Does Institutional Ownership Enhance a Firm's Financial Performance? A Study from Emerging Economies

ALMUATASIM MUSABAH SAIF AL MUTAIRI, SUZAIDA BTE. BAKAR
College of Graduate Studies,
Universiti Tenaga Nasional,
Jalan Ikram-Uniten 43000 Kajang, Selangor
MALAYSIA

Abstract: - Corporate value is weakened by agency concerns and conflicts of interest between fund contributors and firm decision-makers. The global expansion of institutional investment emphasized the role of corporate governance in saving agency costs. Nonetheless, there is limited research on pressure resistance (PR), pressure sensitivity (PS), and stability of pressure-resistant (SPR) from an institutional ownership perspective on firm financial performance in emerging economics. This study aims to investigate the relationship between institutional ownership dimensions with firm financial performance. The study is quantitative and based on panel data (2018 to 2020) collected through content analysis from annual reports and company websites. The existing index was adapted for institutional ownership dimensions, and Tobin's Q ratio was calculated for firm performance because it considers the market and book value of firm financial information. A purposive sampling technique was employed to examine the top 50 Malaysian public listed companies based on market capitalization. The findings revealed that PR and SPR positively impacted firm financial performance whereas PS indicated no relationship. Ultimately, the industry should proactively emphasize the structure of institutional ownership due to its potential in firm financial progression.

Keywords: - Institutional ownership, pressure resistance, pressure sensitivity, stability of pressure-resistant, Tobin's Q

1 Introduction

Good corporate governance improves firms and society [1-3]. Company executives increase public trust by establishing an effective corporate governance framework. Concurrently, legislative procedures from corporate governance help society to avoid threats and challenges. Recent company controversies highlighted the importance of corporate governance to society and stakeholders. Consequently, companies competed against each other to find the best possible ways to improve engagement with stakeholders and institutional investors. Companies pressured each other to determine the best approaches to enhance relationships with stakeholders where institutional investors and institutions that own businesses increased significantly [4-6].

Institutional investors have gained prominence in business decision-making. The costs and benefits of institutional investor and external debt holder surveillance and its substitutability contribute to the institutional ownership and firm performance interrelationship potential [7-9]. The institutional ownership proportion in a corporation impacts its financial performance because institutional investors can monitor firms cost and revenue structure. Beyond price discovery, institutional investors also offer allocative efficiency and managerial responsibility. Institutional investors organize the cash that businesses demand to increase and stretch liquidity to trading markets—this is the lifeblood of capital markets.

We were motivated to study this topic because the OECD stated that institutional investors contributed to financial assets worth more than USD 53 trillion in 2010 including USD 22 trillion in shares [10]; this value increases daily. After a decade, institutional investors have gained more significance in academia and the industry due to their firm financial value. Second, foreign investors constitute approximately 30% of ownership in various jurisdictions. For example, the proportion of shares held by Chinese institutional investors reached 40% in March 2015, making such investors one of the major strengths of the stock market [11-13]. Self-interest has caused an increasing number of institutional

investors to become involved in corporate governance. Foreign institutional investors increase the internationally branding of the capital market. Therefore, examining corporate governance and institutional investors can enhance the value of firms as well as society.

Corporate governance, firm financial progress, and institutional investment have been studied in developed and developing economies. Past studies [14] developed the agency theory of corporations where managers are motivated to maximize personal profits instead of the stakeholders' prosperity. Jensen [15] stated that using debt mitigates the agency problem because enterprises commit to paying interest and principal payments regularly. Jensen and Meckling (1976) developed awareness of risk transfers and asset change substitutions. High leverage encourages equity investors to engage in high-risk, low-return activities and projects with a negative net present value (NPV). Huddart [16] reported that large shareholders (institutional investors) are highly motivated to monitor company management because active monitoring enhances firm value.

Others [17] and [18] argued that the costs of active monitoring may outweigh the advantages. Pressure sensitivity was also shown to be a deciding factor of whether financial markets are monitored actively or passively [19]; [20]. Financial institutions such as banks and insurance companies, are susceptible to pressure on commercial relationships; thus, they are prone to collaboration with current leadership. Passive surveillance of investee enterprises is common among pressure-sensitive institutions. Meanwhile, mutual funds and similar organizations are less sensitive to commercial links and aggressively scrutinize managerial behavior. Nonetheless, only a few studies have investigated PR, PS, and SPR from an institutional ownership perspective on firm financial performance in emerging economies. This study investigates the relationship between institutional ownership dimensions with firm financial performance.

