INSTITUTIONAL INVESTORS IN GLOBAL CAPITAL MARKETS

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INSTITUTIONAL INVESTORS IN GLOBAL CAPITAL MARKETS

EDITED BY

NARJESS BOUBAKRI
School of Business and Management, American University of Sharjah

JEAN-CLAUDE COSSET
HEC Montréal

United Kingdom – North America – Japan
India – Malaysia – China

LIST OF CONTRIBUTORS

Carlos Alves	Faculdade de Economia and CEF.UP, Universidade do Porto, Porto, Portugal
Najah Attig	Sobey School of Business, Saint Mary's University, Halifax, Canada
Rolando Avendaño	OECD Development Centre, Paris, France and Paris School of Economics, Paris, France
Christopher Balding	HSBC School of Business, Peking University, Beijing, China
Narjess Boubakri	School of Business and Management, American University of Sharjah, Sharjah, United Arab Emirates
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Jean-Claude Cosset	HEC Montréal, Montréal, Québec, Canada
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Issa Faye	Development Research Department, African Development Bank, Tunis, Tunisia
Omrane Guedhami	Moore School of Business, University of South Carolina, Columbia, SC, USA
Olfa Hamza	École des sciences de la gestion, Université du Québec à Montréal, Montréal, Québec, Canada
Heiko Hesse	Monetary and Capital Markets, International Monetary Fund, Washington, DC, USA

Maher Kooli	École des sciences de la gestion, Université du Québec à Montréal, Montréal, Québec, Canada
Yuhua Li	Graduate School of Economics, Kyushu University, Hakozaki, Higashiku, Fukuoka, Japan
Ningyue Liu	UCD Michael Smurfit Graduate School of Business, University College Dublin, Blackrock, Dublin, Ireland
Victor Mendes	CMVM – Comissão do Mercado de Valores Mobiliários, Lisboa, Portugal; CEFAGE-UE Universidade de Évora, Évora, Portugal
S. V. D. Nageswara Rao	School of Management, IIT Bombay, Mumbai, India
Nabil Samir	HEC Montréal, Montréal, Québec, Canada
Javier Santiso	ESADE Business School, Madrid Campus, Barcelona, Spain
Elvira Sojli	Rotterdam School of Management, Erasmus University, Rotterdam, the Netherlands
Hyacinthe Y. Somé	HEC Montréal, Montréal, Québec, Canada
Gohar G. Stepanyan	Faculdade de ciências económicas e empresariais, Universidade Católica Portuguesa, Lisbon, Portugal
Tao Sun	Monetary and Capital Markets, International Monetary Fund, Washington, DC, USA
Mangesh Tayde	Bombay Stock Exchange and School of Management, IIT Bombay, Mumbai, India
Wing Wah Tham	Erasmus School of Economics, Erasmus University, Rotterdam, the Netherlands

Thouraya Triki	Development Research Department, African Development Bank, Tunis, Tunisia
Konari Uchida	Faculty of Economics, Kyushu University, Hakozaki, Higashiku, Fukuoka, Japan
Yao Yao	HSBC School of Business, Peking University, Beijing, China

Emerald Group Publishing Limited
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INVESTOR IN PEOPLE

INTRODUCTION TO INSTITUTIONAL INVESTORS IN GLOBAL CAPITAL MARKETS

Narjess Boubakri, Jean-Claude Cosset and
Hyacinthe Y. Somé

PART I: INTRODUCTION TO INSTITUTIONAL INVESTORS IN GLOBAL CAPITAL MARKETS

Institutional investors have increasingly gained importance since the early 1990s. The assets under management in these funds have increased threefold since 1990 to reach more than US$45 trillion in 2005, including over US$20 trillion in equity (Ferreira & Matos, 2008). Further, the value of institutional investors' assets represents roughly 162.6% of the OECD gross domestic product in 2005 (Gonnard, Kim, & Ynesta, 2008). Given the magnitude of institutional investors' holdings relative to the world market capitalization, challenging questions on the economic role of these investors have been raised. One such question concerns their impact on the stability of stock markets. On the one hand, active strategies of buying and selling shares by these investors may contribute to moving stock prices away from their fundamental values. On the other hand, if all institutional investors react to the same information in a timely manner, they are in fact helping to increase market efficiency by speeding up the adjustment of prices to new fundamentals (for competing theories on the role of institutional investors, see, e.g., Lakonishok, Shleifer, &

Institutional Investors in Global Capital Markets
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Vishny, 1992). This view of institutional investors as "efficiency drivers" generated considerable debate for many years (see, e.g., Ferreira & Laux, 2007; French & Roll, 1986).

