

# 國立交通大學

財務金融研究所

碩士論文

機構投資者在集中股權結構下之公司治理角色  
定位——以高階主管異動為例

**Institutional investors and top management  
turnovers in a market with concentrated  
ownership control: Evidence from Taiwan**

研究生：齊孝慈

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中華民國九十八年六月

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## 中文摘要

台灣證券集中市場以家族集中持有為主，加上透過交叉持股金字塔結構，使得管理階層在公司內之權威更加集中，相對之下機構投資人之投資比重偏低。本論文透過機構投資人在高階主管異動前後持股之變動研究股權集中度是否影響機構投資人在公司治理中扮演的角色。研究結果有三：第一，考量股權集中下直接參與之成本效益，機構投資人傾向透過出售股票的方式來影響公司決策及管理階層之行為。第二，利用外部繼承與內部繼承後之機構投資人相反之持股變動說明上述機構投資人出售股票之真正意圖為影響公司決策及管理階層之行為，而非交易策略。第三，經由機構投資人意圖透過出售股票來影響決策之公司，本文透過董事會有效性之研究僅能部分支持日後公司治理有改善之現象。本論文之結論為，相較於歐美等已開發國家中相對多數之機構投資人，考量市場及公司特性，機構投資人參與公司治理的角色也隨之改變，以台灣為例，機構投資人形成一種透過股權持有影響公司治理之消極參與角色。

## 關鍵詞

公司治理、機構投資人、高階主管異動、台灣

# **Institutional investors and top management turnovers in a market with concentrated ownership control: Evidence from Taiwan**

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## **ABSTRACT**

This paper examines the role of institutional investors in corporate governance under the market where concentrated family control is the most widespread form of ownership, namely Taiwan. By investigating how institutional investors behave around top management turnovers, for instance, chairman of board and CEO replacements, the results suggest institutional investors are more likely to abandon a stock while turnovers come up in firms under concentrated ownership structure. Furthermore, the intention of institutional selling to influence corporate decisions is illustrated by different directions of institutional holding changes between outside succession and inside succession following forced top management turnovers in family-controlled firms. However, the evidence only partially supports those intended selling from institutional investors can lead to corporate governance improvement after top management turnovers.

## **KEYWORDS**

Corporate governance, Institutional investors, Top management turnovers, Taiwan.

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## 1. INTRODUCTION

In recent years, the issue of corporate governance in Taiwan has become a topic one. Along with the growing importance of institutional investors, the debate regarding institutional shareholder activism has become controversial. However, the role of institutional investors in Taiwan seems to be a passive one compared to those in developed countries such as US and UK, where large institutional investors usually are major participant and appear to be much more active in corporate governance (see Davis, 2002). Yeh, Lee and Woidtke (2001) indicate Taiwan listed companies are characterized as mostly family controlled with a high degree of ownership. According to Claessens et al. (2000), there is a relationship between the ownership structure of the corporate sector and the level of institutional development. Moreover, firm characteristics can be another attribute affect an institutional shareholder's decision to intervene and the implications of this intervention for firm ownership structure (Kahn and Winton, 1998).

Accordingly, the main objective of this paper is to investigate the implications of concentrated ownership structure for institutional investors' involvement in corporate governance by examining the changes in institutional holding around forced top management turnovers in Taiwan listed companies. Based on Gillan and Starks (2003), institutional investors have the potential to influence management's activities

directly through their ownership, and indirectly by trading their shares. Moreover, top executive succession events provide a natural setting to examine the functioning of governance mechanisms because the decision to remove top managers is both extreme and highly visible (Kang and Shivdasani, 1995). Murray (1989), Michel and Hambrick (1992), and Wiersema and Bantel (1992) suggest the mechanism of top management replacement, for instance, chairman of board and CEO replacement, has important influence on strategic and performance issues. They are the highest authority in the corporate structure as they responsible for strategizing and managing all financial, business development and operation issues in the company. Thus, the investigation of institutional holding changes around potential or actual replacement of the chairman or CEO can be one of the effective ways to test the role of institutional investors' involvement in corporate decisions changes.