The structure of the study is as follows. First, the introduction is described followed by a literature review. Second, the conceptual framework and relevant methodology are highlighted. Third, data analysis is given with a relevant discussion. Finally, the conclusion is presented with several practical recommendations for the industry.

2 Literature Review

Numerous studies have examined the many elements of corporate governance; the ownership structure plays an essential role [1, 5, 21, 22]. Institutional investors demonstrate a high preference for equities of large and universally accepted companies, companies in countries with good disclosure rules, and companies near their home market role [1, 5, 21, 22]. Other research connects the quality of firm corporate governance framework to the formation of institutional ownership. Institutional investors favor businesses fairness with solid and sound governmental formation [23-25]

Past studies investigated institutional investors' impact on business value and performance and institutional ownership factors [3, 11, 23, 25]. Only institutions with no potential business relationship with the companies where they hold shares positively impacted the firms' operating cash flow return on assets. In contrast, institutions with business relationships with the firms in which they invest revealed a negative effect. Yuan et al. (2008) and Lin et al. (2009) investigated the connection between institutional ownership and firm performance or progress for publicly traded Chinese corporations. Others [3] examined the link in a sample of Spanish firms, and Sakaki et al. [13] investigated institutional investors' monitoring role among Australian firms. The outcomes are reliable with independent institutional investors performing an effective monitoring function and institutional investors performing a reduced monitoring role.

The ownership structure describes how one can allocate ownership according to share capital and voting rights. The ownership structure reduces disagreements between management and owners. Jensen and Meckling (1976) developed the agency hypothesis where managers work for personal advantage, thus resulting in conflicts between management and shareholders. The debate on agency theory and its significant consequences is a component of finance study, which is a popular topic in business studies worldwide [3, 22]. Indeed, capital market players have been seeking a firm-monitoring mechanism to alleviate agency difficulties for the past few decades.

Distinct owners differently impact how companies function [5, 8, 9]. Institutional investors hold a distinct monitoring expertise level, various shares, and an incentive to monitor management at low cost. Hence, institutional ownership outperforms the individual ownership [3, 11, 23,

25]. The management is influenced by institutional investors who are similar to the financial market kingmakers. These investors are not active members of the management team but can sway the managers' monitoring decisions via their voting rights [7]. Although the investors are not actively involved in policymaking or decision-making, they gain the rights by acquiring company stock. The investors exercise voting rights and generate a voice in the corporate meeting when dissatisfied with managerial policies. Investors' ability to influence enterprises is determined by their business ties [11].

Institutional investors' capacities are confined to scanning the capabilities of each firm in their holding and monitoring each investment portfolio [26]. Thus, banks rely on readily available data on business performance and current corporate earnings. Nevertheless, the data disregard long-term performance and lack long-term innovation and competitiveness. Thus, in this unpredictable environment, institutional investors—especially PS institutions—act as arbitragers: They turn their portfolios frequently to profit from short-term profits instead of long-term benefits. Hence, executives slash research and design costs to raise short-term profits and keep institutions appeased at the expense of long-term business performance, innovation, and competitiveness [4, 9, 11, 21].

Empirical studies that use corporate governance parameters to explain institutional ownership refer to business samples from developed countries [2, 3, 7, 23-25]. Although institutional investors are crucial for better economies, few studies have examined how institutional ownership groups influence firm financial performance in emerging countries.

