The Relationship Between Institutional Ownership, Active and Passive Institutional Ownership With Return On the Firm's Operating Cash

Mohammad Reza Abbaszadeh¹, Mohammad Reza Shoorvarzy², Mohammad Reza Shadani³

¹Assistant Professor in Accounting, Ferdowsi University of Mashhad, Mashhad, Iran.
²Assistant Professor in Accounting, Islamic Azad University Neyshabur Branch, Neyshabur, Iran.
³M.A Student in Accounting, Islamic Azad University Neyshabur Branch, Neyshabur, Iran.

Abstract
In this study, the relationship between active and Passive institutional ownership variables and return on the firm's operating cash is examined. The sample consisted of 108 companies listed in Tehran Stock Exchange during the period of 6 years (2006 to 2011). Furthermore multivariate linear regression models using panel data is used to evaluate research hypotheses. Overall, the results show no relationship (either positive or negative) between the level of active and passive institutional ownership and return on the firm's operating cash. According to the evidence, there is a significant and positive relationship between firm size (log of sales), and a negative relationship between board of directors (consists of External managers) with return on the firm's operating cash.

KEYWORDS: INSTITUTIONAL OWNERSHIP, ACTIVE INSTITUTIONAL OWNERSHIP, PASSIVE INSTITUTIONAL OWNERSHIP, RETURN ON OPERATING CASH

1. Introduction
Before the advent of large corporations and In the late eighteenth century, owners, directors and managers were owners; But the separation of ownership from management, emerging markets, securities and groups of professional managers, Corporation was raised as a social phenomenon. This resulted in conflict of interest between managers and owners. The combination of Shareholders may be different in different countries and as regards, the role of shareholders in corporate governance can be basic, The combination of the companies would be different effects on firm performance as well as company's data reflect information and information asymmetry. Thus, with respect to the ownership, Oversight of management performance can be different. in this regard, there is more attention to The increasing presence of institutional investors in corporate owners circle and the effects of these group on Quality of governance in the organization and their performance. Institutional investors have the potential to influence management activities directly through Ownership and indirectly through the stock exchange and direct or indirect effects of institutional ownership can be very important. On the other hand, the final product of the accounting process is the provide information in the form of accounting reports to different users, including company's internal and external users. Items included in the financial statements, have a significant effect on users' decision-making and much attention has focused on its. One of the main groups of users of financial statements is shareholders. In this regard, institutional investors (Including large investors such as banks, insurance companies, investment companies, pension funds, etc.) according to significant portion of the ownership of the stock significantly influence on the investee companies and can effect on the procedures. On the other hand, these types of investors are considered as professional shareholders and have powerful analyst for analyzing information. Institutional investors have several drives for monitoring and improving financial reporting
and company's financial performance. For example we can say that financial statements are an important source of company’s information and these stockholders are more capable in analysis of accounting information to individual investors. So it is expected there is a logical relation between the value of ownership and firm performance. In this study, the relationship between the institutional ownership in structure of the company and its performance is evaluated. As defined by Bushee(1998) institutional investors are large investors such as banks, insurance companies, investment companies, pension institutions and more. It is generally believed that the presence of institutional investors may lead to behavioral change. This comes from supervisory activities that are doing by stockholders.

2. Theoretical Issues, Literature review, and the Necessity of research

2.1. Institutional investors

Institutional investors are large investors such as banks, insurance companies and investment companies. It is generally believed that the presence of institutional investors may lead to behavioral change through supervisory activities (Noravesh and ebrahimi, 1384). bohl et al (2007) point out in their paper that the presence of institutional investors in the capital market, will advance to the efficiency; So that institutional investors can rely on its influence on the market and control the way of providing accurate information by the company and observe professional ethics. Bushee (1998) suggests that institutional investors oversight the company through data collection and pricing on management decisions implicitly and through managing the way of operating company. Todays, there are more attraction to the increasing presence of institutional investors in corporate circle owners and the effects of this group on supervision, guidance on the organization and functioning of the management and policies, and company policies. As we said, institutional investors due to sufficient power, have incentives for controlling and modify the managers' performance( Lang and McNichols,1997) and they can proactively monitor and limit managers' behavior(McConnell and Servaes,1990; Smith,1996; Del Guercio and Hawkins, 1999; Hartzell and Starks,2003). However, evidence from previous research (eg, Nevisy and Naykr, 2006 Cerenet et al, 2007; Almazn et al, 2005; Potter, 1992) show that controlling role of institutional investors are not the same and they have different incentive for controlling management. Regarding to this we can categorize institutional investors to two group: active and inactive.