While most companies in Taiwan are characterized as family controlled and have highly concentrated ownership structures (Yeh, Lee and Woidtke, 2001), empirical researches begin with an analysis of changes of institutional holdings in different ownership structure e.g. family-controlled firms versus nonfamily-controlled firms. After controlling industry trend in institutional holding changes, the result shows strong evidence that institutional ownership declines in family-controlled firms prior forced top management turnovers, suggests the concerns of institutional



investors in corporate decisions intervention under concentrated ownership structure.

However, there is limited evidence on institutional holdings increase in nonfamily-controlled firms prior forced top management turnovers.

Although selling behavior is only been observed in family-controlled firms prior forced top management turnovers, there is no evidence shows it leads to an increase in institutional holdings after the turnovers. If institutional investors intend to influence corporate decisions by top management replacements with preceding intended selling, they shall regain their shares for the fulfilled purposes afterward. Instead, ownership of institutional investors in both types of firms still decreases following the turnovers. Thus, the result shows ambiguous evidence on the intention of institutions selling prior forced top management replacement.

In order to further examine the continued declines in institutional holdings post intended selling behavior, the samples are recategorized due to the possibility that merely classify turnover samples as forced or nonforced may ignores the fact that there are substantial inside successions following the turnovers, especially in family-controlled firms. In fact, Parrino (1997) states that outside successors are better able to change the direction of a firm. Similarly, Helmich and Brown (1972) find that the rate of organizational change, as proxied by departures and personnel shifts at the level below that of the CEO, is greater following outside appointments.

Therefore, institutional investors, who have the intention to changes corporate decisions by selling shares prior top management turnovers, shall repurchase their shares following outside successions which are more likely to substantially alter firm policies. The evidence still shows decreasing institutional holdings following the turnover in insider successions but outsider successions. This opposite trading behavior between outside successions and inside successions in family-controlled firms supports the hypothesis that institutional investors, who hold relatively small holdings under concentrated family ownership, have intention to passively influence corporate decisions through selling shareholdings prior top management turnovers.

Finally, as noted by Gillan and Starks (2003), the potential downward price pressure and negative information signal associated with heavy institutional selling can lead to changes in corporate governance even in the absence of direct institutional monitoring (Brown and Brooke, 1993; Parrino, Sias and Starks, 2003). This paper examines whether intended institutions selling can subsequently lead to better corporate governance through top management turnovers by improved board efficiency. In order to investigate how the changes in institutional holdings can potentially influence firm's corporate governance in terms of board efficiency, I estimate frequencies of the percentage of outside directors and supervisors changes, board size changes and board holdings changes following top management. However,

the result shows only partially support for the intended institutional selling can lead to better corporate governance after top management turnovers.

In sum, institutional investors concern with the ownership structure before taking actions on influencing corporate decisions and the intention under selling behavior prior turnovers to influence corporate decisions is illustrated by different trading behavior between outside and successions inside successions in family-controlled firms. However, only limited evidence shows the correlation between intended institutional selling prior top management turnovers and corporate governance improvement exits.

The remainder of the paper is organized as follows. Section 2 illustrates the corporate governance background in Taiwan. Section 3 reviews the literatures. Section 4 draws the data and methodology. The empirical results are presented in Section 5. Section 6 draws the conclusions.

## 2. CORPORATE GOVERNANCE IN TAIWAN

The basic regulatory model of corporation in Taiwan is a two-tier structure that consists of Board of director, Supervisor(s) and shareholders. Shareholders, as owners of the corporation, elect directors and supervisor(s) by Shareholder's Meeting. The Board, holds discretionary powers from the delegation of shareholders, also performs

the functions of management. Shareholders retain the power to reshuffle the director who abuses the delegate discretionary power that meant to maximize the shareholders interest (Taiwan Securities and Futures Institute, 2008).