Institutional investors are divided into two groups: PR and PS institutional investors. The PR describes the percentage of firm shares held by Qualified Foreign Institutional Investor (QFII), domestic mutual funds, and social insurance funds. The PS denotes the percentage of firm shares held by banks, insurance companies, trusts, and other types of institutional investors [19]. Studies present mixed results and findings in PS and PR on financial performance where emerging economies have demonstrated inconclusive results. Therefore, this study developed the following hypotheses:

H1: PR has a significant positive relationship with Tobin's Q

H2: PS has a significant positive relationship with Tobin's Q

Studies demonstrate that the institutional holding period or stability significantly influence business management and investment decisions. Long-term investors are clearly more involved in management concerns than short-term investors due to their long-term focus on firm corporate governance and development [1, 4-9, 25]. Therefore, this study employed institutional ownership persistence as an indicator of institutional ownership stability (SPR) based on the literature [27]. The SPR refers to the ratio of the average ownership proportion to the standard deviation of the ownership proportion over a three-year period. Although institutional investors are critical for better economies, there is limited research showing the impact of PR institutional ownership stability on firm financial performance in emerging countries; these studies demonstrate inconclusive results. Hence, this study formulated the following hypothesis:

H3: SPR has a significant positive relationship with Tobin's Q.

A conceptual framework is the graphical representation of the authors' argument about a proposed relationship among variables. Figure 1 is the conceptual framework on institutional ownership and firm financial performance. The former includes three dimensions: PR, PS, and SPR. Meanwhile, firm financial performance is determined by Tobin's Q. Two control variables included in the study are firm size and firm age. The conceptual framework is based on the agency theory that elaborates institutional ownership and firm performance relationship.
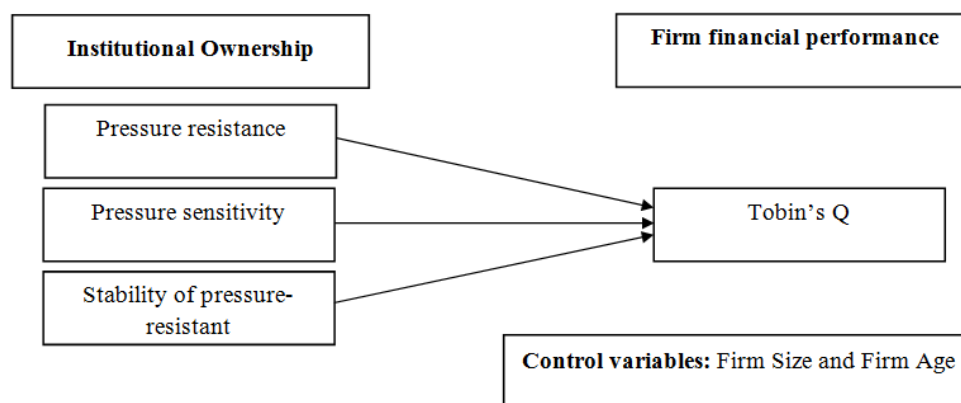
Fig. 1: Conceptual Framework on institutional ownership and firm financial performance.

3 Methodology

The study is quantitative and is based on panel data collected through content analysis from annual reports and company websites. The documents are generally the most reliable and audited information for that particular company. The panel data was collected over a three-year period from 2018 to 2020. The existing index was adapted for institutional ownership dimensions, and Tobin's Q ratio was calculated for firm performance because the ratio considers the market and book value of firm financial information. A purposive sampling technique was employed among the top 50 Malaysian public listed companies based on the market capitalization [28-30]. Therefore, the total observation was 150 for the institution ownership study. Malaysian firms were considered because they were listed in the emerging economies and rated the third-largest in the Asian trading market. After collecting the panel data, a unit root test and data diagnostic test were performed followed by descriptive and correlation tests. The study also validated the Breusch-Pagan test and Hausman test in terms of model selection. The Random-effects multiple generalized a least squares (GLS) regression model and was suggested to test the study hypotheses.

Table 1. Methodological details.

Particulars	Explanation
Method	Quantitative
Sampling technique	Purposive sampling
Data type	Secondary and panel data
Data source	Top 50 Malaysian public listed companies
Data year	2018, 2019, and 2020
Data Analysis	Descriptive, correlation, GLS Random effect Multiple Regression
Software	STATA 14.2
Model	Three econometric models developed
	Model 1 is based on PR and TQ Model 2 is based on PS and TQ Model 3 is based on SPR and TQ
Note: TQ = Tobin's Q PR = PR institutional investors possess a certain % of ordinary shares. PS = PS institutional investors possess a certain % of ordinary shares. SPR = pressure-resistant ownership stability	

4 Results and Discussion

Table 2 presents the descriptive statistics for the dependent, independent, and control variables from 2018 to 2020 among the top 50 Malaysian public listed firms. The descriptive analysis demonstrates that institutional investor and firm financial progress are the independent and dependent variables, and institutional investors include three dimensions: PR, PS, and SPR. Financial performance is represented by Tobin's Q.

