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Institutional Investors' Typology and Firm Performance: The Case of French Firms

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ABSTRACT

This paper aims at clarifying the relation between institutional ownership and firm performance. We propose in this context a new typology of institutional investors based on their behaviours (active or passive) and the principal factors that may influence them. Globally, our results corroborate a positive impact of institutional activism on firm performance. Specially, they confirm that the effects of institutional owners on firm performance depend on their behaviours and that institutional active behaviour is more apparent with the grouping of its influential factors. We also find that the relation between institutional ownership and firm performance is bilateral.

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I. INTRODUCTION

Ownership structure, as a mechanism to control the conflict of interests between owners and managers, has been at the center of debates in corporate governance literature over the past two decades. Specially, two aspects of ownership structure were the most considered: ownership concentration and managerial ownership.

Our research gives major interest to a third aspect: Institutional ownership. Increasing their holdings in all international markets, institutional investors play a more important role on corporate governance, and generally on firm management. To illustrate this, we give the example of institutional investors in the USA that had in 1970 about 17.5% of firm's common stocks. This proportion progressed to 51% at the end of 2004 (Chen, Harford, and Li, 2007). Consequently to the increase of institutional holdings, more interest is given to them in financial literature, mainly concerning the study of their relation with firm performance. We note although that most of these researches make contradicting results, so, more investigations are necessary to clarify the relation ownership structure – firm performance.

Comparing to the existent literature, we attempt to:

1. Clarify the impact of institutional investors on firm performance. In order to better understand this relation, we consider a new typology of these actors based on their different behaviours (active or passive). Here we insist on the heterogeneity of these shareholders, unlike the majority of studies that treat them as a homogeneous group. To our knowledge, our research is the first to propose this new typology of institutional investors.
2. Identify the direction of causality between institutional ownership and firm performance. We note that many researches had supported the endogenous character of ownership structure (Agrawal and Knoeber, 1996; Demsetz and Villalonga, 2001). We adopt these reflections when examining institutional ownership and firm performance relation. We point out that a few numbers of studies had analysed this relation simultaneously (Duggal and Millar, 1999; Tsai and Gu, 2007). Considering this aspect is a principal advantage of our research.

To deal with these different points, our paper is organized as follows: We start by developing our new typology justified by the variety of institutional behaviours (active or passive), and the principal factors that influence them. In the second section, we expose a brief literature review of the relation institutional owners–firm performance, and develop our research hypothesis. We identify in the third section our methodology, models and variables to be checked. The fourth section summarizes our results before concluding at the end.

II. INSTITUTIONAL INVESTORS' HETEROGENEITY

Most of the existing studies looked for effects of institutional investors as a homogeneous group with the same objectives and similar actions. The realistic picture shows that these actors have different orientations and investment behaviours, motivated by the variety of constraints and environments where they operate. Consequently, a special examination of the typology of institutional investors appears necessary and gives a great add to the discussion of their effects on firm performance. In this way, first we propose to present a general aspect concerning different behaviours

of institutional investors, identified to be the major source of their heterogeneity. Then, we give a particular interest to the main factors that can motivate these behaviours, in order to establish our typology.

A. Institutional Investors' Behaviours: From the Passivity to the Activism

From the existing literature, we distinguish two types of institutional investors' behaviours: active versus passive, according to their degree of implication on firms' governance, and more generally, on their management.

The first current of research, such as studies of Black (1990), Bushee (1998), Dong and Ozkan (2007), support the absence of institutional investors incentives to influence or to be implicated on government or management of firms in their portfolios. They choose to adopt a passive behaviour, and are mainly interested by short-term returns of their stocks. They prefer to take the most advantages from stock prices variations, even if these fluctuations are temporary, and influence, consequently, in a negative way long-term decisions of these firms.

Conversely, an active behaviour of institutional investors had been supported in numerous papers examining different aspects like:

1. Perception of proxy contests and corporate governance proposals (Pound, 1988; Smith, 1996; Carleton, Nelson, and Weisbach, 1998).
2. Analysis of strategic choices of firms (Kochhar and David, 1996; Maug, 1998; Bushee, 1998).
3. Evaluation of institutional owners impacts on different mechanisms related to corporate governance in general, such as management pay, or kinds of decisions that Board of Directors take (Hartzell and Starks, 2003; Drobetz, Schillhofer, and Zimmermann, 2004; Cornett, Marcus, and Tehranian, 2008).

