Institutional Investors Ownership and Financial Performance: An Empirical Study of CAC40 Companies

Sarra BOUDERMINE[1]
Djamel KEDDAM[2]

ABSTRACT

The purpose of this study is to investigate the effects of ownership by institutional investors on the financial performance of a sample of 15 French firms that were listed between 2015 and 2022 on the CAC40 index. To achieve the study's objective, the percentage of shares owned by foreign and domestic institutional investors was used as a measure of institutional investors' ownership, while the return on assets was used as a measure of financial performance. The study employed a statistical approach using Dynamic Panel Data Models with the Generalised Method of Moments (GMM). The study found a statistically significant negative impact between the ownership percentages of foreign and domestic institutional investors and financial performance. Regarding control variables, agency costs had a positive and statistically significant impact on financial performance, while liquidity had no significant effect.

KEYWORDS: *institutional investors, financial performance, Dynamic Panel Data Models, GMM*

JEL CLASSIFICATION: *G23, G30.*

1. INTRODUCTION

In light of the rapid and dynamic changes in the global economy, institutions are compelled to operate in a competitive environment, facing high levels of risk. This reality forces them to enhance their performance in various operations to secure a prominent position in the market. Financial performance is a fundamental pillar to ensure the continuity of their activities, maximising shareholder wealth, and attracting both domestic and foreign investors. It enables them to understand their true condition and their ability to efficiently utilise available resources to achieve their defined objectives, considering that the primary goal of any institution is to maximise its value.

Today, institutional investors' ownership has become a dominant force shaping the new financial landscape, as they are the major investors in global capital markets, managing substantial assets in various institutions. Consequently, their influence on the international financial system has become evident. Several studies have focused on examining the relationship between institutional investors' ownership and the financial performance of institutions. These investors are among the dominant contributors to these institutions, as their concern is to ensure the safety and security of their capital. However, the researchers' perspectives have been contradictory, with three different views: "active monitoring", "negative monitoring", and "exploitation". This required further research to confirm the nature of the relationship between institutional investors and financial performance.

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[1] Entrepreneurship Lab and Innovation Strategies in the Financial and Business Environment, University of Jijel, Algeria, Sarra.boudermine@univ-jijel.dz, Corresponding author

[2] Research Laboratory in Public Finance and Financial Markets, University of Jijel, Algeria, keddamdjamel@univ-jijel.dz

From this perspective, this study attempts to test the impact of institutional investors' ownership on financial performance of French companies listed on the CAC40 index, by answering the following problem:

Does institutional investors' ownership have an impact on the financial performance of French companies listed on the CAC40 index?

Study Hypotheses

This study proceeds from the following hypotheses:
- There is a statistically significant impact of the percentage of foreign institutional investors' ownership on the financial performance of French companies listed on the CAC40 index.
- There is a statistically significant impact of the percentage of domestic institutional investors' ownership on the financial performance of French companies listed on the CAC40 index.

Study Objectives

This study aims to test and analyse the impact of institutional investors' ownership on the financial performance of institutions included in the CAC40 index. This is done by building a standard model to help determine the nature of the impact of both foreign and domestic institutional investors' ownership percentages on the financial performance of the studied institutions.

Methodology and Tools Used

To answer the research question and test the validity of the hypotheses, an analytical approach was adopted to analyse the theoretical relationship between institutional investors and financial performance, along with analysing the results of the standard study. Additionally, a statistical approach was used to test the relationship between the variables. The EViews 12 and Gretl software were utilised to obtain the study results.

2. LITERATURE REVIEW FOR THE STUDY

2.1 Institutional Investors and Financial Performance
When managers use corporate resources for personal benefit, they create agency difficulties and ethical hazards, since ownership and management are not separated. They also prioritise short-term profits above long-term advantages. An important governance instrument that encourages managers to pursue the success of the firm is the corporate ownership structure. Shleifer & Vishny (1986) highlight that institutional investors are regarded as the best means of closely observing managers among the several methods of executive stock ownership. (Abedin et al., 2022).