The PR indicated a mean of 0.263 and a standard deviation of 0.134 with a minimum of 0.03 and a maximum of 0.63. The PS depicted an average value of 0.195 and a standard deviation of 0.087 with a minimum of 0.03 and a maximum of 0.46. The SPR suggested an average value of 0.087 and a standard deviation of 0.044 with a minimum of 0.01 and a maximum of 0.21. The average value of 11.543 varied from 3 to a maximum of 34.7 based on the dependent variable.

The two control variables are firm size (defined by the log value of firms' total assets) and firm age (year the firm was founded). The firms' average age was calculated to be 26 years. Firm size suggested a mean of 6.219 and a standard deviation of 0.529 with a minimum of 5.01 and a maximum of 7.57.

Table 2. Descriptive statistics.

Variable	Observation	Mean	Std. Dev.	Min.	Max.
PR	150	0.263	0.134	0.03	0.63
PS	150	0.195	0.087	0.03	0.46
SPR	150	0.087	0.044	0.01	0.21
TQ	150	11.543	6.068	3.00	34.7
Firm size	150	6.219	0.529	5.01	7.57
Firm age	150	25.766	13.911	2.00	59.0

Table 3. Correlation.

	PR	PS	SPR	TQ	f_size	f_age
PR	1.0000					
PS	0.4639	1.0000				
SPR	0.9982	0.4549	1.0000			
TQ	0.2353**	0.0565	0.2329**	1.0000		
Firm size	-0.1195	-0.0446	-0.1239	0.1563	1.0000	
Firm age	-0.0345	-0.2331	-0.0388	0.1724	0.1390	1.0000
** Correlation is significant at the 0.01 level (2-tailed).						

The section presents the Pearson correlation analysis of independent, dependent, and control variables. Most independent variables are positively associated based on Pearson correlation results. The results illustrated in Table 3 show correlation of the independent variable (institutional investor) on firm financial performance.

The findings suggest that PR revealed a positive relationship with Tobin's Q (r = 0.2353; p < 0.01), thus suggesting that PR holds a vigorous positive outcome on financial performance. Similarly, PS is positively associated with Tobin's Q (r = 0.0565; p < 0.01), thus indicating that PS holds a strong positive value on Tobin's Q. Nevertheless, the relationship is not statistically significant. Similarly, SPR revealed a positive association with Tobin's Q (r = 0.2393; p < 0.01), thus indicating that SPR has a rigorous positive outcome on firm financial performance.

Table 4. Model 1

TQ= β0 + β1 pr i + β2firmsizei + β3firmagei + ε			
R-sq = 0.2788	Number of obs.	=	150
	Number of groups	=	50

| | | | | Wald chi2 (3) | | = | 7.67 |
| | | | | Prob > chi2 | | = | 0.0533 |
TQ	**Coef.**	**Std. Err.**	**z**	**P > z**	**95% Conf.**		**Interval**
PR	8.17642	3.853379	2.12	0.034	.623935		15.7289
f_size	-.2337565	.8851198	0.26	0.792	-1.968559		1.501047
f_age	.0581448	.0352967	1.65	0.099	-.0110355		.127325
_cons	9.346367	5.59887	1.67	0.095	-1.627217		20.31995
sigma_u	4.9296412						
sigma_e	3.0705126						
rho	.72047991						

The study applied the random effect GLS regression to evaluate the hypotheses of Model 1 for H1 as illustrated in Table 4. The influence of PR on company financial performance was measured using Tobin's Q and the regression estimator for Model 1.