According to the activism hypothesis, institutional investors are more encouraged to influence firm management and to monitor efficiently their governance in order to reduce conflict of interests.

Between active and passive behaviours, empirical results were mixed. In this context, it was difficult to conclude about the effective role played by institutional investors. For this reason, and to better understand behaviours of this large class of investors, we propose to identify and explain principal factors that can directly motivate and influence them. We estimate that these factors justify "the passivity" or "the activism" of institutional investors. As a result, they constitute the fundamental characteristics of the typology that we propose.

B. Influential Factors of Institutional Behaviours

As indicated before, we consider the two different behaviours of institutional investors (active or passive) as the major source of distinction between them. It is also assumed that these behaviours do really depend on several factors influencing directly them, and so conditioning actions adopted by these investors. Based on the studies of many authors like Brickley, Lease and Smith (1988), Kochhar and David (1996), Maug (1998), Chen, Harford and Li (2007) among others, we identify three principal factors that we estimate the most indicative and influential of institutional behaviours.

In this case, we consider as first source of distinguishing between institutional investors their investment horizons, which can vary from short to long term investments. The existing literature attributes generally in this context:

1. A passive role to institutional investors with short-term investments, called also "myopic investors" (Porter, 1992; Bushee, 1998; Dong and Ozkan, 2007).
2. An effective participation on firm management and active behaviour of institutional investors with long-term investment horizons (Kochhar and David; 1996, Chen, Harford and Li, 2007).

We although note that empirical results for this first factor were mixed. They either confirm the myopic behaviour (Graves, 1988), or the active implication of institutional investors on firms' strategic decisions (Wahal and McConnell, 2000). These findings justify the necessity to consider other factors to better explain institutional behaviours.

The second factor is the size of institutional stakes. The holding of one institution may vary from a small participation to a large ownership position. In fact, we suggest that the size of institutional investors' holdings depend on their objectives and orientations. The mixed empirical results (Maug, 1998; Del Guercio and Hawkins, 1999; Cornett, Marcus, and Tehranian, 2008) guide us to formulate the following propositions:

1. Institutional ownership dispersion is in favour of passive behaviour of these actors.
2. In contrast, institutional ownership concentration will be mainly associated with active behaviour of them.

The third and last factor concerns the nature of relations between institutions and firms. We principally distinguish the only investment relation, or the possibility of existing or potential business relation tied with firms in portfolios (as the case of a bank that may invest in one firm and also be its supplier of services). In this last case, the existence of business relation can dominate the investment one. As a result, institutional investor will support and approve manager' proposals and decisions, in order to preserve his business relation.

Following researches of Brickley, lease and Smith (1988), Kochhar and David (1996), Chen, Harford and Li (2007), we propose to associate: (1) active orientation to institutional owners having only investment relationships with firms; and (2) passive behaviour to institutions that tie also business relations with firms in their portfolios.

In other way, we also suggest that some links can exist between these three factors. We mainly support that these links may clarify the impact of institutional investors on firm performance. This impact will be treated in the following section.

III. INSTITUTIIONAL OWNERSHIP AND FIRM PERFORMANCE

Many studies attempt to investigate the direct impact of institutional investors on firm performance. The purpose here is to evaluate institutional owners' implication on value creation. But in this context, results are not conclusive (either in theoretical or empirical works). It is also more difficult to conclude about institutional ownership and firm performance relation if we consider the heterogeneity of these investors.

We begin this section by a brief literature review of principal frameworks treating institutional ownership and firm performance relation, and then we expose the possible bilateral relation between them, as we develop our hypothesis to be checked.

A. Literature Review of Institutional Ownership and Firm Performance Relation

In financial literature, institutional investors may affect firm performance mainly in three ways: positively, negatively or they had no effect. This effect may depend on the study context, and also on personal objectives and characteristics of these owners.

