want the company's profit to be spent in long-term investments and bring even higher profits in the future rather than leave the company in cash.

Fakhari and Taheri (2010) were looking for evidence of the relationship between institutional investors to stock return volatility. Findings showed that the presence of institutional investors increased monitoring the performance of managers, decreased the information asymmetry and ultimately, with increasing the ownership percentage of the shareholders group, stock return volatility is reduced.

Navissi and Naiker (2006), examines the relationship between institutional ownership and corporate value in New Zealand. Their result suggest that institutional investors have greater motivations to monitor management, so their presence will be positively related to corporate value. But in high levels of ownership, institutional investors may encourage the board to make the wrong decisions. In other words, the relationship between institutional investors and corporate values is positive to a specified level of stock ownership and it is negative with increased levels of ownership.

Elyasiani and Jia (2008) in a study titled "stability of institutional ownership and corporate performance" found that active shareholders are positively related with corporate performance, while an inverse relation was found in the research between passive institutional ownership and corporate performance.

Cornett et al. (2007) investigated the relationship between institutional investor participation in the company and the company's operating and performance results on a large sample of firms. The results reveal a relationship between the presence of institutional owners in the shareholders and the company's operating cash flows returns. In particular, they saw a positive relationship between the percentage of shares owned by institutional owners and the efficiency of the company's operating cash flows, they also found evidence of a strong positive relationship between the number of institutional owners of the company and its operating cash flow return. However, the positive relationship between institutional ownership and efficiency of the company's operating cash flows is limited to those institutional owners who does not have a particular sensitivity toward the company and keeping their shares (those institutional investors who do not have any business relationship with the company). The number of institutional investors who do have a sensitivity toward the company (those institutional investors who do have an existing or potential business relationship with the company) did not have any effect on the operating cash flow return of the company. It means that this type of institutional investors will trade their monitoring power for their business relations with the company. They also found that these institutional investors rarely hold their seats on the board of the investee company. Therefore, these institutional investors has little impact on the company's operating cash flow return, at least according to the study samples.

Tsaia and Gu (2007), investigated the relationship between institutional ownership and corporate performance in a study for the period of 1999 to 2003. The results show that institutional investors in companies may help investors to reduce the representation problems resulted from the separation of management from ownership. Additionally, institutional investors are willing to invest in larger firms with lower financial leverage. Finally, they concluded that institutional ownership has a positive and significant effect on corporate performance.

Deng and Xu (2011) compared the ability of institutional and individual shareholders in superior stock selection in a study. Study population was consisting of active individual and institutional investors in the Shanghai Stock Exchange. The sample for the study consisted of ownership and the daily returns of stock for 820 listed companies since the beginning of 2007 till 2008. The tests were based on the assumption that if institutional investors have higher ability in stock selection, they are expected to buy those shares

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which have a good performance in the future and sell those shares which do not have a good future performances.

Accordingly, researchers organized the examined stocks based on their future prices regularly and then by classified them into different classes, they examined the difference between legal and institutional investors in daily transactions of the stocks. During the tests, they also controlled the effects and the size of stock returns delay effects. The results show that institutional investors increase (decrease) their ownership percentage along with a positive (negative) futures cumulative abnormal stock returns. These results were interpreted as institutional investors in China have higher ability than individual investors in choosing the optimal portfolio shares to earn abnormal returns

### **Definition of research variables :**

#### **Independent variables**

In this study, institutional ownership percentage, active institutional ownership percentage and passive institutional ownership percentage variables are the independent variables and their impact on the dependent variable of abnormal stock return is investigated.

#### **The dependent variable**

Abnormal stock return is the dependent variable in this study and its changes are studied in relation to changes in the independent variables.