Table 4 depicts the effect of control factors (firm size and age) on the relationship between PR and Tobin's Q. The study used Wald's Chi^2 (2) and Prob > Chi^2 tests to assess the quality of fit of Model 1 (PR and Tobin's Q). Table 4 demonstrates the Wald Chi^2 (1) = 7.67 figures with Prob > Chi^2=0.0533. The result (Prob > Chi^2 = 0.0533) confirms the goodness-of-fit for Model 1. Hence, the entire model is important in predicting growing company financial performance (Tobin's Q).

The study concludes that PR holds a considerable favorable impact on firms' financial success. Similarly, Table 4 demonstrates the volume of change in the dependent variable (Firm financial performance) induced by independent variables (PR) in the top 50 Malaysian public listed companies between 2018 and 2020 depicted in R-square (0.2788). The R-square (0.2788) score indicates that PR anticipates approximately 28% of the associated variance in business financial performance.

Table 4 includes the random effect GLS regression model coefficient. Model 1 demonstrated a positive beta of 8.17, a p-value of 0.034 (> 0.05), and Z statistics of 2.12. (PR and firm financial performance). Furthermore, at the 0.10 significant level (Beta =.0581, z = 1.65, p = 0.09), firm age is strongly associated with company financial performance (Tobin's Q). Conversely, at the 0.05 significant level (Beta = -0.237, z =.26, p = 0.792), company size is insignificantly and inversely linked to firm financial performance (Tobin's Q).

Table 4 demonstrates that between 2018 and 2020, a unit increase in the independent variable, PR, suggested an additive influence on the dependent variable, firm financial performance among the top 50 Malaysian public listed companies. Moreover, the random effect GLS regression findings in Table 4 imply that the Pearson correlation (Table 3) produced comparable results. The findings for PR and business financial success aligns with [1, 5, 9] but contradict others [4].

Table 5. Model 2

TQ= β0 + β1 ps i + β2firmsizei + β3firmagei + ε							
R-sq = 0.0300				Number of obs		=	150
				Number of groups		=	50
				Wald chi2 (3)		=	3.95
				Prob > chi2		=	0.2671
TQ	**Coef.**	**Std. Err.**	**z**	**P > z**	**[95% Conf.**		**Interval]**
PS	5.645247	6.047967	0.93	0.351	-6.208551		17.49905
f_size	-.2897804	.8952568	0.32	0.746	-2.044451		1.464891
f_age	.0635651	.0356766	1.78	0.075	-.0063598		.1334899
_cons	10.60313	5.676487	1.87	0.062	-.5225818		21.72884
sigma_u	5.1800437						
sigma_e	3.0895039						

rho	.73761438					

The study used random effect GLS regression to evaluate the hypotheses of Model 2 for H2 as illustrated in Table 5. The influence of PS on company financial performance assessed by Tobin's Q was investigated using

the regression estimator for Model 1.

The figure demonstrates how control factors, such as company size and age, affect the PS-Q Tobin's relationship. The study used the Wald Chi2 (2) and Prob > Chi2 tests to determine the quality of fit of Model 2 (PS and Tobin's Q). The Wald Chi2 (1) = 3.95 values are demonstrated in Table 5, with Prob > Chi2= 0.267. The significance of the finding (Prob > Chi2 = 0.267) indicates that the goodness-of-fit for Model 2 was not approved, implying that the entire model is insignificant in predicting growing company financial performance (Tobin's Q).

The findings indicate that PS holds a negligible beneficial influence on business financial performance. Similarly, Table 5 illustrates the volume of change in the dependent variable (firm financial performance) induced by independent variables (PS) among the top 50 Malaysian public listed companies between 2018 and 2020 depicted in R-square (0.03). The PS predicts only 3% of the corresponding variance in firm financial performance demonstrated by the R-square (0.03) value.

Table 5 displays that a unit increase in the independent variable (PS) holds an incremental impact on the dependent variable (firm financial performance) among the top 50 Malaysian public listed companies between 2018 and 2020. Moreover, the results of the random effect GLS regression in Table 5 indicate that the Pearson correlation (Table 3) should produce similar results. The PS findings align with earlier research (Cao et al., 2020; Han et al., 2021; Kadoski et al., 2020) but contradict other findings (Chen et al., 2020).