The term "institutional investors", according to Brabet, refers to "any investor who owns funds managed by professional administrations within a fund or entity acting on behalf of a group of individuals or an entity or a group of entities" (Brabet, 2002, p. 204). Studying the impact of institutional ownership on company performance has become vital, as it appears to actively participate in corporate decision-making and, consequently, performance. Institutions with stakes influence corporate decisions in several areas, such as corporate monitoring, governance practices, industry enhancement, and competitive ability to invest in the company. Institutional investors possess more resources and incentives for business monitoring (Ogabo

et al., 2021). This incentive arises from their ownership of large holdings that can be challenging to liquidate, leading to longer retention periods. However, when institutional investors hold a relatively small number of shares in a company, they can easily liquidate their investments if the company's performance is weak, resulting in less incentive for monitoring (Cornett et al., 2007).

Numerous research endeavours aim to validate the influence of institutional investors on the performance of companies; yet, within this framework, three distinct viewpoints have surfaced: "Active Monitoring", "Negative Monitoring", and "Exploitation". According to the "Active Monitoring" perspective, institutional investors (as major contributors) supervise and monitor companies they invest in, reducing information asymmetry and agency problems, enhancing company performance, and maximising shareholder value to the fullest due to their managerial skills and significant resources. Additionally, these institutional investors can use their ownership rights to pressure managers to improve corporate governance (Lin & Xiaoqing, 2017). The increased participation of institutional investors in general meetings, according to (Smith, 1996), leads to higher interest and faster implementation, positively reflecting on the financial and operational performance of the institution.

As noted by (Agrawal & Mandelker, 1990), cases of executive management changes in a company due to a decline in financial performance significantly increase in institutions where the percentage of institutional investors is higher compared to institutions with a higher percentage of individual investors. Because these investors can influence management decisions, they possess the necessary resources to monitor the company's activities and the power to dismiss underperforming executives from their positions (Tornyeva & Wereko, 2012). In this context, a study conducted by (Chen et al., 2022) using data from the Chinese capital market for the period 2007-2022 demonstrated the existence of a negative relationship between the percentage of institutional investor ownership and financial performance.

Conversely, the "Negative Monitoring" viewpoint contends that institutional investors could engage in short-term trading, purchasing, and disposing of stocks quickly, and giving portfolio rebalancing requirements precedence over enhancing corporate governance and business performance (Elyasiani & Jia, 2010). In this context, (AL-Najjar, 2015) found, in a field study covering 82 non-financial Jordanian companies listed on the Amman Stock Exchange for the period 2005-2013, no relationship between the percentage of institutional investor ownership and financial performance.

According to the "Exploitation" perspective, institutional investors may align with company managers to exploit shareholder wealth and gain additional benefits from the company. Specifically, they may overlook organisational fraud or misappropriation of company wealth, as long as they can benefit from it. Consequently, a negative relationship between company performance and institutional ownership will appear if management engages in activities that diminish the company's value (Elyasiani & Jia, 2010). Using a sample of 139 non-financial companies listed on the Indonesian Stock Exchange, (Musallam et al., 2018) demonstrated that institutional ownership significantly and negatively affected company performance. This perspective is also supported by (Tsouknidis, 2019), who studied shipping companies listed in the United States for the period 2002-2016, showing a negative correlation between institutional ownership and company performance.

In this study, our aim is to understand whether institutional investors have an impact on the financial performance of economic institutions by classifying these investors based on their

nationalities into two main categories: foreign and domestic. We then investigate how each category influences the financial performance of institutions.

2.1.1 Foreign Institutional Investors and Financial Performance

The results of studies on the nature of the relationship between foreign institutional investors and financial performance have varied. In this context, a study by Zhu & Huang (2015) suggests that foreign institutional investors face less political pressure and are likely to play a larger supervisory role than their domestic counterparts. They possess the resources, expertise, and sufficient investment indicators to reduce agency problems in the companies they invest in and enhance overall company performance (Chien, 2021). Additionally, they can better leverage their managerial and international expertise to improve corporate governance and transparency, making their impact on targeted companies stronger. They tend to face more informational constraints than domestic investors. Consequently, they can monitor companies more effectively in countries with good governance, leading to stronger effects on targeted companies in those countries (Dang et al., 2023).

According to Santiago-Castro et al. (2004), the active monitoring role of foreign institutional investors is crucial in mitigating domestic exploitation. Businesses with significant foreign institutional ownership are anticipated to expand faster and perform better (Abedin et al., 2022).