Another important question about institutional investors that has caught the attention of the academic world is their impact on corporate governance practices. Institutional investors are large entities with considerable amounts of money to invest, and are thus more likely to buy sizeable blocks of a target firm's common stock. In addition, given their informational advantage, these investors are likely to weigh more heavily on target firms while monitoring top management activities (Ferreira & Laux, 2007). Although corporate governance is mostly determined at the country level, institutional investors are considered major drivers of changes in corporate governance systems (Gillan & Starks, 2003). In particular, the effectiveness of institutional investors as a corporate governance mechanism will likely depend on the level of shareholder protection in the country. In this vein, Aggarwal, Erel, Ferreira, and Matos (2011) show that institutional investors play a crucial role in corporate governance practices of local firms, but only in countries with strong investor protection. In countries with weak investor protection, the main drivers of corporate governance improvements are instead foreign institutions that originate from countries with strong investor protection.

The recent financial and economic crisis has also raised concerns about the economic and social effect of institutional investment strategies. On the one hand, while short-term investments provide market liquidity and accountability, they may also lead to underinvestment in maintenance, customer loyalty, employment training, research and development owing to their primary focus on labor-market reputation and stock prices. On the other hand, long-term investments have at least two significant impacts on corporations and the society as a whole: first, long-term investors can act as a stabilizing force during economic downturns by buying securities when liquidity dries up; second, long-term investors will lead firms to better align their objectives and activities with long-term economic growth, particularly from long-term environmental, governance, and social perspectives. According to the World Economic Forum report (2011), estimates of global infrastructure needs have reached US$ 3 trillion per annum, a sum which public finances are increasingly unable to meet.[1] Although long-term institutional investors represent about half of the world's professionally managed assets, the report shows that only 25% (about US$ 6.5 trillion as of 2009) of their assets is used for long-term investment. Given such a small percent devoted to long-term investments, the role that institutional investors might play in the global economy remains limited. The purpose of this book is to shed light on the influence of institutional investors on global markets over the recent decades, and to identify their perspectives for the future.

In this book, ''institutional investors'' refers to investments companies, mutual funds, pension funds, foundations, sovereign wealth funds (SWFs), insurance companies, and investment banks. We shall particularly focus on SWFs defined as ''a government investment vehicle that invests in foreign currency denominated assets and whose management is distinct from that of official reserves'' (Jen, 2007, p. 1). A SWF is set up for a variety of macroeconomic purposes, which include short-term objectives (economic stabilization) and long-term investment (development funds and savings for future generations). According to the IMF (2008), SWFs probably manage between US$ 2–3 trillion. The increased importance of SWFs in the global financial markets has recently fueled a heated debate on their size, lack of transparency, and investment strategies, assumed by some to be driven by political objectives. Further, SWF investments are vulnerable to host countries' regulations on capital mobility.[2] The present book addresses some of these concerns.

Overall, the purpose of this book, titled ''Institutional investors in global capital markets,'' is to investigate institutional investors' portfolio preferences, their influence on firm activities and local economies, and their reaction to the recent financial and economic crisis. The book is divided into four parts. Part I is an introduction to the book. Part II covers three chapters which study the economic and financial impact of institutional investors. In Part III, four chapters analyze the investment preferences of institutional investors. Part IV has three chapters which focus on the benefits of SWFs. Finally, three chapters in Part V analyze the drivers of the asset allocation of SWFs.

PART II: INSTITUTIONAL INVESTORS: THEIR ECONOMIC AND FINANCIAL IMPACT

This part starts with a chapter titled ''Foreign institutional investors'' by *Gohar Stepanyan* who reviews the empirical literature on the process of international financial integration and the growing role of foreign institutional investors. Specifically, Gohar Stepanyan examines how institutional investors accelerate the development of capital markets and economies abroad. The author also investigates the determinants of their investments, both in the domestic and foreign markets, as well as their role in promoting good corporate governance practices worldwide. In spite of the concern that short-term international capital flows could be harmful in developing market economies, the author reports limited academic evidence of a destabilizing effect of foreign investment activity. The author concludes that the presence of a "home bias" in international portfolio investment is probably due to the systematic preference of institutional investors for common stocks of large and well-known foreign firms.