2.1.1. Active institutional investors

Active institutional investors are investors who have a long-term perspective and consider the long-term performance of the company. So they have plenty of incentive to representation on the board of the investee companies. Low turnover portfolios of large investors show incentive for them to hold shares and encourage managers to improve operations and increase shareholder wealth. These stakeholders provide incentives for greater accountability of management by actively monitoring management decisions. Accordingly further increase in presence them improve the performance of managers and shareholders (Potter, 1992).

2.1.2. Passive institutional investors

Passive Institutional investors have high portfolio turnover and their trading strategies are momentary. For example, they buy stocks with good news and sell a stock with the bad news. The current stock price is very important for owners and have short-term and transient point of view. They prefer Current performance of the companies to long-term
performance. They have no incentive to control management and representation on the board of investee companies. It's unlikely that they will benefit in the short term monitoring (Potter, 1992).

Potter (1992) argues that the focus on short-term performance creates pressure on managers for Sacrificing investment and long-term performance. In order to maintain short-term profit growth. The institutional investors focus on current earnings not consider long-term profits in the stock pricing. Regular evaluation of the performance and ranking of institutional investors, create incentives to adopt short-term investment horizon and prevent from the regulatory costs by them. In addition, due to the need for changing in the portfolio to improve performance Time and resources are not provided to institutional investors to involve themselves in overseeing the company's portfolio. And since executive bonuses agreements of the company are depend on current earnings and stock price, price of Directors determine based on the current performance of profit. Institutional investor’s trading is sensitive to current earnings news so there are many reasons to avoid reducing managers’ benefits (Bushee, 1988; Potter, 1992).

2.2. Firm Performance:

With the separation of ownership from management and causing a huge conflict of interest between owners and managers, Performance evaluation of corporate executives and leaders are as interesting topics for different group such as creditors, owners, government and even manager. Create wealth and increase shareholder value over the long term is one of the most important goals of the company and rising wealth that will only result in optimum performance. Obviously, purpose Investor is earning appropriate return on their investment. If a company or organization be successful to create value (not only investors and internal individuals) Society will benefit this Value Creation.

Regarding to importance of the capital market development, Performance measure is important in the decision making process. Thus the financial and economic criteria for performance evaluation of business are considered a necessity. Gain profit in the short-term and increasing wealth owners in long-term is the main objectives of enterprises. This is possible in logical decision in the investment process. There is direct relationship between rational decisions and assessing the performance of the enterprise. Understanding the criteria and indicators is necessary for enterprises performance evaluation. These criteria and indicators classified to financial and non-financial indicators. Financial measures of performance because of its features such as small, practical, objective and tangible, are preferable to non-financial criteria. Define and operationalize of the concept of firm performance is complex and we use a variety of measures for it. For example we can note: the ratio of market price to book value, earnings per share, return on assets, return on equity, gross profit margin, operating profit margin, net profit margin, EVA, etc. In this study, operational cash return on assets is used to measure performance.

\[ \text{IAROA} = \text{Profit before Tax and Interest plus depreciation divided by assets average} \]

Therefore, regarding to the operating cash returns (ROA) will compel managers to control operating assets and always manage operational asset with controlling cost control, gross profit rate and sales volume. Thus ROA is one of the important Criteria for evaluating the performance of managers especially to monitor investment Centers. Management responsibilities in various fields has been integrated in in the formula rate of return on assets (ROA) And is presented as a figure and in Investment centers is a good criterion for the allocation of investment funds. On the other hand, this criteria has advantages than other measures such as Tobin's Q as a measure of performance. Q Tobin acquired Performance of the company through the company's market value divided by book value. it means Tobin's Q concentrate on the market value While the return on operating cash flow.
focuses on current performance and regressions of Tobin's Q have integration problems (correlation) is. (Coronet, et al (2007)). It also benefits such as simplicity in calculation, it is also inexpensive and easy intelligibility.

2.3. Literature review

2.3.1. The relationship between institutional ownership and firm performance

Some researchers, such as Shleifer and vishny (1986) and Maug (1998) believe Major stakeholders participation in monitoring activities causes limiting the Agency topic, reduce conflicts of interest and improve corporate performance. Since institutional investors are the largest shareholders, their role in monitoring corporate performance and impact on their performance, is very important. (Chaganti and Damianpour, 1991).