However, the market structure Taiwan is not like US or UK, according to Taiwan Stock Exchange, individual investors constitute almost 60% of trading volume are the major participants of Taiwan stock market. Even though the growing role of institutional investors in recent years, they still count for relatively small portion of the market. Due to either their overly small shareholding or to less cohesiveness among the majority of the small shareholders, it is rare to find cases where these individuals would voice their right to participate in corporate operation. Generally speaking, individual investors are mostly superficial and easily affected by market sentiment in which results a high turnover rate in the market. Moreover, due to either their overly small shareholding or to less cohesiveness among the majority of the small shareholders, it is rare to find cases where these individuals would voice their right to participate in corporate operation.

In Taiwan, family-controlled enterprises and affiliated business groups are the main organization in economic activities (see Claessens et al., 2000). Yet this is not a unique case around the world, the influential power of family-controlled firms over listed market. Table 1 shows from year 2002 to 2007, family-controlled or group

Table 1

The Number and percentage of family/group control firms in Taiwan listed market, 2002-2007

	Number of listed firms	Number of family/group control firms	Percentage of family/group control firms is listed firms
2002	638	495	77.59
2003	669	500	74.74
2004	697	500	71.74
2005	691	505	73.08
2006	699	509	73.98
2007	698	508	72.78

affiliated firms constituting over 70% in Taiwan listed market. Moreover, Yeh (2002) reports that boards of Taiwan corporations are populated with insiders and controlling owners are more likely to insert family members on boards, which results substantial control of ultimate controller over decision-making in Shareholders Meetings. This is deemed as erosion of shareholders' right as Shleifer and Vishny (1997), La Porta et al. (1990) and Johnson et al. (2000) point out under concentrated ownership structure, the conflicts of interests arise between minority shareholders and the controlling shareholder.

Before 2001, there was no provision prohibiting cross shareholding between parent and subsidiary companies in Taiwan's Company Law; therefore, manipulation of the legal framework sometimes occurs (Taiwan Securities and Futures Institute,

2008). Claessens et al. (2000) reveals that control is enhanced through pyramid structures and cross-holdings among firms in all the East Asian countries studied including Taiwan. These ownership arrangements often create wedges between the ultimate owners' cash flows and their voting rights which result the expropriation of minority shareholders, as the controlling party allocates some corporate resources to the production of private benefits (Fan and Wong, 2001). In addition, the law does not restrict different representatives of the same institutional shareholders from being elected director and supervisor irrespectively. Actually, having the same institutional shareholder as director and supervisor can greatly compromise the fundamental function of supervision as management without sufficient monitoring would likely fail to meet its fiduciary duty to act in the interest of shareholders.

### 3. RELATED LITERATURE AND HYPOTHESIS

The issue of corporate governance has experienced a long time development from early principal-agency theory (Jensen and Meckling, 1976) and entrenchment theory (Jensen and Ruback, 1983). Corporate governance is a mechanism which alleviates the conflict interest between managers and shareholders. Denis and McConnel (2003) characterized governance mechanism as internal or external to the firm. They indicate the effectiveness of corporate governance in a firm is enhanced by

both of internal and external mechanism. The internal governance mechanisms of primary interest are the board of directors and the equity ownership structure of the firm (Denis and McConnell, 2003). On the other side, takeover market is a major source of external control (Huson, Parrino and Starks, 2001).

Another feature is top management turnovers. According to Kang and Shivdasani (1995) top executive succession events provide a natural setting to examine the functioning of governance mechanisms because the decision to remove top managers is both extreme and highly visible. Besides, the mechanism of managerial replacement protects shareholders rights from management exploitation. For example, Lausten (2002) finds the threat of turnover ensures CEO acts in the interest of the shareholders in Danish firms.

Several aspects surrounding top management replacement and corporate governance have been documented in years, yet most of the articles focus on firm performance assessment. As Kaplan (1994a, b) state, the relationship between manager turnovers and firm performance is a good way to appraise the viability of a firm's governance system. The evidence generally indicates that manager turnovers and firm performance are negatively related (Denis and Denis, 1995; Graziano and Parigi, 2003; Kaplan and Minton, 2006). Aivazian, Ge, Qiu (2004) present the firm performance was significantly and negatively related to manager demotion in Chinese

state-owned enterprises.

