

The Effect of Institutional Ownership on Firm Policies

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Abstract

This paper provides evidence on the causal relationship of institutional ownership on corporate behavior and performance. Our analyses use the annual reconstitution of the Russell 1000 and 2000 indexes as a source of exogenous variation in institutional ownership to study the effect of institutional ownership on firm outcomes. The characteristics of firms near the Russell 1000/2000 threshold are similar, except that firms just include in the top of the Russell 2000 index have discontinuously higher institutional ownership, predominantly stemming from quasi-indexing institutions. Using this discontinuity, we examine whether additions to the Russell 2000 affect firm policies by implementing fuzzy regression discontinuity (RD) designs.

Keyword: Institutional ownership, Russell indexes, Regression discontinuity, Selection bias