We note that Pound (1988) was the first to develop the effective monitoring hypothesis, besides the conflict of interests and strategic alignment hypotheses, which respectively support either positive effect of institutional owners on firm value, or a negative one.

Demsetz (1983), Demsetz and Lehn (1985) were also the first to support neutrality hypothesis, and argued that ownership structure is, in general, an insignificant determinant of firm performance. This hypothesis can also be applied to institutional ownership.

In addition to these three hypotheses retained directly from financial literature, we also propose to study a fourth hypothesis concerning the possible identification of a curvilinear relation between institutional ownership and firm performance. Our reflection in this context is based on the researches of Morck, Shleifer, and Vishny (1988), Mcconnell and Servaes (1990), Himmelberg, Hubbard, and Palia (1999). We note that these studies had supported the curvilinear relation between firm performance and ownership structure through its main studied aspects: ownership concentration and managerial ownership. We think that this hypothesis can also be valid for institutional ownership.

To better expose the different discussions concerning institutional owners and firm performance relation, we suggest summarizing in Table 1 these hypotheses and their possible justifications.

As indicated earlier, results concerning institutional owners and firm performance relation are inconclusive. We also note that the different hypotheses developed in literature have their theoretical justifications and empirical validations, making this problematic to be more complicated. We suggest that these different results are likely stemming from the variety of studies contexts, in addition to the inconsistency in variable measurements.

We also point that major studies treat institutional owners as a homogeneous group, which we assume as one possible source of mixed results found in previous researches. Consequently, we shed light in this work on the heterogeneous character of institutional investors. Adding this character to more classic hypotheses leads us to elaborate the following propositions:

H1: Institutional owners' effect on firm performance is variable according to the behaviour of these actors (active or passive).

From this principal hypothesis, we distinguish:

H1a: Institutional ownership dispersion encourages their passive behaviour. These actors have a neglected (neutral) or a negative effect on firm performance.

H1b: Institutional ownership concentration encourages active orientation of these actors that is associated with improvement of firm performance.

Table 1
Institutional ownership and firm performance relation

Hypotheses	Effect of I.O. on firm performance	Justification	Principal references
Effective monitoring	Positive	Institutional investors have great experience and financial resources to better monitor firm governance and management. They can reduce conflict of interests and so contribute to firm performance improvement	-Schleifer and Vishny (1986) -Pound (1988) -McConnell and Servaes (1990) -Chen, Harford and Li (2007) -Cornett, Marcus, and Tehranian (2008)
Conflict of interests and strategic alignment	Negative	-Institutional owners choose to preserve their business relations with firms in portfolios. Hence, they are less motivated to monitor their governance. -Institutional owners may also consider that it is more interesting for them to cooperate with mangers and to enjoy private benefits of control.	-Pound (1988) -Brickley, lease and Smith (1988) -Bushee (1998) -Alexandre and Paquerot (2000) -Atanasov (2005) -Albequerue and Wang (2008)
Neutrality	Neutral	-All ownership structures are equals. -Any firm can identify its optimal ownership structure that reduces its agency costs. -Ownership structure can't affect firm performance	-Demsetz (1983) -Demsetz and Lehn (1985) -Smith (1996) -Demsetz and Villalonga (2001)
Curvilinear	Combined	-According to institutional behaviours, their relation with firm performance may be non linear. -Their effect may combine other hypotheses according to the size of their stakes, and other conditions that can impact their incentives to monitor firm governance.	-Morck, Shleifer, and Vishny (1988) -McConnell and Servaes (1990, 2008)

H1c: Institutional owners having only investment relations with firms adopt a more active behaviour. Their effect on firm performance is either positive or curvilinear, with an increasing performance associated with large holdings by these institutions.

H1d: Institutional owners developing duality relations with firms (investment and business) are more passive behaviour oriented. Their effect on firm performance is either neutral or negative.

H1e: Positive relation between institutional owners and firm performance is observed with grouping principal factors influencing active behaviour. Particularly, concentrated holding by institutions having only investment relations with firms for long-term horizons have positive impact on firm performance.

