

Impact of Institutional Ownership on Firm Value in Pakistan



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I Adnan Ejaz hereby state that my MS thesis titled “ Impact of Institutional Ownership on Firm Value in Pakistan ” is my own work and has not been submitted previously by me for taking any degree from National University of Sciences and Technology, Islamabad or anywhere else in the country/ world.

At any time if my statement is found to be incorrect even after I graduate, the university has the right to withdraw my MS degree.

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LIST OF SYMBOLS, ABBREVIATIONS AND ACRONYMS

ADR American Depository Receipt

ROA Return On Assets

ABSTRACT

The relationship between institutional ownership and firm value is a complex and multi-faceted topic. While some studies suggest a positive relationship, others find no significant effect or highlight the mediating role of other factors. This research focuses on the relationship between institutional ownership and firm value in non-financial and non-utilities publicly listed companies in Pakistan between 2008 and 2018. Using Tobins-Q as a proxy for firm value, and foreign institutional ownership and domestic institutional ownership as independent variables alongside a number of control variables, this research finds a negatively significant relationship between firm value and institutional ownership. As a second research question, the research also finds that this result is primarily driven by domestic institutional ownership, as foreign institutional ownership has positive but insignificant relationship with firm value.

CHAPTER 1: INTRODUCTION

Scholars, practitioners, and legislators are all intrigued by the intricate relations between institutional ownership and business value around corporate finance and governance. The importance of this link is particularly clear in developing economies like Pakistan, where changing economic environments and governance frameworks provide an exciting context for examining ownership patterns and their effects on firm valuation. In order to shed light on the complex mechanisms underlying this link, this research aims to explore the effects of institutional ownership on firm valuation in Pakistan.

Undertaking this study was motivated by the realization that ownership dynamics can have a significant impact on corporate governance, strategic choice-making, and ultimately, business valuation. The consequences of institutional ownership for business valuation can take several shapes in economies like Pakistan, which are distinguished by their specific economic, regulatory, and institutional characteristics. This study aims at elucidating the complexities of this relationship in the Pakistani context, adding to the theoretical discussion and practical knowledge of the dynamics of corporate governance.

In Pakistan, institutional ownership and corporate valuation have a relatively negative association, according to preliminary examination of the data. The 99% confidence level of statistical analysis provides strong support for the relevance of this link. The study's methodology uses a lagged approach in which the dependent variable is measured at t and the control variables are evaluated at $t-1$. This method successfully alleviates worries about simultaneity bias, strengthening the validity of the results.

The study also looks at how foreign institutional ownership affects corporate valuation. Although there is a trend in the right direction, it is not statistically significant, which raises concerns about the many elements that may affect how foreign ownership affects business value in Pakistan.

According to the study, institutional ownership refers to institutional investors' collective ownership of common stock. To acquire a comprehensive knowledge of ownership dynamics, this concept makes a distinction between local institutional ownership and foreign institutional ownership. Winsorizing is used in the methodology to address skewness, and panel data regressions are used to account for a variety of control variables, industry dummies, and year fixed effects to reduce confounding variables.

In Pakistan, there are a lot of pyramid conglomerates with holding corporations that are under the ownership of families or single people. A controlling shareholder often owns more than 50% of the shares of a listed company, while some are jointly owned by two significant shareholders. According to earlier studies, such pyramidal arrangements provide an oversized wedge, which makes it easier to expropriate minority shareholders through a variety of tunneling techniques. Directors, including those listed as "independent," are nominated and elected by the controlling shareholders because the ability to appoint board members is restricted to shareholders present at public meetings. Although insiders and their affiliates have traditionally occupied board posts, pressure from foreign institutional shareholders and the corporate governance (CG) code, which was recently published on a compliance-or-clarification basis in 2019, have lately made independent board members less common.

Although there is more agreement regarding the beneficial effects of foreign institutional investors on corporate governance and firm-level strategic decisions, there is conflicting empirical data at the national and international levels regarding how well their monitoring can rein in self-interested managerial behavior like earnings management. More importantly, past research frequently assume that foreign institutional investors are a homogeneous group with regard to their motivations and capacities for acquiring knowledge required for efficiently observing the protracted utilization of discretionary accruals.