While a negative relation between firm performance and the likelihood of CEO turnovers has been well documented, there is relatively little evidence about how turnover decisions are made. Some evidence suggests that turnover decisions are affected by board composition (Weisbach, 1988) and CEO stock ownership (Salancik and Pfeffer, 1980; Allen, 1981; Denis and Denis, 1995), but many other factors that affect these decisions have not been examined, for instance, the role of institutional investors.

The institutional investors have long been regarded as large shareholders in the firm with better information advantages and stronger incentives to undertake monitoring activities (Shleifer and Vishny, 1986; Huddart, 1993). Gillan and Starks (2000) indicate that institutional investors with large debt or equity positions in a company have been motivated to actively participate in the company's strategic direction. Although large institutional investors can be very effective in solving agency problems in theory, empirical research provides ambiguous evidence for successful changes in corporate decisions. On the other hand, it is also costly. Such monitoring requires independent sources of information concerning managerial actions and there are also potential liquidity costs (Kahn and Winton, 1998; Maug, 1998; and Noe, 2002) and free-rider problems with other shareholders (Grossman and



Hart, 1980). In addition, governance characteristics can determine how effectively managers are monitored and how much influence a shareholder can exert (Parrino et al., 2003). For example, CEOs who are members of a firm's founding family tend to control relatively large blocks of stock either directly or indirectly. This type of control makes it more difficult to remove such CEOs (Morck et al., 1989; Parrino, 1997).

Thus, there is another theory of voting with their feet (Parrino et al., 2003), often termed as "Wall Street Rule". They believe selling of shares may be the most common action taken by institutional investors to voice their opinions considering the cost of direct involvement. Despite the passive nature of institutional selling, such selling behavior seems to be another alternative of monitoring activities. For example, because the amount holdings institutions hold, a shift in ownership structure is likely to have a meaningful impact on corporate decisions (Parrino et al., 2003). Brickley et al. (1988) report evidence that some shareholders are pressure-sensitive due to business relationships with the company.

Hirschman (1970) terms "voice behavior" as the use of ownership power to change the company's actions, "exit" implies voting with your feet, and "loyalty" implies remaining quiet and not selling. The possibility that exit by a large shareholder can have positive impact on the firm is also discussed in Gopalan (2005).

In fact, the financial logic tends to favor exit behavior, that is, the institutional investors does not want to be stuck in corporate governance bodies, but wants to be free to make reallocations in the portfolio at any time (Hellman, 2005). Similarly, Palmiter (2002) suggests that large shareholders may be able to affect managerial decisions through the “threat (actual or implied) of selling their holdings and driving down the price of the targeted company.” Some studies even claim the “wall street walk” can be regard as another form of shareholder activism.

The principal aim of this paper is to examine the potential passive role of institutional investors under concentrated ownership by observing changes in shareholdings around top management turnovers and its impact on the issue of corporate governance. Considering dominant individual investors, concentrated family control, and possible cross-holding scenario in Taiwan listed corporations, the main hypothesis tested is whether institutional investors tend to sell their shares prior forced top management turnovers because they believe concentrated corporate structure make direct actions (i.e., trying to influence corporate decisions) too costly (H1). To further explore the intention under institutional selling, the forced turnover samples are recategorized as outside succession or inside succession due to the possibility that outside successors are better able to change the direction of a firm (Parrino, 1997). If institutional investors intend to influence corporate decisions with

selling actions prior to top management replacements, they shall repurchase their shares for the fulfilled purpose after the turnovers (H2). Finally, this paper examines whether intended institutional selling prior top management turnovers can result in better corporate governance in terms of board efficiency (H3).