However, foreign institutional investors are sometimes viewed as less informed traders compared to domestic investors. Due to the limited available information, they may exhibit herding behaviours, making them susceptible to investment decisions based on imitating the behaviour of other investors (Chien, 2021). In this context, Kim et al. (2010) argue that foreign investors may have less incentive to monitor companies compared to domestic investors, as foreign investors typically face higher monitoring costs. Due to this difference, they can have a negative impact on the performance of the companies in which they invest (Yordying, 2014).

2.1.2 Domestic Institutional Investors and Financial Performance

The idea has been raised that domestic institutional investor possesses an unparalleled monitoring advantage in obtaining and processing information due to their geographical, linguistic, and cultural proximity to the target company. This is attributed to their easy communication with the management and employees of domestic companies, enabling them to acquire relevant information directly and quickly. Furthermore, their deeper understanding of domestic culture and business conditions allows them to conduct precise analyses of market trends and potential risks (Kim et al., 2016).

Companies with high domestic institutional ownership are expected to have better governance characteristics. Specifically, companies with closer stakeholders are less likely to engage in undesirable institutional behaviour, such as option backdating or earnings management, due to more effective monitoring. Additionally, due to geographic proximity, domestic institutions are likely to attend shareholder meetings, propose suggestions, facilitate CEO turnover, or curb excessive CEO salaries (Vidhi et al., 2012). Yordying (2014) indicates that company value increases with an increase in domestic institutional ownership, as domestic institutional investors are effective in providing monitoring activities, contributing to reduced agency costs, improved corporate governance, and increased company value (Ruchi & Archana, 2018).

In contrast, Ferreira & Matos (2008), in a comprehensive study using a stock ownership database for 27 countries from 2000 to 2005, suggest that domestic institutional investors have a significantly negative impact on company value, unlike their foreign counterparts. This is attributed to the higher participation of foreign institutional investors in active monitoring of invested companies and their greater likelihood of advocating for changes in corporate governance compared to domestic institutional investors. Domestic institutional investors usually have much stronger employment relationships with domestic companies, which may make them feel obligated to be loyal to the management (Lin & Xiaoqing, 2017).

3. STUDY METHODOLOGY

3.1 Study Sample
The study population consists of 40 French listed joint-stock companies on the CAC40 index of the Paris Stock Exchange for the period 2015-2022. The study sample comprises 15 companies listed on the same index, meeting the following conditions:
- The company has not undergone a merger with another company, and it has not been acquired during the study period.
- Availability of the required financial information and data during the study period.
- Listed on the index on 12/31 with annual financial data available during the study period.
- The institution is not of a financial nature exclusive to this sector.

Data was collected based on the official websites of the study institutions and annual reference reports.

3.2 Study Variables
The study model includes three types of variables, highlighted as follows:

3.2.1 Dependent Variable:
Financial performance is the study's dependent variable, and it is assessed using a number of indicators. This study specifically relies on the Return on Assets (ROA) indicator, which gauges the management's ability to generate profits from the company's assets, calculated by dividing net income by total assets. This measure has been adopted in studies by (AL-Najjar, 2015) and (Chen et al., 2022).

3.2.2 Independent Variable:
Institutional ownership is classified into domestic and foreign ownership. Foreign ownership (INF) includes stocks owned by foreign institutions, such as insurance companies, banks, mutual funds, and retirement funds, as a percentage of total outstanding shares. This measure has been adopted in studies by (Yordying, 2014), (Lin & Xiaoqing, 2017), and (Chien, 2021). Domestic institutional ownership (IND) is calculated as a percentage of shares owned by domestic institutional investors to the total outstanding shares. This measure has been adopted in studies by (Yordying, 2014) and (Kim et al., 2016).

3.2.3 Control Variables
- **Enterprise Liquidity (LIQ):** This variable measures the enterprise's ability to meet its current obligations by relying on current assets. It is calculated by dividing current assets by current liabilities. This measure has been adopted in studies by (Yordying, 2014) and (Abedin et al., 2022).
- **Agency Costs:** It is measured by the Asset Turnover Ratio (ASTR), which is an indicator of the effectiveness of investment decisions in enterprises and their ability to allocate

assets to the most productive uses. This variable is calculated by dividing annual sales by total assets. This measure was adopted in the study by Ayunitha et al. (2020).