B. Institutional Ownership Endogeneity

One of the most important questions on corporate governance literature is the endogeneity problem. Numerous studies assumed implicitly the exogenous character of variables related to ownership structure. Conversely, various other studies have supported the endogenous character of ownership structure (Demsetz, 1986; Demsetz and Lehn, 1985; Himmelberg, Hubbard, and Palia, 1999; Demsetz and Villalonga, 2001). They suggest, in this context, that ownership structure variables are determined by many firm characteristics, including its performance. For this reason, it was important to verify the direction of causality between ownership structure and firm performance.

We note that researches having considered endogeneity prove either unilateral relation, or bilateral one, or no relation between variables. They were mainly interested as well to ownership concentration, or managerial ownership. To our knowledge, very little number of researches has studied the bilateral relation between institutional ownership and firm performance. We assume that examining this relation in the French context of our study gives important add to existing literature. Hence, we propose the following hypothesis:

H2: Bilateral relation can exist between institutional owners and French firms' performance.

IV. MODELS, METHODOLOGY AND VARIABLES

The sample consists of French firms including in the SBF120 index for the period 2006-2008. Our panel data contains 121 firms and 337 observations (firm/year). We note that we maintain in our sample firms that leave the index from one year to the other, but keep no changes in their structures (like mergers, acquisitions or others). Our choice to preserve these firms explains the number 121 of firms studied.

Our institutional ownership data is obtained in August every year from Reuter database. For each firm, institutional ownership data described the percentage of shares owned by these actors at the same time of publication of complete and audited financial data in the other databases used (Worldscope and Thomson Financial).

A. Models Specification

In order to test the effect of institutional ownership typology on firm performance, and to take into consideration the possible bilateral relation between institutional ownership and firm performance variables, we specify the following system of equations. We note that we test either a linear or curvilinear relation.

Model 1 (M1): PERF= function (INST, control variables)
Model 2 (M2): PERF= function (INST, $INST^2$, control variables)

Model 3 (M3): INST= function (PERF, control variables)
Model 4 (M4): INST= function (PERF, $PERF^2$, control variables)

Where INST= institutional ownership measures; $INST^2$= squared of institutional ownership measures; PERF= firm performance measure; and $PERF^2$= squared of firm performance measure.

To check for endogeneity, we follow Himmelberg, Hubbard, and Palia (1999), Demsetz and Villalonga (2001), Switzer and Kelly (2006), Tsai and Gu (2007) studies. We first applied Hausman (1978) test for endogeneity for both institutional ownership and firm performance variables that are suspected to be endogeneous. This test consists on regressing, in the first step, the suspicious endogeneous variables against all exogenous variables (i.e. control variables of all models specified), and save residuals (i.e., INST_residuals and PERF_residuals). In the second step, residuals will be added as additional independent variables in the appropriate models (M1 and M2 for INST_residuals; M3 and M4 for PERF_residuals).

If coefficients of residuals are significantly different from zero in a t-test, then the correspondent variables will be endogeneous. In this case, the SLS technique is the most appropriate one to avoid biased results. Thus, to start by applying Hausman test for endogeneity allows us to fix the correct regression technique (either OLS or SLS) in order to obtain consistent results.

B. Variables to Be Checked

Our dependent variables consist of firm performance and institutional ownership variables.

1. Performance Measure

We use a proxy for Tobin's Q (Q) that is widely applied in previous researches (as Chen, Guo, and Mande, 2003; Thomsen, Pedersen, and Kvist, 2006; Mîngez-Vera and Martin-Ugedo, 2007). We calculate it as the sum of market value of common equity and book value of long, medium and short term debts, divided by book value of total assets.

2. Institutional Ownership Measures

We summarize in Table 2 institutional ownership measures used in our study. We note that for institutional owners regrouping the principal factors that influence active behaviour, we consider institutional block holders insensitive to pressure with long term horizons (BLOCLTINSENS). To define institutional long term horizons, we proceed as Chen, Harford and Li (2007), verifying if the principal institutional owners have maintained or increased their holding during one year (i.e. for 2007 and 2008 considering available data).