The second chapter, written by *Najah Attig, Sadok El Ghoul* and *Omrane Guedhami*, is titled "Institutional investment horizon and firm credit ratings." This chapter studies the impact of institutional investment horizons on firm credit ratings. The authors find that both the ownership stake and the number of long-term institutional investors contribute to more efficient monitoring, and thus reduced managerial myopism and self-interested behavior, as reflected in higher firm credit ratings. Further, the authors find that the monitoring incentive of institutional investors depends on their heterogeneity, as evidenced by their different investment horizons. From these results, they claim that focusing on institutional shareholdings masks important variations in the governance role of institutional investors, which may help explain mixed evidence in the existing literature on the monitoring role of institutional ownership.

The third chapter, "Divestment of foreign strategic investment in China's banking sector: Causes and consequences" by *Yuhua Li* and *Konari Uchida*, examines 10 foreign financial institutions' divestments in the Chinese banking sector. The results of this study suggest that poor performance of foreign financial institutions, due to the global financial crisis, and the institutions' regulated low-equity ownership are the primary causes of divestment. In contrast, the authors report that Chinese banks' poor performance does not affect foreign divestments. The authors also show that business cooperation is usually ended when a foreign financial institution fully divests its equity stakes in a Chinese bank. In addition, the authors show that the Bank of China and China Construction Bank, which experienced large H-share divestments, suffered from economically large declines in the A-share values (A-shares are traded in domestic stock markets while H-shares are traded in the Hong Kong stock exchange). Li and Uchida conclude that these results suggest that banking sector developments that rely on foreign investments are vulnerable to an economic recession in developed countries.

PART III: INVESTMENT PREFERENCES OF INSTITUTIONAL INVESTORS

The first chapter of this part, written by *Don Bredin* and *Ningyue Liu*, is titled "Domestic and foreign institutional investor behavior in China: Financial Characteristics and Corporate Governance." The authors compare the financial characteristics and the corporate governance indicators of the companies in which foreign funds operating in China (as Qualified Foreign Institutional Investor (QFII)) and domestic Chinese funds have invested. The results of their analysis suggest that foreign funds prefer to invest in transportation, metals, non-metals and machinery, and generally avoid investing in real estate, construction, media, and culture, all of which require a deep local knowledge. The portfolios of domestic Chinese funds are distributed more evenly across industries than are foreign funds. The comparative analysis also reveals that the firms targeted by foreign funds are significantly different from those targeted by domestic funds, particularly with respect to size, profit, and managerial compensation. The authors conclude that their findings on the differences between QFIIs' and domestic fund investment preferences should have implications for policy makers who aim to attract foreign investors to emerging markets.

The authors of the second chapter of this part, titled "Institutional investors' participation in foreign firms: Evidence from ADRs," are *Narjess Boubakri*, *Olfa Hamza*, and *Maher Kooli*. The authors examine the firm- and country-level determinants of US institutional investors' holdings in American Depositary Receipts (ADRs) from emerging markets. Using a sample of 112 firms from emerging markets that were listed as ADRs between 1990 and 2005, the authors find that institutional investors hold higher stakes in foreign firms that are listed on more restrictive exchanges and in large, privatized, more liquid, and more transparent firms. Mutual investors and other institutional investors also favour firms from countries with weaker institutional environments and with a civil law legal tradition. As noted by the authors, these results have interesting implications for managers of foreign firms which wish to attract capital from foreign institutional investors.

In the third chapter, titled "Do foreign institutional investors exhibit herding and positive feedback trading in Indian markets?" *Mangesh Tayde* and *Nageswara Rao* study the behavior of foreign institutional investors (FIIs) in the Indian capital market. This chapter constitutes the first empirical study on whether FIIs in India follow herding and positive feedback trading strategies. To identify such behavior, the authors collected data on the daily purchase and sale trades executed by the FIIs. When they consider the complete sample period (i.e., 2003–2009) and the full sample of firms Tayde and Rao fail to find evidence of a strong herding behavior. Nevertheless, their results suggest that herding is stronger for large companies with better performance, most probably owing to the fact that they have higher liquidity and are more extensively followed by financial analysts.

The fourth and last chapter of this part is written by *Carlos Alves* and *Victor Mendes* and is titled "Do financial conglomerates have an incentive to prevent managers of other firms from pursuing their own interest?" In this chapter, the authors develop a theoretical model to analyze the role of financial conglomerates in reducing agency costs in target firms. They show that, in certain conditions (e.g., if the fees charged by a bank are within a certain range) conglomerates will not oppose managers pursuing their own interests at the expense of the shareholders. However, if the bank is able to obtain capital inflows that react to mutual fund performance, we should observe more converging interests between the conglomerate shareholders and fund investors.

