

Evaluating the impact of institutional investors on shares return in food industry in Tehran Stock Exchange

Hossein Ostadi, Sajad Suleimani Biranvand *

Department of Economic, Dehaghan Branch, Islamic Azad University, Isfahan, Iran

Abstract: According to the efficient monitoring hypothetical, institutional stockholders have necessary stimulus for improving the performance of the company, also institutional stockholders have enough influence to punish the management who do not move for gaining their benefits. This issue can indicate that institutional stockholders manage their portfolio actively and they persuade the management to make an optimal decision. On the other words, obtain of institutional stockholders causes transparency of information disclosure, controlling management system of companies and improving performance and finally increasing the value of the company. This research is functional in terms of goal and it is description analysis in terms of the research method. The main objective of this study is to evaluate the impact of institutional investor on shares return in food industry companies listed in Tehran Stock Exchange during the period of the years 2001 to 2013 with using panel data method. The results of research indicate the effect of institutional investor on shares return is positive and significant. Also, the effect of systematic risk on shares return is negative and significant. Also, the effect of company size on shares return is positive and significant and the effect of total debt on shares return is negative and significant.

Key words: Institutional investor; Shares return; Food industry

1. Introduction

For many years, it was assumed in the economy that all available groups in one shares company act for common aim. However, in the previous 30 years, many cases of conflicts of interest among the groups and how companies deal with the conflicts have been presented. Developing shares companies over time lead to appear and increase the cortical capital owners who have not had direct involvement in managing companies and with selecting the board of directors, they guide and supervise the affairs of the company. One of the main criteria for making decision in Stock is shares return. Shares return itself has information content and most of the actual and potential investors use it in their analysis and predictions. Therefore, considering the effective variables on return are very important in companies listed in Stock Exchange. As it is mentioned at the beginning of the research, one of the important effective factors on shares return is institutional stockholder.

Since 1981, economists have been looking for understanding the origins of prices fluctuations in shares market which seems beyond the predictions made by simple models with rational expectations. After understanding this fact, it is difficult to explain the changes in shares market with only using of observable news (Kootler, Pootreba and Summer, 1989; Feer, 2002; Rool, 1998).

To study the origins of these fluctuations, the model is presented by Metrik and Goomper (2001) which is pointed to the role of institutional investors as an important factor in prices fluctuations in shares market. Better understanding the behavior of institutional investors clarify many vague hints about the origins of prices fluctuations in shares market such as: trade feedback as a positive shock, bubbles, providing liquidity and the importance of indicators (Gootzman and Masa, 2003).

In many countries, institutional stockholders have been posed as an important component of the capital market during the second half of the twentieth century. Institutional stockholders in the United States of America have been reached from 6/1 percent of total shares ownership in year 1950 to more than 50 percent in year 2002. From 1000 big companies sorted by the market value in year 1985, almost 75 percent of their ownerships have been belonging to the individuals. While currently 60 percent of that is managed by institutions (Hasas Yeganeh and Salimi, 2007).

Current researches show that based on efficient monitoring hypothetical, institutional stockholders have necessary stimulus for improving the performance of the company, also institutional stockholders have enough influence to punish the management who do not move for gaining their benefits. This issue can indicate that institutional stockholders manage their portfolio actively and they persuade the management to make an optimal decision. On the other words, obtain of institutional stockholders causes transparency of information

* Corresponding Author.

disclosure, controlling management system of companies and improving performance and finally increasing the value of the company (Hasas Yeganeh, 2005).

Generally, institutional investors are big investors like banks, insurance companies, investment companies and etc. (Boosch, 1998:36). In this research based on research of Forooghi et al (2009), if institutional stockholders and or other stockholders own more than 20 percent of shares with a right of vote of the company, their influence will be considered as effective influence and it is assumed that these stockholders have enough ability for affecting on decisions and policies of investee companies. Therefore, the effect of this type of investment on shares return has been studied in this research.

2. The relationship of institutional investors and shares return

Volatility of shares return is one of the most controversial topics of financial which has been under the attention of researchers of capital market in emerging markets in recent years (Leledakis, 2004). This issue returns to the relationship between volatility of price and consequently return and its effect on performance of financial sector and whole economy. On the other hands, the benefit of study the volatility of shares return from the side of investors is the issue that they consider volatility of shares return as a criterion of risk and also programmer of capital market can use of this criterion as a tool for measuring the amount of vulnerability of capital market (Zafar et al., 2008). Hence, the study of effective factors on fluctuation of shares return can be useful in many decisions of capital market; its result is usable for activists in Stock such as: financial institutions, companies' management, economic systems observers, and normal investors. On the other hands, nowadays the role of institution investors as mediate for transferring funds and savings to capital market and managing the resources in financial markets of other countries has been more important from day to day, in a way that increasing the transaction of institutional investors in shares market since the late of 1980s leads to increase the attention of financial researchers to study the effect of these institutions on shares price changes, in a way that institutional

investors can be known as a group of company stockholders which have a role in changing price and subsequently shares return fluctuation.

There are different theories about the relationship between institutional investor and fluctuation of shares return. Many researchers believe that institutional investors behave in the forms of mass and they tend to use of positive feedback trading strategies. Hence, their performance can lead to autocorrelation and volatility of shares price; in a way that obtaining these kinds of investors, the fluctuation of shares return is obvious. This view is justified on the basis of converging interests, it means that institutional investors are aligned with the directors due to the common interests and it causes the volatility of shares price. In contrast, other groups believe that institutional investors are informed investors who set shares price with new information and on time, they decrease the shares return fluctuation, therefore, obtaining these investors can cause shares market to be more efficient (Bohl et al., 2009).