Many researchers such as, McConnell and servaes (1990), Smith (1996) and Del Guercio and Hawkins (1999) found that monitoring of institutional investors causes more management concentration on long-term performance of the company instead of acting opportunistically and short-term focus.

Shleifer and vishny (1986) stated that the presence of large institutional investors, due to effective supervision, will have a positive effect on firm performance. Tsai and Gu (2007) also examined the association between institutional ownership and operation of Chinese companies from 1999 to 2003, and found that institutional ownership has a positive effect on firm performance.

Davis (2002), McConnell and servaes (1990) in England found similar results in this field. It means that a direct relationship between institutional ownership and Tobin's Q ratio was discovered.

Clay (2001) also examined the association between institutional ownership Tobin's Q and found that 1 percentage point increase in institutional ownership increase firm performance in amount of 75 percentages. However, Loderer and Martin (1997) stated that there is no significant relationship between institutional ownership and firm performance (Tobin's Q). Chaganti and Damianpour (1991) did not reject a positive relationship between institutional ownership and return on equity (representing the company) among U.S. companies in their study. Maug (1998) concluded that the use of ability to monitor and manage performance by institutional investors is a function of the amount of investment. Whatever the level of institutional ownership is higher, better performance monitoring can be done and this is a direct connection.

2.3.2 - The relationship between institutional ownership types (active and Passive) on firm performance:

Cornnet et al (2007) divided institutional owners into two groups: Pressure-sensitive (those who are less willing to challenge management) and Non-pressure sensitive (those who have a greater incentive to monitor management control) and studied their relationship with U.S. companies (return on assets). They concluded that the level of institutional ownership observers (non-sensitive) are positively associated with firm performance and the level of sensitive institutional ownership is not associated with firm performance. Almazan et al (2005) found that whatever the level of insensitive institutional ownership increase we have more Discipline In the company and naturally firm performance is better. Chen, Harford and Li also found similar results. Elyasiyani and jia (2007) in a study entitled "Stability of institutional ownership and firm performance" Found that activist shareholders (stable long-term) are positively associated with firm performance. While in their research, an inverse relationship was found between Passive institutional ownership and firm performance.
Navissi and Naiker's findings (2006) in New Zealand also suggest a nonlinear relationship between active institutional investors and the company. Accordingly, the presence of active institutional investors at low levels of ownerships, will have a positive impact on firm performance, but at high levels of ownership, institutional investors may enable that persuade the board to non-optimal decisions. In other words, ownership of shares owned by active institutional investors in lower levels, has a positive relation with firm performance. However, whatever this type of shareholder equity ownership increases, its effect on firm performance is negative. As a result, the relationship between firm performance and active institutions until a certain level of stock ownership, is positively associated with firm performance And stock ownership beyond that level will have a negative impact on firm performance. Also they did not find a significant relationship between Passive institutional ownership and firm performance Their of research .

Duggal and Millar (1999) examined the relationship between institutional ownership and operation of the Company in America but found no significant relationship between institutional ownership and firm performance.

2.4 - Research conducted in Iran

Shariat Panahi (2001) examined the effect of ownership on the performance of the managers of listed companies in Tehran Stock Exchange during the period (1372-1377). This study examined the following hypotheses:The main hypothesis: There is no relationship between the type of ownership and Stock companies performance. Sub-Hypothesis 1: There is a correlation between performance and bonuses of the Board of public and private companies. Sub-Hypothesis 2: public and private companies have the same return.

Considering that most corporate control mechanisms (Such as the percentage of shares executive and The number of non-executive members of the Board, ...) influence on each other; The results showed that there is no significant relationship between the number of non-executive managers and institutional investors shares. As well as types of ownership (Major shareholders, the public sector, private sector, etc.) also have not an impact on firm performance. In the thesis the order of ownership is private and the public sector and performance evaluation criteria (market value of assets divided by book value) is Tobin’ s Q. Namazi and Kermani (2008), in a study examined the effect of ownership structure on the performance of listed companies in Tehran Stock Exchange . In this study, evaluating performance indicators were return on assets, return on equity, Tobin's Q ratio and return ratio by book value. Results showed that there is a significant and negative relationship between institutional ownership and performance, and a positive significant relationship between corporate ownership and corporate performance.