PART IV: THE BENEFITS OF SOVEREIGN WEALTH FUND INVESTMENTS

In the first chapter of Part IV, titled "The impact of foreign government investments: Sovereign wealth fund investments in the United States," *Elvira Sojli* and *Wing Wah Tham* show that foreign and politically connected large investors like SWFs improve firm value. In the short run, the market reacts positively to SWF investments in anticipation of enhanced monitoring and increased benefits from internationalization. In the long run, the target firms' degree of internationalization and Tobin's q undergo a marked increase after SWF investments. Interestingly, the authors show that the increase in Tobin's q is associated with the number of government-related contracts granted by SWF countries. As Sojli and Tham point out, these results suggest that government-related contracts are a mechanism through which government connections can affect firm value.

The second chapter of this part, titled "What do sovereign wealth funds imply for financial stability?" and written by *Tao Sun* and *Heiko Hesse* examines financial stability issues that arise from the increased presence of SWFs in global financial markets. To do so, the authors use an event-study approach to determine whether and how stock markets respond to the announcements of investments and divestments by SWFs. Based on 166 publicly traceable events of investments and divestments by major SWFs between 1990 and 2009, the authors evaluate the short-term financial impact of SWFs on host public equity markets. To do so, Sun and Hesse consider different sectors (financial and nonfinancial), actions (buy and sell), market types (developed and emerging), and level of corporate governance (high and low score). Their results suggest that there was no significant destabilizing effect of SWFs on equity markets, which is consistent with available anecdotal evidence.

The third chapter of this part is titled ''Africa's quest for development: Can sovereign wealth funds help?'' and is written by *Thouraya Triki* and *Issa Faye*. This chapter discusses the potential role that SWFs could play in African economies, both as recipient and home countries. The authors use new hand-collected data and therefore a unique database to describe the landscape of African SWFs as well as SWF interventions on the African continent. Triki and Faye observe that African SWFs are relatively small, suffer from poor governance structures and focus on stabilizing local economies. In light of these findings, the authors conclude that the potential role of SWFs as long-term institutional investors aimed at fostering economic growth should be limited unless current practices are changed. However, Triki and Faye also observe that foreign SWFs show a growing interest in Africa and could play a bigger role in supporting the continent's growth provided African governments use the appropriate strategies to attract their funding.

PART V: SOVEREIGN WEALTH FUNDS: DO POLITICAL OBJECTIVES DRIVE THEIR ASSET ALLOCATION?

First chapter of this part is by *Christopher Balding* and *Yao Yao* and is titled ''Portfolio allocation for sovereign wealth funds in the shadow of commodity-based national wealth.'' The key point of this chapter is that SWFs' investment strategies should not resemble those of other institutional investors. The authors consider a balanced national wealth portfolio that accounts for the implied national wealth of unmonetized natural resources. They then estimate the optimal portfolio for an oil exporting state managing a SWF with a dataset including returns from 19 major assets (encompassing equity, debt, and commodity holdings). The authors find that when the returns and volatility from oil prices are included in the risk profile of national wealth, SWFs should invest in lower risk equity indices and high-quality debt like the S&P 500 and sovereign debt. Further, as oil reserves decrease over time, SWFs should diversify into more balanced portfolios though remaining over weighted in fixed income. Finally, they find that the long-term growth of SWFs depends more on the price of oil and prudent risk management than on financial asset returns. The authors conclude that SWF managers and public policy makers should consider a larger picture than the risk-return adjusted profile of a financial assets portfolio.

The second chapter is by *Rolando Avendaño* and *Javier Santiso* and is titled "Are Sovereign wealth funds investments politically biased? A comparison with other institutional investors." This chapter studies the objectives of sovereign wealth funds (SWFs), which are often suspected of going beyond risk-return objectives. This study shows that the fear that sovereigns with political motivations use their financial power to secure large stakes in Western companies is unfounded. Indeed, the authors document that SWF investment decisions do not differ greatly from those of other wealth managers, specifically mutual funds. To do so, the authors analyze these investments on a geographical and sector basis. They look at the political regime characteristics of the target countries for both groups of investors and they report that SWFs do not discriminate according to this variable when investing. Both groups invest in democratic and nondemocratic regimes. They also report that there is no significant gap in the corporate governance characteristics of the firms both groups invest in. Finally, they provide a comparison of SWFs and other public funds based on governance features related to investment. Avendaño and Santiso conclude that financial strategies rather than political bias drive the asset allocation strategies of SWFs.