### **RESEARCH METHOD**

It is possible to classify scientific research based on the outcome or purpose of the investigation into three categories: fundamental research, applied research and action research. This research belongs to the applied categories, because the results of the study are directly applicable. Additionally, research method according to the purpose of the study is descriptive, according to the type of data is quantitative and archival and it is a causal research. Since this research investigates the relationship between the level of institutional investors' ownership and abnormal stock return, it belongs to the experimental accounting researches and regarding the execution method, it is a correlation research. Because of the type of data, the combination or cumulative data method has been used since statistical observations are made from two different aspects in order to investigate the relationship between institutional ownership and abnormal return of companies; they are tested between the various companies on one hand and an a specific time period (2005-2011) on the other. Research hypotheses has been formulated based on inductive reasoning and the research methodology is of inductive research. This research has been performed by library study and investigating the financial investments of the sample companies. The researchers used combinational multiple regression analysis to test the hypotheses because the research data were combinational. In the researches that use regression analysis, the goal is usually to predict one or more variables from one or more independent variables. In the researches that use multiple regression, the goal is to find independent variables that predict the changes in dependent variables either alone or together.

Then, in order to select the appropriate model for practicing regression models of research hypotheses, the Chow test has been used to select the combinational model with effects over the integrated models without effects. After practicing the regression models, Fisher test was used to assess the overall significance of the statistic model, t-student statistic was used to review the significance of explanatory variable coefficients, Durbin-Watson statistic was used to check serial autocorrelation of the model residues and the Adjusted R-squared statistic was used to examine the explanatory power of the model parameters. Regarding the aforementioned Statistics, decisions were made based on the comparison of statistics with the critical values and also by comparing the probability of obtaining the desired statistics with error level of 5% (95% confidence level).

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### The data collection

The empirical analysis in this study is in need of financial and non-financial data. Information related to the theoretical study were obtained from English and Persian books and articles and information related to research variables have been collected from various sources such as audited financial statements of the companies, therefore the method of data collection is library.

### Statistical population and sample

The statistical population this research is the listed companies in Tehran Stock Exchange during the period between 2005 and 2011. Sampling was performed using systematic or targeted omission by applying the following conditions:

1. The company should be listed before 2005 its shares should be traded on an exchange at the beginning of 2005.
2. The firm should not have changed its fiscal year during the research period.
3. The firm should not be an investment or financial brokerage company.
4. Financial statements and explanatory notes of the company should be accessible.
5. Stock trades of these companies should not be interrupted in the period between 2005 and 2011. In other words, the company's shares should remain active in exchange during these years.

### The statistical model employed to test the research hypotheses

#### The main hypothesis statistical model

In order to test the main hypothesis of this study, after exclusion of irrelevant observations, the regression model is estimated as follows:

$$CAR_{i,t} = a_i + B1 INST_{i,t} + B2 UX_{i,t} + B3 CVP_{i,t} + B4 PERS_{i,t} + B5 Size_{i,t} + B6 LEV_{i,t} + \varepsilon_{i,t}$$

#### The secondary hypotheses statistical model

In order to test the secondary hypotheses of this study, after exclusion of irrelevant observations, the regression model is estimated as follows:

$$CAR_{i,t} = a_i + B1 ACINST_{i,t} + B2 INACINST_{i,t} + B3 UX_{i,t} + B4 CVP_{i,t} + B5 PERS_{i,t} + B6 Size_{i,t} + B7 LEV_{i,t} + \varepsilon_{i,t}$$

### Research hypotheses testing

#### The main research hypothesis testing

In the present study, the main hypothesis states that there is a significant relationship between the level of institutional investors and abnormal stock returns. Statistical hypothesis can be stated as follows:

H<sub>0</sub>: There is no significant relationship between the level of institutional investors' ownership and abnormal stock return of the company.

H<sub>1</sub>: There is a significant relationship between the level of institutional investors' ownership and abnormal stock return of the company.