3. Research model

The studied statistical society contains the accepted companies in Tehran Stock Exchange during the years 2001 to 2013. In this study, the panel data method and Eviews software are used and model and variables of the research are as follow:

FP=F (PIH, BETA, SIZE, LEV)

FP: shares return (normal shares return of company at the end of year t)

PIH: institutional investors

BETA: systematic risk (risk of any industry which the standard deviation of daily index for each industry in each year)

SIZE: company size by natural logarithm of sales average

LEV: total debt as financial leverages

4. Model estimation

In Table 1, the possibility below 5 percent indicates the absence of normality for variable and possibility higher than 5 percent indicates normality of variable.

Table 1: The study of normality of variables

	Beta risk	Company size	Debt	Shares return	Institutional investors
Jarque-Bera statistic	888.0748	28.22357	0.420148	6207.558	34.98272
Probability	0.0001	0.0002	0.8105	0.0001	0.0001

To choose the estimated method based on panel data method and or combination data method, F Limer test is used. In this test, H0 hypothesis is estimated method based on panel data. With regard to significance and probability below 5 percent show the confirmation of panel data method.

For making decision about using fix effects method or accidental effects, Hasman test is used. In fact, this test is the test of uncorrelated the individual effect and explanation variables that generalized least square estimation based on that is compatible under the H₀ hypothesis and it is

incompatible under the H_1 hypothesis. According to the probability of higher than 5 percent, the random effect method is chosen.

Table 2: F Limer test

Statistic	Probability	The resultsof test
90.20	0.009	The panel data method is confirmed

Tables 3: Hasman test

Statistic	D. F.	Probability	The result of test
13.76	4	0.325	The random effect method is confirmed.

Before estimating model, it is required to examine the stationary of all variables used in estimation. The results indicate the stationary of all variables of model. In these tests, the H_0 hypothesis

confirms absence stationary and H_1 hypothesis confirms the stationary of variables.

Table 4: the study of stationary of research variables (test of unit origin)

Variable	Levin Lin Chow test	Probability	Result
Debt	-36.2655	0.0001	I(0) - stationary
Company size	-4.71938	0.0001	I(0) - stationary
Beta risk	-55.9690	0.0001	I(0) - stationary
Institutional investors	-3.5E+11	0.0001	I(0) - stationary
Shares return	-25.5201	0.0001	I(0) - stationary

According to the results of research variables stationary show all variables are stationary in the level.

Table 5: estimation of research model

	Coefficient	Standard deviation	t Statistic	Probability
Intercept	0.129367	0.20468	0.632041	0.5271
Debt	-0.204714	0.06383	-3.207074	0.0012
Company size	0.00661	0.00187	3.527869	0.0067
Beta risk	-0.034881	0.14566	-2.394651	0.0625
Institutional investors	0.000649	0.00026	2.541884	0.0226
R ² : 0.68				
Adjusted R ² : 0.74				
Durbin-Watson: 1.95				
F Limer: 90.20 (0.01)		Hasman: 13.75 (0.325)		

To study the correlation series among variables, the stationary of remains is studied that indicates the rejection of zero hypothesis and show the stationary of remains. Consequently, there is no correlation series.

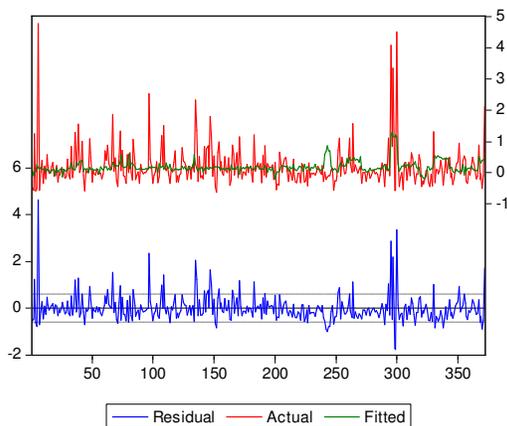


Fig. 1: correlation series among variables

establish corporate governance system; it decreases the cost of branch. Meanwhile, reducing fluctuation of shares return and the hypothesis of obtaining inverse relationship between institutional stockholder and fluctuation is understandable. The results of research show that the effect of systematic risk variable on shares return variable is negative and significant and this means that with increasing systematic risk, normal shares return of company will decrease at the end of year.

Table 6: the study of correlation series

Test	Statistic	Probability
Levin Lin Chow test	-26.9284	0.0001
IM & Pesaran test	-6.72521	0.0001
ADF and Fisher test	263.463	0.0001
Philips Pravon test Fisher	343.087	0.0001

In fact, with increasing systematic risk, investors view to the shares is more negative and by their taking away, demand and finally shares return will decrease. The results of research show that the effect of company size variable by natural logarithm from sales average on shares return variable is positive and significant and this means that with increasing natural logarithm of sales average, normal shares return of company will increase at the end of year t.

5. Conclusion

From the viewpoint of efficient supervision, obtaining institutional stockholders leads to

In fact, with increasing company size, investors view to the shares is more positive and with tempting them, demand and finally shares return will increase. According to the results of research, the effect of total debt variable as financial leverage on shares return variable is negative and significant and this means that with increasing total debt as financial leverage, investors view to the shares is more negative and with increasing company risk, demand and finally shares return will decrease.

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