The third and final chapter of this part is an empirical extension of the previous chapter. It is written by *Narjess Boubakri*, *Jean-Claude Cosset*, and *Nabil Samir* and is titled "Sovereign wealth fund acquisitions: A comparative analysis with mutual funds." Focusing primarily on firm-level characteristics, the authors show that SWFs have investment tastes that are different from other institutional investors, including mutual funds. Indeed, *at the firm level*, SWFs, unlike mutual funds, prefer larger, less liquid, less innovative firms, as well as those with a more concentrated ownership. Further, SWFs invest more than mutual funds in firms that have a temporary financial constraint. *At the country level*, the authors find that the country culture and religion as well as its level of investor protection are not significant determinants of SWF investment choices, which adds to the evidence of Avendaño and Santiso. What is important for SWFs is whether the host country is geographically close to the home country.

This book investigates the role of institutional investors in the global economy. Institutional investors are large corporations that invest large amounts of capital. As discussed earlier, institutional investors have increasingly gained in importance since the 1990s, as evidenced by the value of assets under their management (US$45 trillion in 2005 with over US$20 trillion in equity). For the most part, institutional investors manage the equities of large, privatized, more liquid and transparent firms. They also tend to hold assets of ADR-listed foreign firms domiciled in weaker institutional environments (Boubakri, Hamza, and Kooli). Institutional investors' holdings are evenly distributed across their home country's industries. However, foreign institutions investing abroad have a preference for industries that need less local knowledge, such as transportation and machinery (Bredin and Liu). In India moreover, it appears that institutional investors follow herding and positive feedback trading strategies (Tayde and Rao).

The studies covered in this book have also shown that institutional investors contribute to more efficient capital allocation, more efficient risk sharing, capital market development, and improvement in the structure of external finance (Stepanyan). Specifically, institutional investors with long-term investment horizons contribute to more efficient monitoring and less agency costs, and considerably improve the information environment (Attig, El Ghoul, and Guedhami). Furthermore, under certain conditions, institutional investors like financial conglomerates can be active in monitoring managers of listed companies, thereby reducing agency costs (Alves and Mendes). Finally, a firm's value is strongly related to foreign institutional holdings in the firm. Thus, in the Chinese banking sector, a significant drop in foreign institutional holdings reduced the market value of domestic holdings (Li and Uchida).

The growing number of stock holdings held by institutional investors such as SWFs raises concerns about the motivations behind their investment strategies. These funds have not, however, been shown to have a destabilizing effect on equity markets (Sun and Hesse). Concerns that SWFs have political motivations may therefore be exaggerated. Investment strategies by SWFs do not differ significantly from those of other institutional investors (Avendaño and Santiso). Like mutual funds, SWFs invest in large and profitable firms. However, unlike mutual funds, SWFs prefer less liquid, less-innovative firms and those with more concentrated ownership. They also invest in geographically close host countries (Boubakri, Cosset, and Samir).

SWF investments have a positive impact on firm performance. The market reacts positively in the short-run to SWF investment in the expectation of improved monitoring and an increase in internationalisation. In the long-run, firm value increases with the number of government-related contracts granted by SWF countries (Sojli and Tham). In Africa, SWFs should define clear objectives that account for the home as well as the host countries' interests (Triki and Faye). Conflict of interests between the home and host countries may undermine the return from SWF investments.

SWFs that are based on commodities should diversify their portfolio to include low-risk debt and fixed-income assets to balance the higher volatility of commodity prices (Balding and Yao). This will guarantee long-term growth of the funds and savings for future generations. There is a growing need for infrastructure investment as reported by the World Economic Forum (2011). SWFs and other institutional investors should devote a large proportion of their assets to long-term investing, thereby contributing to sustained economic growth and financial stability.

NOTES

1. In March 11, 2011 the Brookings Institution pointed out that sovereign wealth funds (SWFs) may be a solution to fixing the broken infrastructures of the United States with its considerable public finance burden, i.e., a US$1.5 trillion deficit and US$13.5 trillion total debt as of 2010.
2. In 2008, these concerns led the International Working Group of Sovereign Wealth Funds to adopt and implement the Generally Accepted Principles and Practices (GAAP) – the Santiago principles (IWG-SWF, 2008).