#### 4. DATA AND METHODOLOGY

The data used in this paper primarily come from Taiwan Economic Journal Great China Database (TEJ)<sup>1</sup> and Taiwan Market Observation Post System (M.O.P.S)<sup>2</sup>. The empirical analysis begins by first collecting samples from M.O.P.S regarding all chairman of board and CEO turnovers over the period 2002 to 2007 in Taiwan listed firms. Because of the decision to increase or decrease institutional holdings is likely to be more significant in firms with substantial holdings, the analysis focuses on firms with minimum institutional investment of one percent. With one by one checking for chairman/CEO turnovers on M.O.P.S, the date of announcement, name and resume of replaced chairman/CEO, name and resume of new chairman/CEO, reason for change and effect date of new appointment of 296 chairman turnovers and 474 CEO turnovers samples are collected. After checking for both availability of institutional holdings and industry institutional holdings data, this procedure identifies 253

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<sup>1</sup> TEJ is a database specializing in capital market data in Taiwan and China.

<sup>2</sup> M.O.P.S. is a system provides public information of all listed and unlisted firms in Taiwan.

chairman turnovers and 385 CEO turnovers samples in total.

Samples are further classified based on three steps as followed (see Fig 1). First, classify each turnover as forced or nonforced according to the reason for change posted on M.O.P.S. The term “forced” covers all kinds of turnover except for retirements and deceased, including election, quit, personal leave, fired, changed the juristic-person representative, new hire, reallocation, separation of chairman and CEO roles and others. In total, firstly identifies 562 forced and 76 nonforced turnovers. Table 2 shows the number and frequency of forced top management turnovers over the period 2002-2007 in Taiwan listed firms. The forced turnover firms represent somewhere between 10% and 25% of total listed firms. Second, classify forced and nonforced samples separately by family-controlled or nonfamily-controlled types with the definition stated on TEJ Database. This step leaves 461 forced samples in family-controlled firms and 101 in nonfamily-controlled firms; 58 nonforced samples in family-controlled firms and 18 in nonfamily-controlled firms. Finally, reclassify forced samples in family-controlled firms by outside succession or inside succession. The outside successor is defined specifically with (1) new successor had not been employed at firm and family related firms before the succession or (2) new successor and old one are not relative or (3) new successor is not presenting for the same Juridical Person as the old one. To ensure final samples are consistent of the