Table 1. Study Variables and Measurement Methodology

Variable Type	Variable Name and Symbol	Measurement Method	Previous Studies
Dependent Variable	Return on Assets (ROA)	Net Income / Total Assets	(AL-Najjar, 2015 (Lin & Xiaoqing, 2017) (Chen et al., 2022)
Independent Variables	Foreign Institutional Investors (INF)	Percentage of Shares Owned by Foreign Institutional Investors	(Yordying, 2014), (Lin & Xiaoqing, 2017) (Chien, 2021),
	Domestic Institutional Investors (IND)	Percentage of Shares Owned by Domestic Institutional Investors	(Yordying, 2014) (Kim et al., 2016)
Control Variables	Liquidity (LIQ)	Current Assets / Current Liabilities	(Yordying, 2014)
	Agency Cost (ASTR)	Asset Turnover Ratio (ASTR) annual sales\total assets	(Ayunitha et al., 2020)

Source: compiled by the researchers based on previous studies

3.3 Study Model:
To examine the impact of institutional investors' ownership on financial performance in French CAC 40 index companies, the following mathematical model was adopted:

$$ROA_{it} = \beta_0 + \beta_1 ROA_{i,t-1} + \beta_2 INF_{it} + \beta_3 IND_{it} + \beta_4 LIQ_{it} + \beta_5 ASTR_{it} + \mu_{it} + \varepsilon_{it} \dots (1)$$

Where:
- *i* represents the total institutions in the study sample (15 institutions).
- *t* denotes the time period (8 years).
- β_0 is the intercept.
- $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ are regression coefficients for the explanatory variables.
- μ_{it} represents the heterogeneity effects (the institution-specific effect).
- ε_{it} is the random error of the model with traditional assumptions.

4. STUDY RESULTS

4.1 Statistical Characteristics of Study Variables:
Through the descriptive statistics table of the study variables, it is observed that the average Return on Assets (ROA) is 0.05. The standard deviation for (ROA) is 0.07, indicating no variation in the Return on Assets (ROA) among the institutions under study. The table also illustrates that the arithmetic mean for the independent variables, represented by the percentage of ownership of foreign institutional investors (INF) and domestic institutional investors (IND), is 0.52 and 0.15, respectively, with standard deviations of 0.11 and 0.05. Additionally, the arithmetic means for the control variables, represented by liquidity (LIQ) and agency cost (ASTR), are 1.17 and 0.57, respectively.

Table 2. Statistical Characteristics of Study Variables

	ROA	INF	IND	LIQ	ASTR
Mean	0.056224	0.526781	0.157095	1.173473	0.574209
Median	0.043192	0.555600	0.160000	1.063510	0.556714

	ROA	INF	IND	LIQ	ASTR
Maximum	0.487613	0.740000	0.274000	2.223303	0.999341
Minimum	-0.188697	0.291200	0.064000	0.661796	0.102180
Std. Dev.	0.073875	0.117773	0.051358	0.317020	0.208717
Skewness	2.941812	-0.490466	0.039144	1.017543	0.087979
Kurtosis	18.53111	2.119311	2.216396	3.698106	2.310477
Jarque-Bera	1379.162	8.689209	3.100825	23.14465	2.532012
Probability	0.000000	0.012977	0.212160	0.000009	0.281956
Sum	6.746880	63.21376	18.85135	140.8168	68.90511
Sum Sq. Dev.	0.649444	1.650592	0.313874	11.95969	5.183975
Observation	120	120	120	120	120

Source: compiled by the researchers based on the outputs of the EViews 12 statistical program

4.2 Correlation Analysis of Study Variables:

The key results of the correlation analysis between the study variables can be summarised in the following table:

Table 3. Correlation Matrix of Study Variables

	ROA	INF	IND	LIQ	ASTR
ROA	1.000000				
INF	-0.206746	1.000000			
IND	-0.175610	0.394602	1.000000		
LIQ	-0.008642	0.282654	0.133017	1.000000	
ASTR	0.228494	-0.084177	0.463367	0.034784	1.000000

*Source***:** compiled by the researchers based on the outputs of the EViews 12 statistical program

The presence or absence of multicollinearity among the explanatory variables can be determined in part through the correlation matrix. Numerous scholars claim that when correlation coefficients rise beyond the 0.8 threshold, multicollinearity becomes an issue. The results of Table No. (03) indicate that the highest correlation coefficient is 0.463367 (approximately 46.33%), which is an acceptable percentage, suggesting the absence of a multicollinearity problem between the study variables. This result will be further supported by conducting the Variance Inflation Factor (VIF) test, where values should not exceed 10; otherwise, there is an issue of multicollinearity among the explanatory variables. After conducting this test, the results clarified that all VIF values for the explanatory variables are less than 10, negating the issue of multicollinearity among these variables.