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FINANCIAL LIBERALIZATION AND FOREIGN INSTITUTIONAL INVESTORS: LITERATURE REVIEW

Gohar G. Stepanyan

STRUCTURED ABSTRACT

Purpose – *Examine the role of institutional investors in accelerating the development of capital markets and economies abroad, the determinants of their investment, both in the domestic and foreign markets, and their importance in promoting good corporate governance practices worldwide and facilitating increased financial integration.*

Methodology/approach – *Review and synthesize recent academic literature (1970–2011) on the process of international financial integration and the role of foreign institutional investors in the increasingly global financial markets.*

Findings – *Despite the concern that short-term flow of international capital can be destructive to the emerging and developing market economies, academic evidence on a destabilizing effect of foreign investment activity is limited. Institutional investors' systematic preference for stocks of large, well-known, globally visible foreign firms can explain the presence of a home bias in international portfolio investment.*

Research limitations – *Given the breadth of the two literature streams, only representative studies (over 45 published works) are summarized.*

Institutional Investors in Global Capital Markets
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Social implications – *Regulators of emerging markets should first improve domestic institutions, governance, and macroeconomic fundamentals, and then deregulate domestic financial and capital markets to avoid economic and financial crises in the initial stages of liberalization reforms.*

Originality/value of paper – *A useful source of information for graduate students, academics, and practitioners on the importance of foreign institutional investors.*

Keywords: Foreign institutional investors; global financial markets; cross-border capital flows

JEL classifications: F21; F32; G11; G15

INTRODUCTION

Liberalization efforts by both developed and emerging countries increased access to financial markets around the globe and resulted in unprecedented growth in international capital flows worldwide (see, e.g., Lewis, 1999; Errunza, 2001). Many countries have liberalized their capital markets to complement limited domestic sources of finance with foreign capital that has become an increasingly important source of investment. Both foreign direct investment (FDI) and foreign portfolio investment (FPI) flows have reached peak levels in recent years, as more and more countries have opened their markets to foreign investors. According to the International Monetary Fund, total investment in financial assets by foreign investors exceeded US$53 trillion in 2009, with over US$23 trillion invested in equities. Of total investment in equities, almost US$14 trillion represented cross-border portfolio investment in over 200 countries around the world, whereas the remaining US$9.8 trillion was in the form of direct investment in 66 countries. Moreover, over the past decade, two-thirds of foreign direct investment, on average, has taken the form of cross-border mergers and acquisitions (M&As).[1] Such active role of international investors worldwide represents an unprecedented internationalization of the shareholder base of corporations worldwide.

A key factor in the internationalization of global capital markets is the growing importance of foreign institutional money managers. Institutional investors are major players not just in developed markets but also in rapidly growing emerging market countries (Ferreira & Matos, 2008; Li, Moshirian, Pham, & Zein, 2006). Table 1 reports the average fraction of stock market capitalization of 26 countries around the globe that is held by domestic and foreign institutions as well cross-border M&As, as a percentage of all deals in each country, over the first 5 years of the twenty-first century. Institutional money investors are most prominent in North America, holding over 70% of the stock market capitalization in the United States and 38% in Canada. However, holdings of foreign institutional investors are more pronounced in European countries such as Finland, Ireland, and the Netherlands, where 32.2%, 29.8%, and 21.2% of the stock market capitalization, respectively, are in the hands of foreign institutions, compared to only 3.3%, 0.6%, and 1.2% of the market held by local money managers.[2] Cross-border M&A activity across countries also displays large variation: firms in Japan, for example, are among the least targeted by foreign acquirers, with only 3.6% of all M&A deals being cross-border, whereas 100% of all completed M&As in Ireland and Luxemburg involve foreign acquirer.

In this chapter, I review the academic literature on the process of international financial integration and the increasingly important role of foreign institutional investors. Given the breadth of the two literature streams and my own space limitations, the purpose of this synthesis is not to provide a comprehensive survey of all research in the area. Rather, I summarize representative studies, with apologies to the authors of many important and useful papers that were excluded from this review.