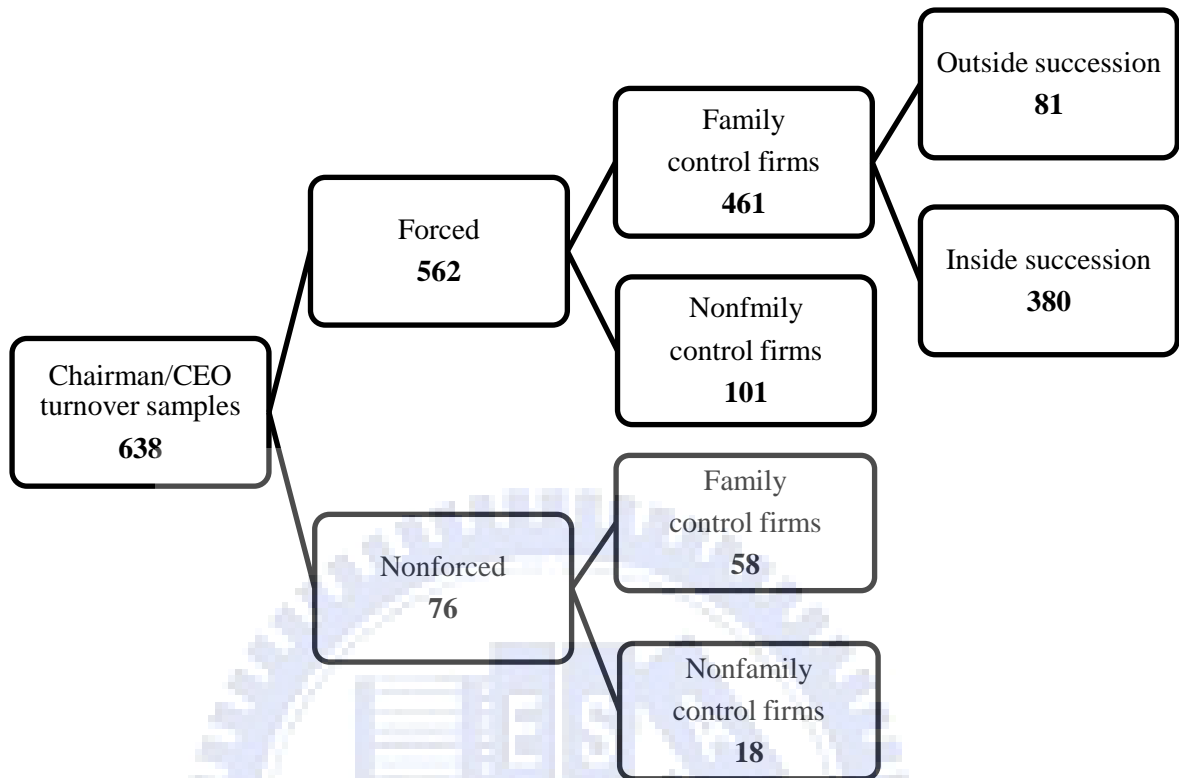


Fig. 1 Procedure of data classification are as followed. First, classify all turnover samples of 638 as forced (562) or nonforced (76) according to the reason for change posted on M.O.P.S. Second, classify forced and nonforced samples separately by family control or nonfamily control types with the definition stated on TEJ Corporate Governance Database. There are 46 forced samples in family control firms and 101 in nonfamily control firms; 58 nonforced samples in family control firms and 18 in nonfamily control firms. Finally, reclassify forced samples in family control firms by outside succession or inside succession. In total, 81 samples in forced outside succession of family control firms and 380 samples in forced inside succession of family control firms.

definition, the relationship between successors and old chairman/CEOs has been further investigated by searching both names of them using google. Based on this schedule, 81 samples are left with forced outside succession and 380 samples with

Table 2

The number and frequency of forced board of chairman and CEO turnovers in Taiwan listed firms, 2002-2007.

	Number of listed firms with minimum institutional investment of 1%	Number of listed firms with chairman turnovers	Number of listed firms with CEO turnovers	Percentage of chairman/CEO experience turnovers
2002	507	23	47	13.81
2003	548	41	69	20.07
2004	569	55	73	22.50
2005	576	43	73	20.14
2006	605	48	67	19.01
2007	641	55	91	22.78
Total		265	420	

forced inside succession in family-controlled firms.

Data on daily institutional holdings are collected from TEJ for the year before and after the announcement date. The institutional investors here are composed of foreign investors, securities investment trust companies and dealers, who are the most influential institutions in Taiwan security market. Also, the daily institutional holdings data used in the analysis are sum of these three institutions. In addition, in order to control for industry effects, I subtract industry changes from changes in institutional holdings over multiple quarters using data from TEJ.

Several corporate governance and firm characteristic variables are also used in the empirical analysis. Outside directors and supervisors count for who are not related

to the controlled family in the board. Board size refers to the number of directors in the board. Manager holdings are percentage hold by firm managers and group associate managers. Board holdings are percentage hold by directors in the board. Natural log of total asset controls for the firm size. Accounting earnings before interest and taxes scaled by total assets (EBIT/assets) is used as measure of accounting performance. All of them are extracted from TEJ.

## 5. EMPIRICAL EVIDENCE

### *CHANGES IN INSTITUTIONAL HOLDINGS*

To exam the possibility that institutional investors tend to sell their shares instead of taking direct actions to influence corporate decisions through top management replacement because they believe under concentrated ownership structure it too costly. I begin the analysis by computing industry-adjusted changes in the fraction of shares held by institutional investors for two years around top management turnovers. To test whether ownership structure affects institutional investors' behavior in corporate decision intervention, by design, this analysis focuses on the forced chairman of board/CEO turnovers in family-controlled and nonfamily-controlled firms. In addition, due to small portion of institutional holdings in Taiwanese market, the daily variance is unlikely be significant. Therefore, I add up daily industry-adjusted residuals to

quarters to examine the institutional trading behavior around the chairman and CEO turnovers. Panel A in Table 3 reports the mean industry-adjusted institutions holding changes, Panel B in Table 3 reports the mean industry-adjusted foreign investors holding changes, Panel C in Table 3 reports the mean industry-adjusted securities investment trust companies holding changes and Panel D in Table 3 reports the mean industry-adjusted dealers holding changes in forced turnovers in family-controlled versus nonfamily-controlled firms including a year prior the turnovers and a year following the turnovers. Quarter 0 defined as the day in which the replacement is announced on M.O.P.S. T-statistics for test of difference between mean value of family-controlled samples and nonfamily-controlled samples are reported below. The mean values include all institutional holdings data available during 2002-2007.