Table 4. VIF Test Results

Variables	VIF	1/VIF
INF	1.421	0.703
IND	1.678	0.595
LIQ	1.091	0.916
ASTR	1.432	0.698

Source: compiled by the researchers based on the outputs of the Gretl program

4.3 Study of the Stability of Study Variables

Stability is of significant importance, as the instability of the variables used can lead to misleading conclusions and deviations in the results. For instance, the non-stationarity of time series may result in the formation of spurious common random variations, leading to false conclusions. Therefore, it is necessary to stabilise time series at either the level or the first difference. To test the integration level of time series, we conduct stability tests for the cross-

sectional data, commonly using the Levin, Lin, and Chu (LLC) test, Fisher-ADF test, and PP - Fisher Chi-square test, as outlined in the following table, all based on two assumptions:

H0: Presence of a unit root, indicating non-stationarity of the time series.

H1: Absence of a unit root, indicating stability of the time series.

Table 5. Stability Tests for Study Variables

TESTS ╲ VARIABLES	ROA	INF	IND	LIQ	ASTR
(LEVEL)					
LLC	-2.33909 (0.0097) ***	0.94705 (0.8282)	-25.5866 (0.0000) ***	0.84193 (0.8001)	-0.47430 (0.3176)
ADF-FISHER	30.8764 (0.4215)	15.7145 (0.9850)	47.5535 (0.0220)	20.7810 (0.8946)	20.5762 (0.9007)
PP-FISHER	65.0532 (0.0002) ***	23.5763 (0.7908)	37.6068 (0.1601)	19.4983 (0.9290)	34.9488 (0.2445)
(1ST DIFFERENCE)					
TESTS ╲ VARIABLES	D(ROA)	D(INF)	D(IND)	D(LIQ)	D(ASTR)
LLC	-4.92896 (0.0000) ***	-11.3133 (0.0000)***	-8.53431 (0.0000) ***	-15.4152 (0.0000) ***	-11.2971 (0.0000) ***
ADF-FISHER	41.3491 (0.0813) *	135.742 (0.0000)	101.955 (0.0000) ***	167.468 (0.0000) ***	121.657 (0.0000) ***
PP-FISHER	109.540 (0.0000) ***	138.996 (0.0000) ***	103.889 (0.0000) ***	184.365 (0.0000) ***	132.026 (0.0000) ***

*, **, *** denotes significance at 10, 5, and 1% significance level respectively.

Source: Compiled by the researchers based on the outputs of the EViews 12 statistical program

According to the results recorded in the table above, indicating the presence of unit roots in all variables at the level, it means that the study variables are non-stationary at a 5% significance level. To achieve stability, we took the first difference of each series and used the same tests mentioned earlier to reject the null hypothesis at a 5% significance level, confirming the absence of a unit root and the stability of the variables. Therefore, the time series are integrated of the first degree.

4.4 Estimation of Model Parameters

The panel data approach was employed using dynamic analysis by introducing the dependent variable as a lagged independent variable by one year, using the Generalised Method of Moments (GMM) approach.

To test the validity of the estimated GMM model, the Sargan test (Over-identification Test) was used to detect overfitting or the so-called J-statistic. This test assesses the validity of the moment conditions utilised in the estimation as well as the quality and applicability of the instruments employed in the model. For this test, the null hypothesis postulates that there is no correlation between the auxiliary variables and the random error term (Ouail et al., 2020,). Additionally, the Arellano-Bond test was used to test the serial correlation of first- and second-order errors.