3. Control Variables

All control variables discussed below are chosen on the basis of their possible impact both on firm performance or institutional ownership, and according to data availability.

Table 2
Measures of institutional ownership typology

Typology of institutions	Measures used
Dispersion of institutional owners (ALLINST)	% of capital held by all institutional owners
Institutional owners sensitives to pressure (SENS)	% of capital held by institutional owners sensitive to pressure (insurance companies, banks and their asset management having at least 1% of firm capital)
Concentration of institutional owners (BLOC)	% of capital held by institutional block holders (at least 5% of capital).
Institutional owners insensitive to pressure (or independents) (INSENS)	% of capital held by institutional owners insensitive to pressure (mutual and pension funds, foundations having at least 1% of firm capital)
Regrouping principal influential factors (BLOCLTINSENS)	Institutional block holders insensitive to pressure with long term horizons

For performance equations, we use the following as control variables: (1) size: measured by log of total assets (as Demsetz and Villalonga, 2001; Tsai and Gu, 2007); (2) debt: calculated as long term debt divided by total assets (like Switzer and Kelly, 2006); (3) Research and Development (R&D) expenses: measured by the ratio R&D expenses divided by sales (Himmelberg, Hubbard, and Palia, 1999); (4) R&D dummy variable: takes 1 if information about R&D expenses available, and 0 otherwise. Our purpose is to maintain sample size and to reduce results bias for missing observations (we follow Himmelberg, Hubbard, and Palia (1999) study).

For institutional ownership equations, we use the following as control variables: (1) liquidity: measured by share turnover ratio calculated as total annual stock traded volume divided by total shares outstanding (Bennett, Sias, and Starks, 2003); (2) systematic risk (BETA): estimated from a CAPM model using daily returns for each year (Demsetz and Villalonga, 2001); (3) specific-firm risk: Standard deviation of residuals from CAPM model; and (4) dividend yield: calculated by the ratio dividend per share divided by share price at year end (Gompers and Metrick, 2001; Bennett, Sias, and Starks, 2003).

C. Descriptive Statistics

Table 3 summarizes the descriptive statistics of all variables used in our study. We essentially remark the significant participation of institutional investors on capital structure of SBF120 index firms, with great disparities. They exist on ownership structure of all firms of our sample. Their holdings vary from a minimum of 1.152% to a maximum of 94.7%, with a mean of 36.7%.

Table 3
Descriptive statistics

	Mean	Median	Minimum	Maximum	St. Deviation
ALLINST	36.691	32.449	1.152	94.7	20.944
BLOC	13.175	6.09	0	73.578	16.903
INSENS	16.477	11.293	0	76.94	15.879
SENS	9.222	4.96	0	73.216	13.115
BLOCLTINSENS	5.967	0	0	50.183	10.179
Q	1.272	1.074	0.072	9.508	0.922
SIZE	15.645	15.591	11.423	21.249	1.88
DEBT	17.332	15.061	0	80.584	13.949
RD	3.432	0	0	27.711	3.994
LIQUIDITY	4.662	4.246	0.012	20.4	3.291
BETA	0.864	0.842	0	1.88	0.34
RSPECIFIC	28.728	26.113	10.69	88.7	12.435
DIVID	2.207	2.139	0	8.386	1.417

V. EMPIRICAL RESULTS

Our analysis of institutional ownership and firm performance relation enables us to formulate many hypotheses that we test and discuss empirically in this section.

Fist, we test for endogeneity of institutional owners and firm performance variables using, as we have indicated earlier, Hausman tests. The results of these tests (table available by authors under request) indicate that major institutional owners and firm performance variables are not statistically endogeneous. We corroborate here Hermalin and Weisbach (1991), Cornett, Marcus, Saunders, and Tehranian (2007) studies finding that endogeneity problems are not severe on their researches. We also find that Q (on linear and curvilinear forms) is statistically endogeneous only for institutional owners' sensitive to pressure (SENS) and institutional grouping the three factors influencing active behaviour (BLOCLTINSENS) equations.