Ebrahimi kordlor et al (2010) studied the impact of institutional ownership on the performance of listed companies in Tehran Stock Exchange paid. In this study, Tobin's Q ratio, return on assets and net profit margin were used as dependent variables to measure the performance of companies. The results of their study suggest that there is a positive relationship between institutional ownership and firm performance. Mohammad reza Nikbakht and javad Rahmani (2010) examined the effect of institutional ownership on the performance of listed companies on the Stock Exchange. In this research, return on equity (ROE) and tobin’ s Q were used as dependent variables To measure the performance of companies.In this research, The amount of institutional ownership is considered as independent variable, also they used financial leverage, capital expenditure, market risk and firm size as control variables. The results showed a positive relationship between institutional ownership and firm performance (according to return on equity and
tobin ‘s Q). Also there is significant relationship between return on equity and financial leverage. while the results showed there is not significant liner correlation between control variables performance of company.

Abbaszadeh and Pakdel (2011) examined in an empirical study, the impact of type of institutional ownership and cash flows on dividend policy of listed companies in Tehran Stock Exchange. In this study, the effect of institutional ownership variables (such as active institutional ownership, Passive institutional ownership, operating cash flow and Cash flow sensitivity) on dividend corporate behavior has been studied. Overall, the results suggest that there is a positive relationship between the level of institutional ownership, active institutional ownership and dividends paid by companies and thus Agency theory is confirmed. And about Passive institutional ownership the results showed that there is a negative relationship between this variable and the dividends and thus Signaling theory is confirmed. Also, According to the evidence, there is a significant positive relationship between operating cash flow and dividend policy and there is a negative relationship between cash flow sensitivity and dividend policy.

3 - Research hypotheses
According to the theoretical, Research hypotheses are explained as follows:
H1: "There is a significant relationship between institutional ownership and return on operating cash."
H2: "There is a significant relationship between active institutional ownership and return on operating cash."
H3: "There is a significant relationship between passive institutional ownership and return on operating cash."

4. Research Methodology
4.1. The period, Population and sample
We considered a 6-years period for the years 2006 to 2011 according to the Financial Statements. But given that, we need to calculate the changes in year t-1 to t for testing the research hypotheses, in practice, the study was expanded to seven years. The population of this research is Companies listed on the Tehran Stock Exchange. These companies must meet the following conditions:
They should be accepted in Tehran Stock Exchange at the beginning of fiscal year 2005 and have not changed the fiscal year between 2005 to 2011, Companies required information is available, they have operation between the years of operations without interruption, and are not investment companies and banks. Regarding to the limitations in period 2006 to 2011, 108 companies were selected to test the research hypotheses.

4.2 - Research variables
The Operating cash return is the dependent variable in this study and institutional ownership, active institutional ownership and Passive institutional ownership are independent variables. In this paper four control variables were used: Board of Directors consists of institutional investors, The board of directors consists of external managers, Duality Chairperson / CEO, Firm Size.

4.3 - Data Analysis Method
In this study, According to type of data and Available methods of statistical analysis, the combined data was used. In order to investigating the relationship between institutional ownership and firm performance independent and dependent variables are examined in the two different aspects. These variables tested among different firms and in the period 2006-2010. And to determine regression equation the following model is used, which is derived from the Corent Model.

\[ y_{i,t} = \beta_0 + \beta_{FISHOWN_{i,t-1}} + \beta_{PHOBI_{i,t-1}} + \beta_{FINDDIR_{i,t}} + \beta_{CEOCHD_{i,t}} + \beta_{LN(SIZE)_{i,t}} + \epsilon \]

where:
IAROA_{it}: operating cash return on assets in year t
FIISOWN_{it-1}: Percentage of shares that institutionally owned by firm i in year t-1
FIIOB_{it-1}: Percentage of the board of firm consist of Institutional ownership of firm i in year t-1 to the entire board i
FINDDIR_{it}: the number of non-executive managers of firm i to the board of directors of a firm i in year t
CEOCHD_{it}: dummy Variable (Duality Chairperson) / CEO i in year t
LN (SIZE_{it}): Natural logarithm of firm i in year t

Due to the relationship between active and passive institutional ownership with cash returns we used following Expressions for testing hypotheses 2 and 3:

- \( ACINST_{it-1} \): Percentage of shares owned by active institutional ownership of firm i in year t-1
- \( INACINST_{it-1} \): Percentage of shares owned by passive institutional ownership of firm i in year t-1

Also, the following cases were examined in regression equation:

1. Auto correlation.
2. The coefficient of determination.
3. Testing the significance of model and its coefficients. To check whether the regression error terms are autocorrelated or not, durbin watson statistic was used.