First, the Chow test has been used to determine the regression model because the research data were combinational. The results of this test are presented in table 1:

**Table 1- Chow test results of the main research hypothesis**

Fixed effects sectional	F-statistic	Degrees of freedom	Probability
	0.7508	(968,622)	0.9954

As it can be seen in the table above, the significance of Chow test is more than 5%; therefore the combinational model should be used to determine the regression model. The results of practicing this model are presented in table 2:

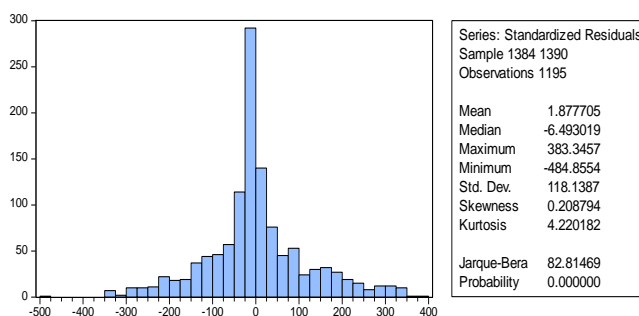
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**Table 2- Results of the main research hypothesis testing**

Variables	Variables coefficient	Standard error	T-statistic	VIF	Significance level
Y-intercept	-5.6484	4.0216	-1.4045	-	0.1604
Institutional investors' ownership percentage	0.0224	0.0074	3.0142	1.011	0.0026
Normal profit coefficient of variation	1.5513	0.8093	1.9166	1.020	0.0555
Abnormal profits	10.3103	1.3757	7.4942	1.029	.0000
Profit stability	-3.3543	2.3577	-1.4226	1.012	0.1551
Company's size	0.5127	0.2814	1.8213	1.025	0.0688
Financial leverage	0.3778	1.0558	0.3579	1.005	0.7205
Coefficient of determination	0.1812				
Adjusted coefficient of determination	0.1770				
Durbin-Watson statistic	1.5572				
Model significance	.0000				

The variance inflation factor (VIF) is used in this study in order to ensure the absence of multicollinearity between the independent variables (regression pre-assumption). The VIF sizes obtained in the above table are under 5. Therefore, there is no multicollinearity between the independent variables. Variance analysis (F-test) is used to test the significance and t-statistic is used to test the significance of regression coefficients. The results of the table shows that since the significance level is lower than 5%, overall significance of the regression in 95% confidence level is approved, which means that regression variables coefficients will not be zero simultaneously. It can be seen in the table that 17.70 % of the variation in abnormal stock returns are explained by variables in the model. According to the Durbin-Watson statistic, the model residues independence can be approved.

Figure 1 also implies that the distribution of size of residues is not normal. As it can be seen, the significance of Jarque-Bera statistic is less than 5 % and the distribution curve does not follow the bell - shaped distribution which indicates the deviation from the normality assumption of the size of residues. However, their distribution shape is similar to the normal distribution, it means it is unimodal, and when the sample size is large enough, deviation from the assumption of normality is often trivial and its consequences are insignificant. According to the central limit theorem, it can be found that even in the absence of normality, test statistic will follow the appropriate distributions, thus the lack of justification for this assumption is negligible.



**Figure 1- The main hypothesis regression model residues distribution**

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According to the results of regression coefficients significance test that can be seen in the table above, without considering other factors affecting the company's stock return, one unit increase in the percentage of institutional ownership will increase the abnormal stock return rate by 2.24%. The positive sign of the coefficient indicates a positive relationship between institutional ownership and abnormal stock return, so there is no reason to reject the hypothesis and the hypothesis is acceptable at the 95% significance level.

**The secondary research hypotheses testing**

In the present study, the first secondary hypothesis states that there is a significant relationship between the level of active institutional investors and abnormal stock returns. Statistical hypothesis can be stated as follows:

H<sub>0</sub>: There is no significant relationship between the

level of active institutional investors' ownership and abnormal stock return of the company.

H<sub>1</sub>: There is a significant relationship between the level of active institutional investors' ownership and abnormal stock return of the company.

Furthermore, the second secondary hypothesis states that there is a significant relationship between the level of passive institutional investors and abnormal stock returns. Statistical hypothesis can be stated as follows:

H<sub>0</sub>: There is no significant relationship between the level of passive institutional investors' ownership and abnormal stock return of the company.

H<sub>1</sub>: There is a significant relationship between the level of passive institutional investors' ownership and abnormal stock return of the company.

First, the Chow test has been used to determine the regression model because the research data were combinational. The results of this test are presented in table 3.

