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Institutional ownership and corporate value

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Abstract

Purpose

Prior studies examining the relation between the shareholdings by institutional investors and firm value have produced mixed results. These studies have assumed that a linear relation exists between corporate value and institutional shareholdings. The purpose of this study is to further investigate the nature of this relationship and by partitioning institutional investors into institutions that have appointed a representative to the board of directors of the firms in which they have a block investment and institutions with a similar holding but without a representative on the board of directors.

Design/methodology/approach

The study is based on a sample of 123 firms with available financial and institutional ownership data. A cross-sectional regression analysis is used to test the relation between corporate value and institutional ownership with and without board representation.

Findings

The results of the study suggest that share ownership by investors with board representation is positively related to the value of the firm at lower levels of ownership. However, as the share ownership increases, the impact on the value of the firm becomes negative, giving rise to a non-linear relation. The extent of shareholding by institutions without board representation, on the other hand, is not related to the value of the firm.

Research limitations/implications

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ownership, institutional investors with board representation may induce boards of directors to make sub-optimal decisions.

Originality/value

The study provides a deeper understanding of the relationship between firm value and institutional ownership. That is, the effect of shareholding by institutions with board representation is likely to have a non-linear relation with firm value.

Keywords

- Corporate governance
- Internal control
- Investors

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