The coefficient of determination is a measure that explains the strength of the relationship between dependent and independent variables. The coefficients indicate that some of the variability in dependent variable is explained by the independent variables.

For testing the significance of the model F-statistic was performed.

After testing the significance of regression, each of the coefficients was tested for significance. T test was used to test these hypotheses.

We can select appropriate estimation model With Various tests, such as tests Hadri , Limer and Hausman test. After selecting appropriate model we should ensured about the reliability of the time series and non-spurious regression regression Baltagi, B (2005).

### 4.4. Evaluation of stability

One of the requirements for the estimation of the model is that the variables should be Static. Econometric suggest stability should be examined before estimation panel data models. We have some tests for panel-data unit- root. But in this study regarding to limited time period (2006-2011) Hadri test was used. The results of this test are given in Table 1. According to the above, panel cointegration test is not necessary (Baltagi, 2005). In Unit- root test, the null hypothesis (H0) indicates the existence of a unit-root (no static). Probability of values of less than 0.05 (in Table 1) indicates that the null hypothesis is rejected. Therefore, all the variables are static.

#### Table 1: Unit root-test of research variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>IAROA</th>
<th>FIISOWN</th>
<th>ACINST</th>
<th>INACINST</th>
<th>FIIOB</th>
<th>FINDDIR</th>
<th>CEOCHD</th>
<th>LN(SIZE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hadri test</td>
<td>13/92”</td>
<td>17/289”</td>
<td>13/706”</td>
<td>10/519”</td>
<td>12/90”</td>
<td>13/07”</td>
<td>3/116”</td>
<td>17/317”</td>
</tr>
</tbody>
</table>

* Significant at the level of one percent

### 4.5. Diagnostic Model Tests

In The econometric literature related to panel date, F test is usually used for using fixed model in against combined model (combined model data). In this test H0 shows the absence of fixed effects which represents a constrained regression
(combined). Fixed effects test can be done for the point and time. This test is based on the following three hypotheses are test based on the topics:

1) Sectional fixed effects are zero.
2) Time fixed effects are zero.
3) Sectional and time fixed effects are zero.

The F and Chi-square statistic for Cross-sectional fixed effects tests of first hypothesis are 15.367 and 914.7 Respectively, are 15.597 and 926.633 for Cross-sectional fixed effects tests of second hypothesis, are 15.744 and 926.633 for Cross-sectional fixed effects tests of third hypothesis and 15.548, 921.378 for forth hypothesis(all of them are in critical areas). Therefore, it is concluded that there is a cross-sectional fixed effects in models. This means that companies in terms of return on assets and operating cash are also significant differences. Regarding to F and Chi-square statistic for time fixed effects that are showed in table 2, The result is that there is time fixed effect And suggests that any company operating cash returns are subject to change over time. So in total, the model has Sectional and time fixed effects for each of the four research hypotheses.

Table 2: Testing Cross-sectional and time-fixed effects for research hypotheses

<table>
<thead>
<tr>
<th>Effects Test</th>
<th>H1</th>
<th>H2</th>
<th>H3</th>
<th>H4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section F</td>
<td>15.367**</td>
<td>15.597**</td>
<td>15.744**</td>
<td>15.548**</td>
</tr>
<tr>
<td>Cross-section Chi-square</td>
<td>914.702**</td>
<td>921.997**</td>
<td>926.633**</td>
<td>921.378**</td>
</tr>
<tr>
<td>Period F</td>
<td>20.557**</td>
<td>20.785**</td>
<td>20.636**</td>
<td>20.586**</td>
</tr>
<tr>
<td>Period Chi-square</td>
<td>114.863**</td>
<td>116.029**</td>
<td>115.269**</td>
<td>115.211**</td>
</tr>
<tr>
<td>Cross-Section/Period F</td>
<td>15.286**</td>
<td>15.518**</td>
<td>15.651**</td>
<td>15.468**</td>
</tr>
<tr>
<td>Cross-Section/Period Chi-square</td>
<td>934.608**</td>
<td>942.053**</td>
<td>946.319**</td>
<td>941.394**</td>
</tr>
</tbody>
</table>

** Significant at the level of one percent

The most common test to determine suitable model (the fixed effects model or random effects model) is the Hausman test. The null hypothesis (H0) represents the random effects. According to The probability values presented in Table 3, the null hypothesis (H0) is rejected based on suitability of random effects for each of the four research hypotheses. In other words, the appropriate model for each of the four research hypotheses is the fixed effect model.