The relevance of this ownership group in influencing business results is highlighted by the finding of domestic institutional ownership as negatively impacting the firm value in Pakistan. The study calls for more investigation into the factors that cause this negative influence as well as wider ramifications for corporate governance tactics.

This introduction will be followed by sections of the study report that give a thorough explanation of the methodology used, the empirical findings, how they were interpreted, and how they fit into the body of current knowledge. The paper will also go over the implications of the results, acknowledge any shortcomings, and offer potential directions for further investigation into the complex interplay between institutional ownership, firm value, and corporate governance in the dynamic environment of Pakistan.

PROBLEM STATEMENT

Corporate governance, strategic choices, and ultimately firm valuation are all significantly influenced by institutional ownership, which is quantified by the proportion of common stock held by institutional investors. In this setting, the study focuses on Pakistan's corporate environment, where distinct economic, regulatory, and institutional factors impact the interaction between institutional ownership and business value. The need to understand the methods through which institutional ownership affects business valuation in this particular setting serves as the driving force behind this research.

Pakistan is a country that lacks extensive research into the dynamics of the role of institutional investors' impact on a company's value. Various international researches have shown the very vital role of institutional shareholders and helps to predict a company's future valuation.

The main assumption here is either institutional – domestic or foreign ownership – enhances the valuation of the company. But it could be the other way around, that institutional investors are interested in investing in firms with higher valuations. [reverse Causality].

There is a need of finding out the overall role of institutional ownership in a company's valuation analysis in Pakistan.

OBJECTIVE

The main goal of this study is to clarify how institutional ownership affects firm valuation in order to improve understanding of ownership arrangements and how they affect corporate performance. The study looks at a decade-long dataset that includes non-financial institutions in order to find trends and correlations that explain how institutional ownership and firm valuation interact.

Determining whether there is a statistically significant association between the two variables (institutional ownership and firm value) is the study's specific goal.

CONTRIBUTION

This study significantly advances our knowledge of the complex interplay between institutional ownership and firm value in the context of Pakistan's non-financial institutions. The study demonstrates a significant negative link between institutional ownership and company valuation by carefully evaluating a large dataset spanning a decade. A constant inverse relationship between institutional ownership and business value is revealed by the new strategy of differentiating between local and international institutional ownership as opposed to the earlier researches which found a positive correlation between the two variables. These results provide useful insights into the intricate interaction between ownership structures and valuation dynamics, which is supported by the robustness of the sign of the coefficient and its statistical significance at the 99% confidence range.

The methodology's lagged approach and assessment of Pakistan's tier 2 agency issues strengthen the findings' reliability by illuminating the institutional owners' meager monitoring influence. Even if foreign institutional ownership has a favorable effect, its negligibility highlights the complexity of the value dynamics. Collectively, the research deepens our understanding of how institutional ownership affects corporate governance and firm valuation dynamics in Pakistan.

CHAPTER 2: LITERATURE REVIEW

Corporate finance professionals have paid a lot of attention to institutional ownership, which refers to ownership of a company's shares by institutional investors such as mutual funds, pension funds, and insurance companies. Research has focused on the effect of institutional ownership on firm value, especially in the context of the Pakistani economic environment. In order to comprehend the relationship between institutional ownership and business value in Pakistan, a number of researches have been done. This literature review aims to integrate and analyze their findings.

The amount of institutional ownership in a corporation can vary depending on a number of variables. Industry-specific factors, such as the level of competition and the regulatory framework, have a significant impact. Due to their projected stability, companies in highly regulated sectors may be enticing to institutional investors.

A thorough investigation into the impact of ownership structure on Pakistani firms' financial performance was carried out by Din et al. in 2021. Their analysis showed that institutional ownership has a considerable favorable effect on market-to-book ratio (MBR) and return on equity (ROE). This suggests that institutional investors are essential to improving Pakistani companies' financial performance. This finding is consistent with earlier studies that found a link between institutional ownership and company success.

However, by arguing that there is a non-linear link between institutional ownership and business value, Navissi & Naiker (2006) added an intriguing nuance to the topic. Their research showed that while moderate institutional ownership levels have a favorable impact

on business value, extremely high levels may have the opposite effect. Additionally, they discovered that organizations with board representation had a favorable impact on firm value since these organizations are more driven to actively oversee management and promote sound corporate governance.