FINANCIAL LIBERALIZATION AND INTERNATIONAL CAPITAL FLOWS

The concept of increased financial integration is central to the international finance literature. In financially integrated markets, domestic investors are able to invest in foreign assets and foreign investors in domestic assets; hence, assets of identical risk command the same expected return, regardless of trading location, and are priced based on the global price of risk. Liberalization reforms reflect regulatory changes leading to increased market integration (Bekaert, Harvey, & Lumsdaine, 2002). Before 1970s, most countries had restrictions on foreign investments that limited cross-border capital flows. Developed countries started eliminating such

Table 1. Institutional Ownership and Mergers and Acquisitions by Country.

	Sample of Firms		Institutional Ownership (%)			All M&A Ddeals				Cross-Border M&A Deals			
						Number of Deals		Value of Deals		Number of Deals		Value of Deals	
	Number of Firms	Market Capitalization	Total	Domestic	Foreign	Number	Percentage Firms	Value	Percentage Market Capitalization	Number	Percentage Deals	Value	Percentage Deals Value
Australia (AU)	1,753	584,469	6.4	0.9	5.5	195	11.1	77,389	13.2	35	17.9	18,484	23.9
Austria (AT)	180	62,072	8.7	0.7	8.0	6	3.3	8,821	14.2	3	50.0	8,309	94.2
Belgium (BE)	259	219,469	10.5	3.3	7.2	13	5.0	30,959	14.1	4	30.8	1,027	3.3
Canada (CA)	1,746	888,813	38.4	20.6	17.8	425	24.3	188,967	21.3	115	27.1	107,353	56.8
Denmark (DK))	314	109,511	18.7	7.4	11.3	17	5.4	16,930	15.5	4	23.5	2,977	17.6
Finland (FI)	223	202,065	35.5	3.3	32.2	12	5.4	13,788	6.8	5	41.7	10,390	75.4
France (FR)	1,491	1,556,741	18.3	5.8	12.5	85	5.7	125,561	8.1	31	36.5	30,113	24.0
Germany (DE)	1,308	1,122,865	17.5	7.0	10.5	73	5.6	57,110	5.1	42	57.5	28,666	50.2
Greece (GR)	371	108,190	5.5	0.3	5.3	15	4.0	2,742	2.5	3	20.0	842	30.7
Hong Kong (HK)	1,074	519,263	8.7	1.5	7.3	24	2.2	45,111	8.7	6	25.0	6,356	14.1
India (IN)	393	218,769	10.3	1.6	8.7	39	9.9	2,861	1.3	8	20.5	770	26.9
Ireland (IE)	127	89,732	30.4	0.6	29.8	4	3.1	1,858	2.1	4	100.0	1,858	100.0
Italy (IT)	456	676,377	12.2	2.5	9.8	20	4.4	19,685	2.9	6	30.0	1,241	6.3
Japan (JP)	4,070	3,414,759	7.7	1.5	6.2	251	6.2	148,564	4.4	9	3.6	1,259	0.8
Luxembourg (LU)	54	47,110	16.9	0.7	16.2	3	5.6	4,723	10.0	3	100.0	4,723	100.0
The Netherlands (NL)	372	748,685	22.4	1.2	21.2	28	7.5	38,176	5.1	20	71.4	30,864	80.8

Norway (NO)	330	111,425	18.2	6.6	11.6	27	8.2	8,829	7.9	18	66.7	4,750	53.8
Poland (PL)	104	40,035	12.4	2.2	10.1	14	13.5	1,189	3.0	11	78.6	1,111	93.4
Portugal (PT)	137	66,648	9.3	1.2	8.1	7	5.1	828	1.2	5	71.4	349	42.2
Singapore (SG)	617	168,734	8.8	1.0	7.7	25	4.1	16,773	9.9	6	24.0	3,904	23.3
South Africa (ZA)	772	220,671	9.5	2.3	7.1	34	4.4	9,603	4.4	7	20.6	5,999	62.5
Spain (ES)	278	493,337	15.0	1.9	13.2	18	6.5	15,070	3.1	6	33.3	5,067	33.6
Sweden (SE)	550	295,888	29.2	16.3	12.8	35	6.4	10,436	3.5	17	48.6	4,816	46.1
Switzerland (CH)	392	781,184	17.8	3.0	14.8	17	4.3	9,556	1.2	9	52.9	6,572	68.8
The United Kingdom	3,592	3,047,705	18.8	7.5	11.3	228	6.3	433,782	14.2	82	36.0	250,091	57.7
The United States	11,753	13,992,086	73.3	67.9	5.4	1,714	14.6	2,311,874	16.5	224	13.1	314,021	13.6
All countries	32,716	29,786,605	43.0	34.6	8.4	3,329	10.2	3,601,183	12.1	683	20.5	851,910	23.7
All countries (ex-United States)	20,963	15,794,519	16.1	5.0	11.1	1,615	7.7	1,289,310	8.2	459	28.4	537,889	41.7
Other countries	7,340	2,333,791	17.0	0.1	16.9	302	4.1	140,430	6.0	106	35.1	97,973	69.8
All countries (w/other)	40,056	32,120,396	41.1	32.1	9.0	3,631	9.1	3,741,613	11.6	789	21.7	949,883	25.4

