

Abstract

Institutional investors have grown substantially in international, mature markets in last two decades parallel with the increase in their impact. They seek to own large proportions of equities; as a result they have become influential on performance of companies in which they invest. Previous studies show no conclusive evidence on the direction in the role of institutional investors on performance.

This research attempts to examine the impact of institutional investors' involvement on performance of investee companies. This study relates corporate governance to performance by considering institutional investors' involvement as one of the governance dimensions. This thesis considers two variables for institutional investors' involvement, one is the whole number of institutional investors holding a particular stock, and the other is the institutional investors' representation on boards of investee companies. Performance was measured by using Tobin's q. The study was conducted using regression for three consecutive years, 2005, 2006, & 2007. The results show a statistically significant positive relation between the whole number of institutional investors and corporate performance in 2005 & 2006, but none in 2007. The results also show a statistically significant negative relation between institutional investors represented on board and firm's performance in 2005 & 2006, but none in 2007. These results call for further examination of the ownership by institutional investors and their relations with performance of investee companies.

Key words: *institutional investors, investee company, active monitoring, corporate governance, performance.*