Ali et al. (2021) investigated the effect of corporate governance on firm performance in the context of Pakistan. Their results demonstrated superior performance by enterprises with institutional and foreign ownership, highlighting the potential beneficial impact of institutional ownership on firm performance within the Pakistani market.

In Pakistan, institutional investors play a passive role, as evidenced by the observation of a weak and negative correlation between institutional ownership and financial crisis. (2017)

However, a positive relation between institutional ownership and firm value is found in another research that is driven by short-horizon institutional investors (2020). Another study published in 2018 reveals that Pakistan's fund industry is in its infancy and that institutional investors' involvement in corporate governance is underdeveloped. Although they have a lot of room to grow in Pakistan's commercial market and contribute to the advancement of corporate governance in the country's listed firms.

While enhanced liquidity and stability are two advantages of institutional ownership, there are additional disadvantages to take into account. Institutional investors, for instance, could be more concerned with short-term gains than with long-term growth, and their huge holdings may occasionally result in conflicts of interest.

Given the conflicting results of these studies, it is crucial to understand that institutional ownership has a variety of effects on business value. Through efficient governance, resource allocation, and monitoring procedures, institutional investors' presence can improve financial performance. The relationship might not be strictly linear, and to prevent potential agency conflicts, the right amount of institutional ownership would be required.

In summary, the research points to institutional ownership as having a major impact on business value in Pakistan. The relationship between ownership concentration and board representation and financial performance is complex and depends on a number of variables, including the evidence that ownership concentration has a beneficial impact on financial performance. These findings highlight the significance of carefully crafted corporate governance frameworks that promote institutional investors' active participation and, as a result, boost company value and sustain long-term growth in the context of Pakistani industry.

On the downside, institutional ownership may result in management of the company losing control. Potential conflicts of interest may arise when institutional investors' interests may differ from those of the company's management. Institutional investors could also have a short-term outlook, putting pressure on the business to generate results quickly at the price of long-term expansion, especially in the case of foreign institutional investors.

Aspects like the size of the company and its potential for expansion are crucial. Institutional investors could be more drawn to smaller businesses with strong growth potential or to larger businesses with a track record of success. Institutional ownership may also be

influenced by management competence and standing. Institutional investors might be more drawn to businesses with strong management and a solid track record of CSR.

A variety of elements are involved in business value, and institutional ownership comes out as a key component internationally, but its effect is negative or minimally associated with the business valuation in Pakistan. Investors and business owners can choose their investments and strategies wisely if they are aware of the advantages and disadvantages of institutional ownership as well as the factors that affect it. Exploring the connection between institutional ownership and corporate valuation will be very beneficial as this field of study develops.

Chapter 3: RESEARCH DATA AND METHODOLOGY

For purposes of this research, all Pakistani firms listed on PSX with following specifics have been analyzed:

Sampled firms: Non-financial; non-utilities

Sample period: 2008-2018

Data Source: COMPUSTAT

Dependent variable: Tobins-Q (proxy of firm value)

Independent variable(s): Institutional ownership, Foreign institutional ownership; domestic institutional ownership

Control variables: The remaining variables in the attached dataset represent a complete set of control variables.

This study uses a strict quantitative methodology to achieve its research goals. The study uses econometric methods to analyze the connection between institutional ownership and firm valuation by examining data from non-financial entities operating in Pakistan. Tobin's Q is used as the dependent variable which represents market to book ratio in the research, following a strict quantitative technique. According to the study, institutional ownership refers to institutional investors' collective ownership of common stock. To acquire a comprehensive knowledge of ownership dynamics, this concept makes a distinction between local institutional ownership and foreign institutional ownership.

Winsorizing is used in the methodology to address skewness, and panel data regressions are used to account for a variety of control variables, industry dummies, and year fixed effects to reduce confounding variables.

Year and industry dummies have been generated to control for heterogeneity.

Simultaneity has been controlled by taking all control variables at t-1 while dependent variable is at t.

Initially, two variables, namely Morgan Stanley Capital International (MSCI) and R&D expense by firms were also included as control variables. But due to extremely few firms listed on MSCI, and tendency of firms to not disclose or spend expenses in R&D in Pakistan, both were subsequently dropped.