**Table 3- Chow test results of the secondary research hypotheses**

Fixed effects sectional	F-statistic 0.7547	Degrees of freedom (967.220)	Probability 0.9948
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**Table 4- Results of the secondary research hypotheses testing**

Variables	Variables coefficient t	Standard error	T-statistic	VIF	Significance level
Y-intercept	-4.5940	1.6783	-2.7372	-	0.0063
Active institutional investors' ownership percentage	0.0436	0.0123	3.5414	1.152	0.0004
Passive institutional investors' ownership percentage	-0.2563	0.0425	-6.0211	1.167	0.000
Normal profit coefficient of variation	0.1647	0.3160	0.5212	1.020	0.6023
Abnormal profits	3.6786	1.3287	2.7683	1.029	0.0057
Profit stability	-0.6514	2.3837	-0.2733	1.013	0.7847
Company's size	0.4573	0.0933	4.8992	1.025	0.0000
Financial leverage	-0.5354	0.8601	-0.6225	1.005	1.031
Coefficient of determination				0.0262	
Adjusted coefficient of determination				0.0204	
Durbin-Watson statistic				1.5962	
Model significance				.0000	



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As it can be seen in the table above, the significance of Chow test is more than 5%; therefore the combinational model should be used to determine the regression model. The results of practicing this model are presented in table 4.

The variance inflation factor (VIF) is used in this study in order to ensure the absence of multicollinearity between the independent variables (regression pre-assumption). The VIF sizes obtained in the above table are under 5. Therefore, there is no multicollinearity between the independent variables. Variance analysis (F-test) is used to test the significance and t-statistic is used to test the significance of regression coefficients. The results of the table shows that since the significance level is lower than 5%, overall significance of the regression in 95% confidence level is approved, which means that regression variables coefficients will not be zero simultaneously. It can be seen in the table that 2.04 % of the variation in abnormal stock returns are explained by variables in the model. According to the Durbin-Watson statistic, the model residues independence can be approved. Figure 2 also implies that the distribution of size of residues is not normal. As it can be seen, the significance of Jarque-Bera statistic is less than 5 % and the distribution curve does not follow the bell -shaped distribution which indicates the deviation from the normality assumption of the size of residues. However, their distribution shape is similar to the normal distribution, it means it is unimodal, and when the sample size is large enough, deviation from the assumption of normality is often trivial and its consequences are insignificant. According to the central limit theorem, it can be found that even in the absence of normality, test statistic will follow the appropriate distributions, thus the lack of justification for this assumption is negligible.

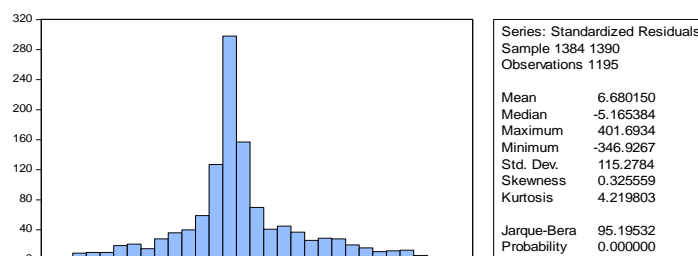


Figure 2- The secondary hypotheses regression model residues distribution

According to the results of regression coefficients significance test that can be seen in the table above, without considering other factors affecting the company's stock return, one unit increase in the percentage of active institutional ownership will increase the abnormal stock return rate by 4.36%. The positive sign of the coefficient indicates a positive relationship between active institutional ownership and abnormal stock return, so there is no reason to reject the hypothesis and the first secondary hypothesis is acceptable at the 95% significance level. Moreover, without considering other factors affecting the company's stock return, one unit increase in the percentage of passive institutional ownership will decrease the abnormal stock return rate by -25.63%. The negative sign of the coefficient indicates a negative relationship between passive institutional ownership and abnormal stock return, so there is no reason to reject the hypothesis and the second secondary hypothesis is acceptable at the 95% significance level.

