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Research Paper

The Impact of Institutional Investors, Investment Horizons on Management Efficiency and Investment Decisions of the Companies[1]

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INTRODUCTION

Institutional investors play an important role in monitoring and reducing information asymmetry (Baghdadi et al., 2018, p. 24). Monitoring by institutional investors increases the long-term value of the company by improving corporate governance. However, institutional investors are not the same (Kim et al., 2018, p. 196). Investment horizon preferences are one of the main dimensions of difference between institutional investors. These preferences not only affect the business strategies of institutional investors but also their motivations and ability to monitor management decisions. Institutional investors with short-term investment horizons have less incentive to engage in efficient monitoring because they are more inclined to trade and

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sell stocks and may have weaker bargaining power. These investors seek short-term trading profits by influencing company policies and exploiting their informational advantage, which can harm the company's long-term value. Instead, institutional investors with long-term investment horizons can take on a more active corporate governance role by monitoring managers, which can influence corporate policies. These investors tend to promote policies aimed at increasing the long-term value of the company (Boubaker et al., 2018, p. 384). Therefore, it can be expected that different institutional investors will affect the efficiency of company managers differently according to their investment goals and the degree of supervision they have over companies (Baghdadi et al., 2018, p. 29).

"On the other hand, due to the conflict of interests between managers and shareholders, company managers may not invest efficiently (Ward et al., 2018, p.3). The effectiveness of monitoring depends on the ownership level of long-term investors. If the monitoring effect prevails, long-term institutional investors will avoid suboptimal investment policies such as over-optimal investment. If institutional investors effectively monitor firms that have higher cash reserves or free cash flows and are therefore more prone to suboptimal investment, they will demand lower investment costs. In this way, they reduce the problem of investing more than the optimal level in such companies. Since companies with a higher level of financial leverage have more financing restrictions and are more prone to investing less than the optimal level (Ward et al., 2018, p.8), institutional investors will demand larger investment expenditures in companies with sub-optimal investment if there are monitoring incentives (Alvarez et al., 2018, p.26). Therefore, institutional investors can solve the problem of sub-optimal investment with effective monitoring, and as a result, reduce the job concerns of managers and also reduce the company's borrowing costs. Therefore, the aim of this research is to investigate the impact of the level of supervision and investment horizon of institutional investors on management efficiency and investment efficiency in companies listed on the Tehran Stock Exchange during the period of 2010-2016."

Materials and Methods

To investigate this issue, three hypotheses were designed as follows:

The first hypothesis is that the investment horizon of institutional investors affects the efficiency of management. The second hypothesis is that the investment horizon of institutional investors affects the investment decisions of companies with high free cash flows. The third hypothesis is that the investment horizon of institutional investors affects the investment decisions of companies with financing constraints. To test the first research hypothesis from Baghdadi et al.'s (2018) research and to test the second and third hypotheses, we used Alvarez et al.'s (2018) research. We selected 138 companies as a statistical sample using a systematic target method. The data required for this research is based on the stock market information and the audited financial statements of the companies listed on the Tehran Stock Exchange, which were obtained through the Kodal website and Rahvard Navin software. To analyze the hypotheses using multivariate regression models, we used F and t statistics, as well as Eviews software version 9.

Conclusion and discussion

"The results of the first hypothesis test indicate that only the variable of long-term investment horizon of institutional investors, as measured by the Bushi (1998) criterion, has a positive and significant effect on management efficiency at the 90% confidence level. Institutional investors with a short-term investment horizon, although showing a negative effect on management efficiency in the same method of measuring the institutional investment horizon, did not produce a significant effect. These findings are consistent with relevant theoretical foundations and the findings of Baghdadi et al. (2018)."

In the test of the second hypothesis of this research, the variable of operating cash flows was used as an adjustment variable and representative of the amount of cash available to the company (free cash flows) for investment. The results of the second hypothesis test indicate that this variable has a positive and significant effect on investment decisions and expenses, which means that the more cash available to the company, the more likely the company is to make investment decisions and increase expenses. When considering the interactive combination of the operating cash flow variable with the long-term investment horizon variable of institutional investors, the results showed that although the effect of this combined and interactive variable is not significant, however, the negative coefficient of this combined variable indicates that institutional investors with a long-term investment horizon reduce investment decisions and spending in companies with excess operating cash flows (high free cash flows). These results are consistent with the relevant theoretical foundations and also with the findings of Alroz et al. (2018).

The results of the third hypothesis test indicate that the variable of financial leverage, which represents the amount of financing restrictions of companies in both criteria measuring the investment horizon of institutional investors has a negative and significant effect on investment decisions and expenses which means that in companies with more financing restrictions, the amount of investment expenses is lower and when considering the interactive combination of this variable with the long-term investment horizon variable of institutional investors, the results showed that in the measured based on Bushi (1998), the long-term investment horizon variable of institutional investors has a positive and significant effect on investment decisions and expenses in companies facing financing constraints which means that in companies with high financing restrictions,the high ownership ratio of institutional investors with a long-term investment horizon compared to their short-term counterparts, by removing the company's financing restrictions, leads to an increase in the company's investment decisions and expenses. These results are consistent with the relevant theoretical foundations and also with the findings of Alroz et al. (2018).

Suggestion

Based on the results of the present research, it is suggested that regulators of the Tehran Stock Exchange market take steps to increase the level of participation and investment of investors in the capital market and to further develop this market by creating a favorable environment for the growth and increased participation of institutional investors with a long-term investment horizon. It is also recommended that individual investors follow institutional investors with corresponding investment horizons based on their own investment horizons.

Keywords: Institutional Investors, Management Efficiency and Investment Expendichers.
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