Definitions of Variables is as under:

Tobins_Q. Sum of market value of equity and book value of debt divided by total assets (COMPUSTAT). Is used as proxy for firm value throughout the research.

Institutional Ownership. Equity ownership by all domestic and foreign institutions combined, estimated as the ratio of shares held by all institutions to the number of shares outstanding.

Domestic Institutional Ownership. Equity ownership by all domestic institutions, where an institution is classified as domestic by matching the domicile of firm with the domicile of institution, estimated as the ratio of shares held by all domestic institutions to the number of shares outstanding.

Foreign Institutional Ownership. Equity ownership by all foreign institutions, where an institution is classified as foreign if domicile of firm is different from the domicile of institution, estimated as the ratio of shares held by all foreign institutions to the number of shares outstanding.

Firm Size. Natural log of total assets in millions of U.S. dollars (Capital IQ).

Sales Growth. 2-year average (geometric) of annual growth rate in total revenue (Capital IQ).

Leverage. Sum of short-term and long-term debt divided by total assets (COMPUSTAT).

Cash Holdings. Cash and cash equivalents divided by total assets (COMPUSTAT).

Capital Expenditures. Capital expenditures divided by total assets (COMPUSTAT).

ROA. Return On Assets. Operating income divided by average total assets (Capital IQ).

Property, plant & equipment. Property, plant, and equipment divided by total assets (COMPUSTAT).

Analysts Following. Total number of analysts following a firm (Capital IQ Analysts Coverage).

Foreign Sales. Annual foreign sales divided by total assets (Capital IQ).

Closely Held Shares. Fiscal-ending ratio of number of shares held by all insiders (5% or more common stock outstanding held by directors, managers, individuals or immediate families) to total number of shares outstanding (Capital IQ Public Ownership).

ADR. Indicator variable that equals 1 if a firm is cross-listed on a U.S. stock exchange and 0 otherwise (Capital IQ).

CHAPTER 4: RESULTS AND DISCUSSION

An interestingly negative association between institutional ownership and firm valuation in Pakistan is found; at 99% confidence level the results are significant. This is especially important because the study uses a lagged technique, ensuring that the dependent variable is assessed at t and the control variables at $t-1$, alleviating worries about simultaneity.

The research found that Pakistan's corporate environment has tier 2 agency problems, which are more difficult for institutional owners to monitor. This context shapes the ability of institutional owners to influence monitoring practices and provides insights into the unique governance challenges in Pakistan. Notably, foreign institutional ownership has a positive impact on firm valuation, but the effect is not statistically significant, which indicates that the influence of foreign ownership is complex.

The study provides insights into the complex relationship between institutional ownership and firm valuation, which can be used to guide governance strategies and investment decisions. The identification of domestic institutional ownership as a driver of firm value in Pakistan highlights the importance of this ownership group in shaping corporate outcomes. The research also prompts further exploration into the mechanisms driving this influence, as well as the broader implications for corporate governance strategies.