A. Institutional Ownership Dispersion and Firm Performance

Our results on Table 4 display curvilinear relation between institutional ownership dispersion and firm performance. Important dispersion of institutional ownership (i.e. small holdings by these actors) is associated with negative impact on firm performance. This finding is consistent with our H1a hypothesis, and corroborates Alexandre and Paquerot (2000) results. We suggest that these actors have passive behaviour and are weakly interested by firm's development opportunities. Thus, they can't contribute to value creation when they hold few stocks of one firm.

The effect of institutional owners on firm performance changes from negative to positive for larger holding, reaching major positions (change point 56.25%). We also note that the negative relation between institutions and performance is bilateral (H2 so confirmed), justifying again institutions passivity. In this context, these actors are more interested by returns from stocks selling with Q rise, rather than keeping or increasing their holdings (following Wall Street rules). However, these findings must be more refined, considering institutional heterogeneity and examining our proposed typology.

Table 4
Institutional ownership dispersion and firm performance

	Q		ALLINST	
	M1	M2	M3	M4
Intercept	5.047***	5.241***	50.226***	62.47***
	(13.48)	(13.56)	(3.95)	(4.14)
ALLINST	-0.0038**	-0.018**		
	(-1.89)	(-2.35)		
$ALLINST^2$		0.00016**		
		(1.92)		
Q			-3.474***	-8.643***
			(-2.78)	(-2.93)
Q^2				0.767**
				(1.93)
SIZE	-0.236***	-0.234***	-1.75**	-2.164***
	(-10.26)	(-10.2)	(-2.2)	(-2.65)
DEBT	-0.0004	-0.00057		
	(-0.144)	(-0.19)		
RD	0.04**	0.042**		
	(3.21)	(3.3)		
LIQUIDITY			1.464***	1.397***
			(3.85)	(3.67)
BETA			4.85	4.457
			(1.24)	(1.14)
RSPICIFIC			0.095	0.082
			(1.02)	(0.88)
DIVID			1.945**	1.882**
			(2.35)	(2.29)
R^2	0.28	0.29	0.102	0.112
F – statistic	25.44	21.97	6.133	5.833
(P-value)	(0.00)	(0.00)	(0.00)	(0.00)

* Significance at the 10% level ** Significance at the 5% level *** Significance at the 1% level

B. Institutional Ownership Concentration and Firm Performance

Institutional ownership concentration is the first factor considered to improve active behaviour. We suggest that this activism is associated with efficient monitoring role in corporate governance, and thus improve firm performance. Our results (table 5) support these suggestions for institutional ownership concentration above 32% (i.e. institutional block holders owning more than 32% of capital structure), and thus confirm, in part, our hypothesis H1b. Conflict of interests and strategic alignment hypotheses are validated for block holders stakes lower than 32%.

We note that change point for institutional concentration is almost at the half level of the one for institutional ownership dispersion, confirming in this case more activism and monitoring role of institutional block holders.

We also support H2 hypothesis by finding bilateral relation between institutional concentration and firm performance.

Table 5
Institutional ownership concentration and firm performance

	Q		BLOC	
	M1	M2	M3	M4
Intercept	4.916***	5.005***	14.198	30.115***
	(13.40)	(13.69)	(1.36)	(2.63)
BLOC	-0.0038	-0.0213***		
	(-1.47)	(-2.93)		
$BLOC^2$		0.00033***		
		(2.57)		
Q			-1.97**	-8.689***
			(-1.93)	(-3.63)
Q^2				0.996***
				(3.09)
SIZE	-0.233***	-0.235***	-0.725	-1.262**
	(-10.15)	(-10.31)	(-1.12)	(-1.90)
DEBT	-0.0007	-0.00018		
	(-0.25)	(-0.06)		
RD	0.041***	0.04***		
	(3.25)	(3.21)		
LIQUIDITY			-0.176	-0.263
			(-0.57)	(-0.85)
BETA			4.50	3.985
			(1.40)	(1.26)
RSPICIFIC			0.183***	0.166**
			(2.39)	(2.20)
DIVID			1.933***	1.852***
			(2.86)	(2.77)
R^2	0.276	0.29	0.055	0.082
F – statistic	25.012	22.298	3.156	4.141
(P-value)	(0.00)	(0.00)	(0.00)	(0.00)

* Significance at the 10% level ** Significance at the 5% level *** Significance at the 1% level

C. Nature of Relations Developed and Firm Performance

Tables 6 and 7 summarize results of regressions concerning the nature of relations developed by institutional owners with firms in their portfolios (only investment relations, or investment and also business relations tied with firms).