Table 3: Random effects test of research hypotheses

<table>
<thead>
<tr>
<th>Chi-Sq. Statistic</th>
<th>H1</th>
<th>H2</th>
<th>H3</th>
<th>H4</th>
</tr>
</thead>
<tbody>
<tr>
<td>25.430**</td>
<td>20.586**</td>
<td>18.525**</td>
<td>20.86**</td>
<td></td>
</tr>
</tbody>
</table>

According to results, appropriate model for each of the four research hypotheses is panel fixed effects regression model.

5 - Research Findings

Summary of regression results for this model are given in Table 4. Based on F Statistic and the probability (less than 5%), regression model is significant for each of the four hypotheses. In all four models, the coefficient of determination is equal to 0.78. So we can say that 78 percent of variations of operating cash return on assets are explained by the independent variables in each hypothesis. Also we know statistic values in the range 5/1 to 5/2 show a lack of correlation between the errors, so we can conclude that there is no correlation between errors in any of the regression models. The values probability in the regression model show the variables of The Board of Directors (consists of external variables (FINDDIR)) and size LN (SIZE)
are significant (P-Value<0.05). there is no significant relationship between Institutional ownership (FIISOWN), active institutional ownership (ACINST), Passive institutional ownership (INACINST) with The board consists of institutional investors (FIIOB) and duality Chairperson / CEO. According to the regression coefficients, there is inverse relationship between Operating cash return on assets (IAROA) with the external board of directors (FINDDIR) and there is direct relationship between it with firm size (LN (SIZE)). So that an increase in FINDDIR decrease in IAROA and an increase in LN (SIZE) increase in IAROA and vice versa.


But the results are consistent with some international research such as: Loderer and Martin (1997), Duggal and Millar(1999) and some national research such as panahi(2001).

Table 4: Results of regression model of random effects panel

<table>
<thead>
<tr>
<th>Research Hypotheses</th>
<th>model</th>
<th>The coefficient of determination</th>
<th>Regression coefficients</th>
<th>T-statistics</th>
<th>P-Value</th>
<th>durbin Watson Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 IAROA Constant</td>
<td>FIISOWN</td>
<td>0.780136</td>
<td>-85.589</td>
<td>-5.942</td>
<td>0.000**</td>
<td>1.491376</td>
</tr>
<tr>
<td></td>
<td>FIIOB</td>
<td></td>
<td>3.040</td>
<td>0.502</td>
<td>0.615</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FINDDIR</td>
<td></td>
<td>0.533</td>
<td>0.204</td>
<td>0.838</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CEOCHD</td>
<td></td>
<td>-6.070</td>
<td>-2.339</td>
<td>0.019*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>LN(SIZE)</td>
<td></td>
<td>-1.1756</td>
<td>-0.277</td>
<td>0.781</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7.570</td>
<td>7.529</td>
<td>0.000**</td>
<td></td>
</tr>
<tr>
<td>H2 IAROA Constant</td>
<td>ACINST</td>
<td>0.780217</td>
<td>-84.153</td>
<td>-6.264</td>
<td>0.000**</td>
<td>1.495249</td>
</tr>
<tr>
<td></td>
<td>FIIOB</td>
<td></td>
<td>1.649</td>
<td>0.669</td>
<td>0.503</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FINDDIR</td>
<td></td>
<td>-0.009</td>
<td>-0.003</td>
<td>0.997</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CEOCHD</td>
<td></td>
<td>-5.908</td>
<td>-2.273</td>
<td>0.023*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>LN(SIZE)</td>
<td></td>
<td>-1.516</td>
<td>-0.357</td>
<td>0.720</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7.542</td>
<td>7.543</td>
<td>0.000**</td>
<td></td>
</tr>
<tr>
<td>H3 IAROA Constant</td>
<td>INACINST</td>
<td>0.780093</td>
<td>-82.399</td>
<td>-6.186</td>
<td>0.000**</td>
<td>1.494605</td>
</tr>
<tr>
<td></td>
<td>FIIOB</td>
<td></td>
<td>-1.027</td>
<td>-0.387</td>
<td>0.698</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FINDDIR</td>
<td></td>
<td>0.393</td>
<td>0.140</td>
<td>0.888</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CEOCHD</td>
<td></td>
<td>-5.988</td>
<td>-2.307</td>
<td>0.021*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>LN(SIZE)</td>
<td></td>
<td>-1.431</td>
<td>-0.337</td>
<td>0.735</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7.509</td>
<td>7.514</td>
<td>0.000**</td>
<td></td>
</tr>
<tr>
<td>H4 IAROA Constant</td>
<td>ACINST</td>
<td>0.780252</td>
<td>-85.516</td>
<td>-6.001</td>
<td>0.000**</td>
<td>1.493973</td>
</tr>
<tr>
<td></td>
<td>INACINST</td>
<td></td>
<td>2.682</td>
<td>0.617</td>
<td>0.537</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FIIOB</td>
<td></td>
<td>1.348</td>
<td>0.288</td>
<td>0.773</td>
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</tr>
<tr>
<td></td>
<td>FINDDIR</td>
<td></td>
<td>0.0626</td>
<td>0.027</td>
<td>0.982</td>
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</tr>
<tr>
<td></td>
<td>CEOCHD</td>
<td></td>
<td>-5.885</td>
<td>-2.261</td>
<td>0.024*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>LN(SIZE)</td>
<td></td>
<td>-1.484</td>
<td>-0.349</td>
<td>0.726</td>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
<td>7.567</td>
<td>7.535</td>
<td>0.000**</td>
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</table>