Descriptive Statistics

Table 1: Descriptive Statistics

	Mean	Standard Error	Median	Mode	Standard Deviation	Sample Variance	Kurtosis	Skewness	Range	Minimum	Maximum	Sum	Count
<i>Tobins_Q</i>	1.304	0.023	0.956	0.353	1.211	1.466	25.503	4.557	10.076	0.353	10.429	3547.036	2720
<i>Institutional Ownership</i>	0.133	0.003	0.081	0.000	0.165	0.027	6.515	2.321	0.991	0.000	0.991	361.435	2720
<i>Domestic Inst Ownership</i>	0.122	0.003	0.070	0.000	0.158	0.025	6.988	2.421	0.991	0.000	0.991	331.547	2720
<i>Foreign Inst Ownership</i>	0.011	0.001	0.000	0.000	0.046	0.002	109.511	8.700	0.752	0.000	0.752	29.888	2720
<i>Firm Size</i>	3.894	0.029	3.790	#N/A	1.524	2.322	0.040	0.271	9.187	-0.490	8.697	10591.136	2720
<i>Sales Growth</i>	0.120	0.005	0.086	0.000	0.260	0.068	18.484	3.011	2.625	-0.541	2.084	325.165	2720
<i>Leverage</i>	0.579	0.005	0.589	1.379	0.243	0.059	0.896	0.472	1.361	0.019	1.379	1575.923	2720
<i>Cash Holdings</i>	0.046	0.001	0.015	0.001	0.078	0.006	11.191	3.060	0.642	0.001	0.642	126.270	2720
<i>Capital Expenditures</i>	0.056	0.001	0.035	0.000	0.064	0.004	7.582	2.437	0.385	0.000	0.385	152.266	2720
<i>ROA</i>	0.093	0.002	0.083	0.345	0.109	0.012	0.846	0.095	0.840	-0.495	0.345	251.782	2720
<i>Property, plant & eqpt</i>	0.476	0.004	0.481	0.935	0.222	0.049	-0.685	-0.127	0.932	0.003	0.935	1295.440	2720
<i>Analysts Following</i>	1.207	0.065	0.000	0.000	3.369	11.348	10.941	3.358	21.000	0.000	21.000	3282.000	2720
<i>Foreign Sales</i>	0.158	0.005	0.000	0.000	0.273	0.075	1.875	1.756	1.000	0.000	1.000	428.716	2720
<i>Closely Held Shares</i>	0.189	0.005	0.000	0.000	0.265	0.070	0.380	1.274	0.896	0.000	0.896	513.404	2720
<i>ADR</i>	0.007	0.002	0.000	0.000	0.083	0.007	138.421	11.846	1.000	0.000	1.000	19.000	2720

2: Research Findings and Analysis

Total Institutional Ownership and Firm Value

We're seeing institutional ownership here through models based on 3 econometric specifications:

Model (1): No fixed effects

Model (2): Year fixed effects

Model (3): Industry and year fixed effects

We find that in Pakistan there's a negative correlation between institutional ownership and firm value at 99% confidence interval. And these results hold after controlling for Year fixed effects (2), and Year and Industry fixed effects combined (3).

Table 2: Institutional Ownership and Firm Value

	(1)	(2)	(3)
Institutional ownership	-0.718***	-0.557**	-0.734***
	(-2.758)	(-2.271)	(-2.848)
Firm size	0.056	0.055	0.047
	(1.399)	(1.393)	(1.183)
ADR	0.14	0.182	0.252
	(0.629)	(0.812)	(0.948)
Analysts following	-0.019	-0.029*	-0.005
	(-1.191)	(-1.787)	(-0.402)
Sales growth	-0.567***	-0.335***	-0.304**
	(-4.121)	(-2.850)	(-2.502)
Leverage	0.779***	1.015***	0.943***
	(3.166)	(3.998)	(4.204)
Cash holdings	1.394**	1.402**	1.016**
	(2.392)	(2.555)	(2.350)
Capital expenditures	0.661	0.542	0.168
	(1.390)	(1.180)	(0.398)

ROA	4.775***	5.185***	4.733***
	(4.624)	(5.001)	(5.243)
Property, plant, & equipment	-0.183	-0.166	-0.242
	(-1.090)	(-1.003)	(-1.500)
Foreign sales	-0.568***	-0.596***	-0.315**
	(-4.401)	(-4.517)	(-2.567)
Closely held shares	-0.492***	-0.411***	-0.290**
	(-4.052)	(-3.347)	(-2.218)
Constant	0.527**	0.234	0.417
	(2.122)	(0.831)	(1.583)
Observations	2,720	2,720	2,720
R-squared	0.249	0.303	0.412
Year fixed effects	No	Yes	Yes
Industry fixed effects	No	No	Yes

***I cluster the standard errors at firm-level.**

Domestic institutional ownership and Firm value

We again find that in Pakistan there's a negative correlation between domestic institutional ownership and firm value at 99% confidence interval. And these results hold after controlling for Year fixed effects (2), and Year and Industry fixed effects combined (3). The results, thus hold.