## CONCLUSIONS

In this study, the relationship between institutional investors (active / passive) and abnormal stock return of the listed companies in Tehran Stock Exchange were analyzed. Institutional investors have valuable internal information about future prospects and business, finance and investment strategies of the company due to their influence and direct communication with the managers. Furthermore, based on evidence from previous research (e.g., Naiker in New Zealand, Cornett et al. in America, etc.), monitoring role of institutional investors were not similar and they do not possess similar motivations for active

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monitoring on the management. Therefore, institutional investors can be divided into two categories: passive (sensitive to pressure or temporary) and active (non-sensitive to pressure). Thus the relationship between the level of active and passive institutional ownership were examined as well. Besides the variables of institutional investors, the effects of abnormal earnings, the variation coefficient of ordinary income, earnings stability, firm size and financial leverage variables were controlled indeed.

Results of the testing provide some evidences in approving the efficient monitoring theory that institutional investors are more capable of identifying the companies with future abnormal returns. In other words, there is a positive and significant relationship between institutional investors' ownership level and abnormal stock returns of companies. In fact, as a rational person, institutional investors will buy the shares of those companies which would have a good future based on their predictions and will sell the shares of those companies which would not have a good future based on their predictions. This is the case when the institutional investors are active and have a representative in the board of directors, otherwise they would not be able to identify the companies who would gain abnormal returns in the future and they cannot recognize the best shares as good as active institutional investors.

### **Research limitations**

The limitations that existed in the research and should be considered in explanation and interpretation of the result and their generalization ability are as follows:

- 1- One of the limitations of this study is the lack of access to the accurate information in order to control the investors (active/passive) in the companies, since it is possible for some of the shareholders who are passive or do not have a representative in the board of directors to have access to the information of the company and the ability to select the best shares even more than active shareholders.
- 2- Since the research sample has been selected from the listed companies in Tehran Stock Exchange and this samples are not necessarily represent all of the active economical companies in Iran in regards to size, industry, ownership structure and product types, therefore generalizations should be made cautiously.

The absence of an organized and systematic database to access the information of the companies and the mismatch of existing information in different databases resulted in wasting a lot of time.

### **Research suggestions**

#### **Suggestions resulted from the research findings**

According to the research findings, some suggestions for using this results are proposed as follows:

- 1- According to the main research hypothesis and the positive and significant relationship between institutional ownership percentage and abnormal returns, it is suggested to the investors to consider the ownership constitution of companies in their investment decisions and invest in those companies which have a higher percentage of institutional investors. Furthermore, maintaining the arrival of public companies on the stock exchange by private organizations (subsequently these companies will be taken over by institutional investors) is proposed.
- 2- According to the secondary research hypotheses and the positive and significant relationship between active institutional ownership percentage and abnormal stock return and negative and significant relationship between passive institutional ownership percentage and abnormal stock return, it is suggested to minor investors to use active investment companies; since their higher influence and ability in optimal portfolio selection will result in less risks and more returns.
- 3- To use the results of this research and to consider the approved relationships of this study as a measure for the purpose of assessing and grading the companies, in such a way that company's shareholders composition (the fact that the more institutional investors in the ownership structure are, the more probable gaining abnormal stock return would be) would be used as a measure for determining and assessing the current and future state of the companies by the grading companies

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and those who would like to determine the companies' value for different purposes such as decision-making, investment, consultation and etc.

### **Suggestions for future research**

According to the researcher, any of the following suggestions can be considered as future research topics:

- 1- In this study, the relationship between institutional ownership (active/passive) and abnormal stock return of the companies were examined which only focused on the presence of institutional owners in the board of directors. It is suggested to investigate other influential factors of the monitoring aspect of institutional owners' representatives (education, simultaneous presence in different boards of directors, related specialties, etc.).
- 2- It is suggested to investigate the effect of other factors related to institutional investors such as age and duration of their ownership on abnormal stock returns in the future research.
- 3- A comparison study on the topic of this research by dividing the samples of the study based on the size of listed companies in Tehran Stock Exchange into two groups, because analyzers carry out more researches about the bigger firms than the smaller ones and consequently minor investors would make fewer mistakes in analyzing bigger companies due to the provided information.
- 4- It is possible to perform the research using newer mathematical and statistical models such as neural network. In this case, the external validity of the research may increase or new outcome may acquire.

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