When we regress institutional owners having only investment relations with firm performance (Table 6), we observe significant curvilinear relation (with an error threshold of 1%), supporting our H1c hypothesis. We note in this case:

1. Negative effect of the dispersion of institutional owners insensitive to pressure on firm performance, so corroborating the passivity and strategic alignments hypotheses.
2. Positive effect is then identified for holdings over 32% (32.8%) of this type of institutions, supporting in this case the activism and efficient monitoring hypotheses. Thus, these results corroborate Kochhar and David (1996); Cornett, Marcus, Saunders, and Tehranian (2007) studies.

Table 6
Institutional owners insensitive to pressure and firm performance

	Q		INSENS	
	M1	M2	M3	M4
Intercept	5.074***	5.24***	43.58***	56.65***
	(13.21)	(13.73)	(4.64)	(5.45)
INSENS	-0.0047*	-0.0296***		
	(-1.67)	(-3.69)		
$INSENS^2$		0.0005***		
		(3.31)		
Q			-1.501*	-7.015***
			(-1.63)	(-3.23)
Q^2				0.818***
				(2.80)
SIZE	-0.242***	-0.243***	-1.945***	-2.386***
	(-10.33)	(-10.49)	(-3.32)	(-3.97)
DEBT	-0.0011	-0.001		
	(-0.377)	(-0.33)		
RD	0.041***	0.0407***		
	(3.21)	(3.264\)		
LIQUIDITY			1.471***	1.399***
			(5.23)	(5.01)
BETA			-3.168	-3.59
			(-0.19)	(-1.25)
RSPICIFIC			0.039	0.026
			(0.57)	(0.38)
DIVID			-0.114	-0.182
			(-0.19)	(-0.30)
R^2	0.277	0.301	0.127	0.148
F – statistic	25.18	23.438	7.891	8.029
(P-value)	(0.00)	(0.00)	(0.00)	(0.00)

* Significance at the 10% level ** Significance at the 5% level *** Significance at the 1% level

We also observe that this curvilinear relation is bilateral between this type of institutions and Tobin's Q (H2 supported). For institutions sensitive to pressure (Table 7), the results suggest also a curvilinear relation with firm performance. We remark that the change point for this type of institutions is slightly higher (35.5%) than the one found for institutions insensitive to pressure.

Consequently, we consider that the distinction between institutions types according to the nature of relations with firms is not of great interest in the French context, compared to the American one. We assume that numerous reasons may explain these differences. (1)Institutional owners in the French market have different origins. We find domestic institutions (i.e. French ones) and also foreign investors. Thus, these various institutions may have dissimilar objectives, constraints and modes of governance and management; and (2) Foreign institutions, mostly American and British mutual and pension funds, invest very few proportions of their funds in French firms (compared to the volume of their management portfolios). As a consequence, these limited investments can reduce their incentives to actively monitor firms' government and management.

Table 7
Institutional owners sensitive to pressure and firm performance

	Q		SENS	
	M1	M2	M3	M4
Intercept	4.826***	4.829***	10.561	23.406
	(13.12)	(13.24)	(0.7)	(1.32)
SENS	-0.005	-0.027***		
	(-1.48)	(-2.89)		
$SENS^2$		0.00038**		
		(2.52)		
Q			-4.06*	-12.297**
			(-1.6)	(-2.04)
Q^2				1.637*
				(1.60)
SIZE	-0.227***	-0.221***	-0.474	-0.756
	(-9.69)	(-9.46)	(-0.60)	(-0.90)
DEBT	-0.0006	-0.00018		
	(-0.21)	(-0.06)		
RD	0.04***	0.039***		
	(3.18)	(3.06)		
LIQUIDITY			-0.441**	-0.579**
			(-1.83)	(-2.18)
BETA			7.71**	6.296**
			(3.05)	(2.27)
RSPICIFIC			0.082	0.066
			(1.35)	(1.04)
DIVID			1.965***	2.102***
			(3.60)	(3.67)
R^2	0.276	0.29	0.095	0.032
F – statistic	25.017	22.24	6.745	6.172
(P-value)	(0.00)	(0.00)	(0.00)	(0.00)