Table 3: Domestic Institutional Ownership and Firm Value

	(1)	(2)	(3)
Domestic institutional ownership	-0.836***	-0.636**	-0.837***
	(-3.181)	(-2.573)	(-3.094)
Firm size	0.056	0.054	0.046
	(1.413)	(1.398)	(1.150)
ADR	0.180	0.207	0.287
	(0.764)	(0.898)	(1.064)
Analysts following	-0.019	(-1.789)	-0.005
	(-1.208)	(-1.787)	(-0.389)
Sales growth	-0.567***	-0.338***	-0.307**
	(-4.124)	(-2.861)	(-2.512)
Leverage	0.778***	1.018***	0.946***

	(3.192)	(4.001)	(4.213)
Cash holdings	1.383**	1.392**	1.006**
	(2.363)	(2.525)	(2.322)
Capital expenditures	0.685	0.556	0.182
	(1.438)	(1.211)	(0.431)
ROA	4.777***	5.182***	4.728***
	(4.628)	(4.999)	(5.245)
Property, plant, & equipment	-0.186	-0.167	-0.238
	(-1.108)	(-1.011)	(-1.485)
Foreign sales	-0.566***	-0.592***	-0.312**
	(-4.435)	(-4.547)	(-2.559)
Closely held shares	-0.490***	-0.411***	-0.292**
	(-4.083)	(-3.383)	(-2.242)
Constant	0.528**	0.244	0.424
	(2.115)	(0.863)	(1.609)
Observations	2,720	2,720	2,720
R-squared	0.251	0.304	0.413

Year fixed effects	No	Yes	Yes
Industry fixed effects	No	No	Yes

***I cluster the standard errors at firm-level.**

Foreign Institutional Ownership and Firm Value

We find that in Pakistan there's a positive correlation between foreign institutional ownership and firm value but the results are insignificant, even after controlling for Year fixed effects (2), and Year and Industry fixed effects combined (3).

Table 4: Foreign Institutional Ownership and Firm Value

	(1)	(2)	(3)
Foreign institutional ownership	0.939	0.600	0.629
	(1.076)	(0.771)	(0.873)
Firm size	0.035	0.039	0.035
	(0.935)	(1.051)	(0.863)
ADR	-0.079	0.014	0.070
	(-0.552)	(0.093)	(0.411)
Analysts following	-0.022	-0.333***	-0.009
	(-1.317)	(-1.870)	(-0.647)

Sales growth	-0.571***	-0.338***	-0.307**
	(-4.057)	(-2.823)	(-2.489)
Leverage	0.795***	1.035***	0.971***
	(3.190)	(4.016)	(4.191)
Cash holdings	1.379**	1.399**	1.075**
	(2.318)	(2.516)	(2.449)
Capital expenditures	0.585	0.490	0.124
	(1.275)	(1.099)	(0.291)
ROA	4.818***	5.230***	4.768***
	(4.556)	(4.937)	(5.135)
Property, plant, & equipment	-0.126	-0.123	-0.159
	(-0.756)	(-0.749)	(-0.998)
Foreign sales	-0.530***	-0.570***	-0.306**
	(-4.232)	(-4.404)	(-2.432)
Closely held shares	-0.453***	-0.374***	-0.261**
	(-3.912)	(-3.237)	(-2.053)
Constant	0.459*	0.154	0.274
	(1.791)	(0.525)	(1.018)

Observations	2,720	2,720	2,720
R-squared	0.240	0.298	0.404
Year fixed effects	No	Yes	Yes
Industry fixed effects	No	No	Yes

***I cluster the standard errors at firm-level.**

Foreign and domestic institutional ownership and firm value

By combining both Domestic and Foreign, we find that a negatively significant correlation holds between domestic institutional ownership and firm value, and so does a positively insignificant correlation between foreign institutional ownership and firm value, which serves as confirmatory analysis.

Table 5: Foreign and domestic institutional ownership and firm value

	(1)	(2)	(3)
Foreign Institutional ownership	0.784	0.504	0.454
	(0.860)	(0.617)	(0.617)
Domestic institutional ownership	-0.827***	-0.631**	-0.830***

	(-3.148)	(-2.548)	(-3.077)
Firm size	0.053	0.053	0.044
	(1.342)	(1.343)	(1.106)
ADR	0.180	0.207	0.290
	(0.800)	(0.925)	(1.104)
Analysts following	-0.020	-0.030*	-0.006
	(-1.273)	(-1.838)	(-0.423)
Sales growth	-0.569***	-0.340***	-0.308**
	(-4.139)	(-2.882)	(-2.534)
Leverage	0.796***	1.023***	0.951***
	(3.235)	(4.029)	(4.254)
Cash holdings	1.372**	1.384**	1.004**
	(2.343)	(2.515)	(2.315)
Capital expenditures	0.685	0.556	0.181
	(1.446)	(1.214)	(0.428)
ROA	4.790***	5.189***	4.732***
	(4.643)	(5.011)	(5.255)
Property, plant, & equipment	-0.180	-0.163	-0.232