Table 6. Results of Model Estimation Using GMM

Variables	Arellano- Bover-Bond dynamic		
	Asymptotic standard errors		
	Coef	Std. Error	Z
ROA (-1)	-0.081615*** (0.0055)	0.028641	-2.849549
INF	-1.221169*** (0.0000)	0.176703	-6.910856
IND	-0.628895*** (0.0000)	0.115902	-5.426082
LIQ	0.014445*** (0.2755)	0.013162	1.097525
ASTR	0.343880*** (0.0000)	0.030891	11.13212
Wald test	Chi-square= 8.119932 Prob= (0.0044) ***		
J-statistic	10.84767 Prob= 0.369508		

Cross-sections included: 15
Total Panel (balanced) observation: 90

*, **, *** denotes significance at 10, 5, and 1% significance level respectively.
Source: Compiled by the researchers based on the outputs of the EViews 12 statistical program.

Observing the table above, it is evident that all explanatory variables are statistically significant at the 1% level, except for the liquidity variable (LIQ). The model also exhibits overall significance at the 1% level, as indicated by the Wald test. Moreover, the Sargan test (J-statistic) reveals a p-value of 0.3695, which is greater than the 5% significance level. Therefore, the null hypothesis is accepted, indicating that the auxiliary variables used in this method are independent of the rest of the model. This implies the acceptability of this method. The test confirms the validity of the auxiliary variables and the moment conditions used in the estimation. Consequently, the estimated study model using this method is of high quality, both statistically and theoretically.

Furthermore, the results of the Arellano-Bond test for serial correlation of errors are presented in Table No. (07):

Table 7. Results of Arellano-Bond Test for Serial Correlation

Arellano-bond Serial Correlation Test	
AR (1)	M-statistic=-1.020854
	Prob=0.3073
AR (2)	M-statistic= -0.437250
	Prob=0.6619

Source: compiled by the researchers based on the outputs of the EViews 12 statistical program

The results of the Arellano-Bond serial correlation test above indicate no first- and second-order serial correlation in the random errors, since the probability of this test is greater than the 5% significance level. Hence, the null hypothesis is accepted, suggesting the absence of serial correlation in the errors and confirming the validity of the moment conditions used in the estimation.

5. ANALYSIS AND DISCUSSION OF RESULTS:

5.1 One-Year Lagged Return on Assets (ROA):

The study results presented in Table No. (06) indicate a statistically significant negative effect at the 1% significance level for the one-year lagged return on assets (ROA). The coefficient of (T-1) on the return on assets in year (T) suggests that for every unit increase in the return on assets in the previous year, the return on assets for the current year decreases by 0.081 units. This can be interpreted as these institutions not providing valuable information to investors regarding their financial performance and lacking transparency, especially in financial decisions such as dividend distribution. Consequently, investors believe that these institutions do not efficiently distribute profits to shareholders, leading to undervaluation of their stocks. This, in turn, negatively impacts the attractiveness of investments in these institutions and their stock prices in the market.

5.2 Foreign Institutional Investors (INF):

The study results presented in Table No. (06) indicate a statistically significant negative impact at the 1% significance level between the ownership ratio of foreign institutional investors (INF) and financial performance measured by the return on assets (ROA) in the French companies included in the CAC 40 index. This result aligns with the "exploitation" perspective and can be explained by the fact that ownership of high proportions of a company's capital by institutional investors, giving them almost complete control, leads to opportunistic behaviour in making decisions that serve their personal interests and obtaining special profits (wealth transfer) at the expense of the interests of other shareholders. This negatively affects the financial performance of the institution.

It is noteworthy that foreign investors may lack a sufficient incentive to monitor the company due to the high monitoring costs they bear. Additionally, this negative impact may indicate that foreign institutional investors are unable to effectively monitor managers due to insufficient and untimely information availability. The geographical distance may hinder communication with the management and employees of the invested companies, leading them to follow herding behaviours, relying on the actions of other investors based on the cues and actions they take.

This result aligns with the findings of the study by (Yordying, 2014), which found that the presence of foreign institutional investors is associated with a decrease in the company's value, as they are inactive in monitoring managers and may seize company resources at the expense of minority shareholders. However, it contradicts studies by (Lin & Xiaoqing, 2017) and (Chien, 2021), which found a statistically significant positive impact between the ownership ratio of foreign institutional investors and financial performance.