* Significance at the 10% level ** Significance at the 5% level *** Significance at the 1% level

D. Institutions Grouping Principal Influential Factors of Active Behaviour and Firm Performance

We suggest that institutional activism is more observable with the increasing number of factors influencing its adoption. Consequently, grouping principal influential factors of active behaviour may affect positively firm performance (Hypothesis H1e). Results in Table 8 confirm our reflections. Thus, institutional block holders insensitive to pressure with long term investment horizons (BLOCLTINSENS) have positive impact on firm performance, for holding levels above 17%. We note that this level is lower than ones found when we study the influential factors individually (decrease of the half).

To refine these results, we retain from our initial sample only firms where we identify, at least, one BLOCLTINSENS (i.e. zero positions are eliminated). Examining this sub-sample, our regression results are of great importance. We find in this case a

linear positive and significant relation between this type of institutions and Q, indicating effective contribution of these actors in value creation (tables available by authors under request).

Thus, we think that the curvilinear relation found for our initial sample results mainly from firms that have no BLOCLTINSENS on their capital structure.

We also found a linear positive and significant effect of Q (with an error threshold of 10%) on BLOCLTINSENS, supporting in this case BLOCLTINSENS preferences for long term returns and sustainable relations with firms in portfolios. These findings so corroborate the active behaviour of this type of institutions, as we have suggested.

Table 8
Institutional owners grouping principal influential factors of active behaviour and firm performance

	Q		BLOCLTINSENS	
	M1	M2	M3	M4
Intercept	4.854***	5.024***	2.94	10.588
	(10.264)	(10.95)	(0.21)	(0.61)
BLOCLTINSENS	0.0026	-0.0505***		
	(0.49)	(-3.64)		
BLOCLTINSENS ^{2}		0.00148***		
		(4.14)		
Q			3.999*	0.819
			(1.71)	(0.17)
Q^2				0.458
				(0.73)
SIZE	-0.234***	-0.239***	-0.464	-0.714
	(-8.11)	(-8.57)	(-0.63)	(-0.89)
DEBT	0.0007	0.0004		
	(0.20)	(0.12)		
RD	0.038**	0.027*		
	(2.36)	(1.72)		
LIQUIDITY			0.334*	0.308*
			(1.66)	(1.55)
BETA			1.48	0.944
			(0.532)	(0.33)
RSPICIFIC			0.06	0.052
			(1.088)	(0.95)
DIVID			0.187	0.191
			(0.377)	(0.39)
R^2	0.273	0.325	0.04	0.07
F – statistic	16.917	17.963	4.602	4.017
(P-value)	(0.00)	(0.00)	(0.00)	(0.00)

* Significance at the 10% level ** Significance at the 5% level *** Significance at the 1% level

VI. CONCLUSION

Our aim in this paper is to study the possible relations between different types of institutional owners and firm performance, for a sample of French firms (SBF120 index) over the period 2006-2008. In this way, we propose a new typology of institutional investors based on their different behaviours and the principal factors that may influence them.

Globally, our results corroborate a positive impact of institutional activism on firm performance. Specially, they support that (1) institutional investors are heterogeneous; (2) their effects on firm performance depend on their behaviours (active or passive); (3) institutional active behaviour is more apparent with the increasing of factors that might influence it. Institutions that group the maximum of these factors can have an impact on firm performance in a better way; and (4) the relation between institutional ownership and firm performance is bilateral.

In future researches, we propose to refine this typology more by examining its impact on firms' policies and strategic decisions, and also studying the possible interactions of these actors with the other firms' owners. We think also to examine the principal determinants of these institutions types.

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