Notes: This table is extracted from Ferreira et al.(2010) and presents institutional ownership and M&As for the 2000–2005 period by target country: average number of firms and market capitalization (in millions US$); average of total, domestic, and foreign institutional ownership as a percentage of market capitalization; number of completed M&A deals, percentage of listed firms targeted in deals, value of transactions of deals in millions US$ and as a percentage of market capitalization; and number of completed cross-border deals, number of cross-border deals as a percentage of the total number of deals, value of transactions of cross-border deals in millions US dollars and as a percentage of total value of transactions.

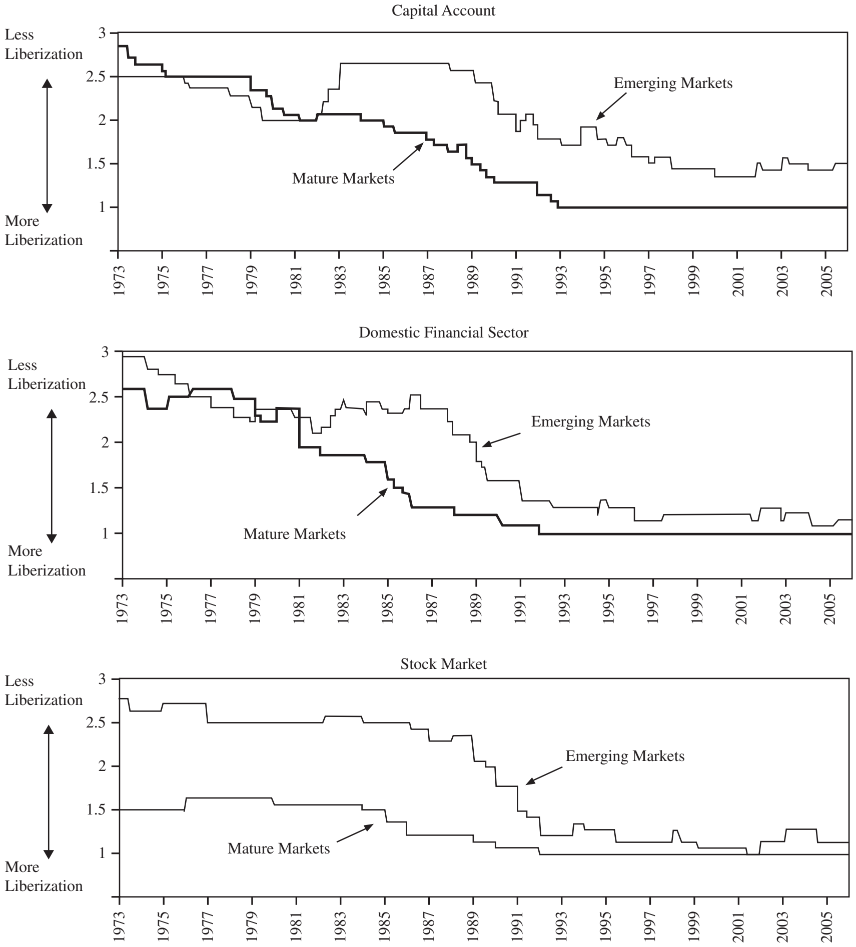

Fig. 1. Indexes of Financial Liberalization by the Level of Development, 1973–2005. The Three Indexes Display Separately the Liberalization of the Capital Account, the Liberalization of the Domestic Financial Sector, and the Stock Market Liberalization. The Value 3 Means Repression, 2 Means Partial Liberalization, and 1 Means Full Liberalization. The Indexes are a Cross-Country Average. Mature Markets are: Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Norway, Portugal, Spain, Sweden, the United Kingdom, and the United States. Emerging Markets are: Argentina, Brazil, Chile, Colombia, Hong Kong, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Taiwan, Thailand, and Venezuela. *Source*: Kaminsky and Schmukler (2008).