6. Conclusion
One of external factors that emphasize on its role and has an impact on the corporate governance is the presence of institutional investors (Al-Najjar, 2010). Integrated organizational structure and Complex network of this ownership distinguish the group of investors from other stakeholders.
Them on behalf of the vast majority of owners and based on their ability to analysis, adopted more informed and more rational decisions (compared to uninformed investors). Can accelerate the process of improving market efficiency and improve resource allocation by market. On the other hand, these investors improve efficiency and promote the general welfare by monitoring the performance of the subset corporate and participation in major policy companies.

On the other hand, defining and operationalizing the concept of company's performance is complex and usually variety of measures used for it. In the present study, the operating cash returns (ROA) will compel managers to control operating assets and always with cost control, gross profit rate and sales volume, manage operational asset. Also to achieve the owners aim in agency relationship (wealth maximization) monitor representative's Performance.

In this paper we investigate the relationship between owners (active and Passive) and Operating cash returns as performance evaluation criteria and we expect logical relation between these variables and corporate performance.

The results of testing research hypotheses are inconsistent with Active monitoring hypothesis and the representation theory. As follows consistent with the Active monitoring hypothesis (Because of the volume of invested wealth) Institutions may actively manage their investments. According to this view, institutional investors are proficient shareholders with comparative advantage in collecting information processing. As follows have the incentives for performance improvement and can punish managers who do not move toward their interests. So they can reduce agency problems and this is consistent with agency theory. In the other words, the presence of institutional investors improve performance and efficiency, resulting in increasing the value firm. The result of this paper rejected active monitoring hypothesis and the representation theory that is Inconsistent with prior researches. More ever, the result showed institutional investors are not the same and they have not same incentive to monitor management actively (consistent with Navissi and Naiker, 2006; Cornett et.al, 2007; Potter,1992). Considering these results and the lack of significant institutional owners (both active and Passive) the influence of their different roles in order to improve the performance of the company is faced with uncertainty and if this effect present, can not have an important effect.

7. Recommendations

7.1. Practical Recommendations

With regard to the presence of significant relationship between the board of directors and external corporate performance we recommend to consider the Board at the time of investment.

Also according to there is no significant relationship between performance firm and Institutional Investors we recommend to investors that focus on other Corporate governance mechanisms such as Characteristics of Board of Directors, external auditors, internal controls and etc as effective factors on firm performance.

7.2. Recommendations for future research

1. In this research the population consist of manufacturing firms listed in Tehran Stock Exchange,so we recommend futuer research the population consisted of all companies in both manufacturing and non-manufacturing .

2. type of industry effects on the relationship between ownership structure and firm performance.
References
10. Al-Najjar, Basil; (2010), Corporate governance and institutional ownership: evidence from Jordan. Corporate Governance; Vol 10, pp. 176-190.