Table 6. Model 3

TQ= β_0 + β_1 spr i + $\beta_2$firmsizei + $\beta_3$firmagei + ε						
R-sq = 0.366				Number of obs	=	150
				Number of groups	=	50
				Wald chi2 (3)	=	8.07
				Prob > chi2	=	0.0445
TQ	**Coef.**	**Std. Err.**	**z**	**P > z**	**[95% Conf.**	**Interval]**
SPR	25.67777	11.60211	2.21	0.027	2.938057	48.41749
f_size	-.2226674	.8836669	0.25	0.801	-1.954623	1.509288
f_age	.0589048	.0352257	1.67	0.094	-.0101363	.1279458
_cons	9.159312	5.601204	1.64	0.102	-1.818846	20.13747
sigma_u	4.9392957					
sigma_e	3.0646102					
rho	.72204029					

The study used the random effect GLS regression to examine the hypotheses of Model 3 for H3. Table 6 illustrates the results of the random effect (GLS) regression for Model 3, which examined the influence of SPR on Tobin's Q-measured firm financial performance.

Table 6 demonstrates how control factors (firm size and age) affect the relationship between SPR and Tobin's Q. The study used the Wald Chi2 (2) and Prob > Chi2 tests to verify the quality of fit of Model 3 (SPR and Tobin's Q). Table 6 suggests that the Wald Chi2 (1) = 8.07 figures with Prob > Chi2 = 0.0445. The results (Prob > Chi2 = 0.0445) confirm the goodness-of-fit for Model 3, implying that the entire model is significant in predicting

growing company financial performance (Tobin's Q).

The findings indicate that the SPR holds a strong favorable influence on corporate financial performance. Similarly, Table 6 illustrates the volume of change in the dependent variable (firm financial performance) as induced by the independent variable (SPR) in the top 50 Malaysian publicly listed businesses between 2018 and 2020. The R-squared value (0.366) indicates that SPR predicts approximately 37% of the volatility in business financial performance.

Table 6 includes the random effect GLS regression model coefficient findings. Notably, Model 3 revealed a positive beta of 25.67, a p-value of 0.027 (> 0.05), and Z statistics of 2.21 (SPR and firm financial performance). Furthermore, firm age in the model is substantially connected to company financial performance (Tobin's Q) at a 0.10 significant level (Beta = .05, z = 1.67, p = 0.094). In contrast, company size is insignificantly and inversely linked to firm financial performance (Tobin's Q) (Beta = -0.222, z = .25, p = 0.801) at the 0.05 significant level.

Table 6 demonstrates that a unit increase in the independent variable (SPR) produces an incremental influence on the dependent variable: firm financial performance among the top 50 Malaysian public listed companies for 2018 to 2020. Furthermore, the random effect GLS regression findings in Table 6 suggest that the Pearson correlation (Table 3) produces comparable results. The SPR findings align with most literature reports (Cao et al., 2020; Han et al., 2021; Kadoski et al., 2020) but contradict others (Chen et al., 2020).

5 Conclusion

Although the analysis implies that ownership formation influences company progress status, more research is needed on the relationship underlying these dynamics. Future studies should expand the topic to include evaluation of cross-sectional data over multiple time periods. Longer data collection periods can demonstrate causality via delayed data. Studies should also evaluate the real business relationships between apparent competitors. This study can help clarify the misunderstanding and improve the relationship between potential investors who are under pressure as well as those who are holding shares. Future work should clarify investors under pressure and the companies where they own stock. Nevertheless, how owners are harmed as monitors remains a mystery. Future research should include factors in bank loans and insurance policies held by businesses. Our results support the theoretical aspect of agency theory development and the information asymmetry aspect to help stockholders, supervisors, and researchers better understand institutional investors' behavior and strategy. These results can harmonize management preferences with profitability and supervise management to lower agency costs while improving resource utilization and overall effectiveness.

Table 7. Hypothesis Summary

Hypothesis	Model	z	p-value	Result
H1: pressure resistance (PR) has a significant positive relationship with Tobin's Q	1	2.21	0.027	Supported
H2: pressure sensitivity (PS) has a significant positive relationship with Tobin's Q	2	0.93	0.351	Not Supported
H3: stability of pressure-resistant (SPR) has a significant positive relationship with Tobin's Q	3	2.12	0.034	Supported

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