5.3 Domestic Institutional Investors (IND):

The study results presented in Table No. (06) indicate a statistically significant positive impact at the 1% significance level between the ownership ratio of domestic institutional investors (IND) and financial performance measured by the return on assets (ROA) for the institutions under study. This means that an increase in the share of domestic institutional investors by one unit will lead to an increase in the return on assets by 0.628 units. This outcome is consistent with the "exploitation" viewpoint, as these regional institutional investors have a propensity to align their interests with ineffective management in order to gain short-term gains rather than keeping an eye on them in order to raise the performance of the business. Their tight ties to nearby businesses are the cause of this. They typically feel devoted and loyal to the management, as they have strong professional links with these

organisations. This dedication is supported by a common cultural and economic background, which closes the gap between individual and institutional objectives.

In the context of these strong connections, domestic investors may lack the necessary neutrality to make financial decisions. They may find themselves constrained within specific organisational structures and committed to achieving domestic interests, hindering their ability to make independent decisions that may be in the company's favour. Consequently, the agency costs increase for free cash flow, which tends to rise when there is a significant amount of excess cash under the control of managers. Moreover, this impact is attributed to the limited resources of domestic institutional investors and the political constraints preventing them from effectively performing their oversight role.

This result aligns with the findings of the study by (Ferreira & Matos, 2008), which identified a statistically significant negative impact between the ownership of domestic institutional investors and financial performance. However, it contradicts the results of the study by (Yordying, 2014) and (Kim et al., 2016).

5.4 Liquidity Ratio (LIQ):
The study results presented in Table No. (06) indicate a positive impact between liquidity (LIQ) and financial performance measured by the return on assets (ROA) for the institutions under study. However, it lacks statistical significance. Therefore, changes in liquidity do not have a statistically significant impact on explaining the variations in the return on assets for the studied institutions.

5.5 Agency Cost (ASTR):
The study results presented in Table No. (06) suggest a positive impact between agency costs represented by the asset turnover ratio (ASTR) and financial performance expressed by the return on assets (ROA). This implies that an increase in the asset turnover ratio by one unit, representing a decrease in agency costs, will lead to an increase in the return on assets for the studied institutions by 0.34388 units. This result can be explained by the expertise and efficiency of the management of these institutions, which allow them to increase the efficiency of asset utilisation. In light of this, the management of these institutions makes balanced investment decisions, investing money optimally in acquiring assets that contribute to income generation. This reduces conflicts of interest between the institution and stakeholders, including creditors and other stakeholders, reduces agency costs, and improves the financial performance of these institutions.

This result aligns with the findings of the study by (Ayunitha et al., 2020), which concluded that a decrease in agency costs would lead to an improvement in financial performance.

6. CONCLUSIONS

The study aimed to analyse the factors that could explain the financial performance of the institution, which is considered the primary goal sought by all stakeholders in the institution. The study focused on measuring the impact of institutional investors' ownership, considering it one of the most influential factors on financial performance in the institution. This was done through a standard study on a sample of French companies included in the CAC40 index, comprising 15 companies over a period of 8 years (2015-2022). The study yielded the following results:
- There is a statistically significant negative impact of the ownership percentage of foreign institutional investors on financial performance, as expressed by the return on assets. This means that an increase in the share of foreign institutional investors leads to a decrease in the return on assets for the institutions studied.

- There is a statistically significant negative impact of the ownership percentage of domestic institutional investors on financial performance, as expressed by the return on assets for the institutions studied. This means that an increase in the share of domestic institutional investors leads to a decrease in the return on assets for the institutions studied.
- The relationship between liquidity and the return on assets is not significant and, therefore, liquidity does not explain the variations in the return on assets.
- There is a statistically significant positive impact of agency costs, represented by the asset turnover ratio, on financial performance, as expressed by the return on assets for the institutions studied. This means that an increase in the asset turnover ratio, representing a decrease in agency costs, leads to an increase in the return on assets for the institutions studied.

Based on these findings, the following recommendations can be made:
- French companies listed on the CAC40 index should set an upper limit for the percentage of shares owned by institutional investors to limit their control. This would give minority shareholders broader powers to exercise oversight over management, contributing to supporting and encouraging investors and improving financial performance.
- It is essential for the institutions studied to conduct further studies to confirm various factors influencing financial performance.
- Conduct further studies in the same context but using modern indicators of financial performance that were not adopted in this study, such as Economic Value Added (EVA) and Market Value Added (MVA).

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