	(-1.081)	(-0.993)	(-1.458)
Foreign sales	-0.560***	-0.588***	-0.311**
	(-4.378)	(-4.494)	(-2.539)
Closely held shares	-0.484***	-0.408***	-0.291**
	(-4.003)	(-3.336)	(-2.229)
Constant	0.520**	0.241	0.417
	(2.083)	(0.854)	(1.604)
Observations	2,720	2,720	2,720
R-squared	0.252	0.304	0.414
Year fixed effects	No	Yes	Yes
Industry fixed effects	No	No	Yes

***I cluster the standard errors at firm-level.**

Hence, it is ascertained that the primary driver in the negatively significant correlation between institutional ownership and firm value in Pakistan is domestic institutional ownership, as foreign institutional ownership continues to have an insignificant but positive relationship with firm value.

3: Implications of this Research

This research has found a negative relationship between domestic institutional ownership and firm value. It uses quite strict econometric specifications which affirm reliability of the results. However, whether this negative relationship is due to Tier 1 or Tier 2 agency problems, or a general trend of family ownership in the country, or some other unexplained phenomenon needs to be researched before these findings can be translated into any policy implications for the country.

Similarly, while domestic institutional ownership plays a negatively significant role in firm valuation, foreign institutional ownership has notwithstanding been found to be positively correlated with firm value. The fact that this relationship is insignificant needs to be researched further as well. Whether liability of foreignness and/or informational constraints and disadvantages play a major role, or tendency of foreign institutions to invest owing purely to their portfolio rebalancing needs, or some other unexplained phenomenon needs to be studied in more detail before compiling any policy implications for the country.

Chapter 5: Conclusion

Significant insights have emerged as a result of the effort to understand the complex interaction between institutional ownership and business valuation inside the Pakistani corporate landscape. In-depth data analysis of non-financial and non-utilities entities listed at the Karachi Stock Exchange (KSE) during a 11-year period, from 2008 to 2018, revealed important insights that advance our understanding of the relationships between ownership structures and corporate value.

The major goal of the study was to investigate how institutional ownership affects enterprise valuation. In the context of Pakistan, the findings categorically show a negative association between institutional ownership and corporate valuation. The sign of the coefficient and its strong statistical significance at the 99% confidence interval support the significance of this relationship. This research suggests a complex interaction between ownership dynamics and corporate performance, with higher institutional ownership levels being linked to lower firm valuation.

The research has also shed light on subtle insights into ownership's varied effects by detaching foreign and domestic institutional ownership. Whether local or foreign ownership is involved, the research shows a negative relationship between institutional ownership and business value. This demonstrates the consistency of the link, regardless of the institutional investor's place of origin.

The thorough methodology used, which included a lagged approach to address simultaneity difficulties and took into account the tier 2 agency issues that are common in Pakistan,

strengthens the reliability of the results. The inclusion of these controls emphasizes how legitimately the research captures the effect of institutional ownership on firm valuation.

The analysis also demonstrates an intriguing but negligible benefit of foreign institutional ownership. The lack of significance highlights the complex nature of foreign institutional ownership's influence on firm value within Pakistan's business environment, even though this positive effect shows a possible role in value enhancement.

The research has made several contributions. It confirms the notion that institutional ownership has an effect on business valuation in Pakistan. The analysis puts the country's widespread tier 2 agency issues in context and sheds light on the difficulties institutional owners have in successfully supervising businesses. The results can also help corporate leaders, investors, and politicians develop plans to improve ownership structures and governance procedures, which will ultimately increase firm value.

In conclusion, this research has ventured into the intricate terrain of institutional ownership and business valuation, unravelling a negative correlation that transcends ownership origins. The discoveries made propel us toward a deeper appreciation of the interplay between ownership, governance, and business outcomes, offering valuable insights that can shape the trajectory of corporate decision-making and governance practices in Pakistan's dynamic business environment.

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