

Investigating the relationship between foreign or domestic institutional ownership and capital structure

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Abstract

The purpose of this research is to investigate the relationship between the holding of institutional ownership and capital structure of the firm, and the effects of firm-specific factors on capital structure and ownership structure. We analyze 624 sample companies listed in Taiwan Stock Exchange from 2005 to 2010, using pooled and panel regression models. Our empirical results show that leverage has significant negative relationship with institutional ownership. Institutional owners can effectively monitor the decisions of the management and thus reduce the agency costs. They prefer lower leverage firms. Samples were divided into domestic and foreign institutional owners. We find the latter can monitor the management more efficiently than the former. Further analysis show that payout ratio, current ratio, growth opportunity and profitability all have significant negative relationship with the leverage. On the other hand, size, profitability, current ratio, and growth opportunity of the firm have significant positive influence on institutional holdings. Institutional owners prefer large-size firms with high payout, high liquidity, high growth and high profitability, but not the firms of high leverage even with fixed assets as collateral.

Keywords: Capital structure; Institutional investor; firm-specific factor; Pooled regression model; Panel regression model

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