Result of Panel A in Table 3 shows in the first quarter prior the forced turnover, family-controlled firms experience negative institutional selling of -0.51% (statistically significant at 1% level), on average. This result consists with Parrino et al. (2003) showing declines holdings in institutional holdings preceding the CEO turnovers. In contrast, institutional investors increase their holdings of 0.02% (although not statistically significant) instead of selling in nonfamily firms. This result supports H1, which states that institutional investors are more likely to sell their



Table 3

Industry-adjusted changes in institutions ownership in two years around chairman/CEO turnovers

This table shows mean change in percentage ownership by all institutional investors of forced turnover in family control firms and forced turnover in nonfamily control firms (Panel A), forced outside succession in family control firms and forced inside succession in family control firms (Panel E). Panel B, Panel C and Panel D report mean change in percentage ownership by foreign investors, securities investment trust companies and dealers separately. T-statistics provided in the third and seventh rows of each panel test difference between mean value of family control samples and nonfamily control samples or outside succession samples and inside succession samples. T-statistics reported in parentheses test the null hypothesis that the mean value do not differ from zero. The turnovers occurs in quarter t=0.

	Quarters									
	[-4,0]	[-4,-3]	[-3,-2]	[-2,-1]	[-1,0]	[0,1]	[1,2]	[2,3]	[3,4]	[0,4]
Panel A : Mean change in percentage institutional ownership (%)										
Forced turnover in family control firms	-1.83	-0.74	-0.41	-0.17	-0.51	-0.23	-0.32	-0.34	-0.51	-1.40
	(-5.78)	(-3.84)	(-2.57)	(-0.97)	(-2.83)	(-1.17)	(-1.83)	(-2.04)	(-3.40)	(-4.44)
	***	***	***		***		*	**	***	***
Forced turnover in nonfamily control firms	-0.72	-0.62	-0.29	0.17	0.02	-0.62	-1.14	-0.55	-0.30	-2.61
	(-0.77)	(-2.22)	(-0.90)	(0.39)	(0.02)	(-0.95)	(-3.72)	(-1.45)	(-1.07)	(-2.91)
		**					***			***
<i>t</i> -statistic( $H_0$ : forcedfamily = forcednonfamily)	-1.38	-0.29	-0.32	-0.79	-1	0.77	2.06	0.54	-0.62	1.54
							**			

	[-4,0]	[-4,-3]	[-3,-2]	[-2,-1]	[-1,0]	[0,1]	[1,2]	[2,3]	[3,4]	[0,4]
Panel B : Mean change in percentage foreign investors ownership (%)										
Forced outside succession in family control firms	-1.54	-0.6	-0.32	-0.3	-0.32	-0.13	-0.26	-0.31	-0.36	-1.05
	***	***	**	**	**		*	**	***	***
	(-5.42)	(-3.61)	(-2.42)	(-2.18)	(-1.94)	(-0.74)	(-1.63)	(-2.38)	(-2.72)	(-3.54)
Forced inside succession in family control firms	-1	-0.63	-0.41	-0.04	0.09	-0.2	-0.79	-0.6	-0.12	-1.71
		***					***	*		**
	(-1.18)	(-2.86)	(-1.54)	(-0.17)	(0.12)	(-0.35)	(-3.82)	(-1.94)	(-0.52)	(-2.05)
<i>t</i> -statistic( $H_0$ : forcedoutsider = forcedinsider)	-0.75	0.07	0.28	-0.81	-0.82	0.17	1.54	0.93	-0.81	0.89
Panel C : Mean change in percentage securities investment trust companies ownership (%)										
Forced outside succession in family control firms	-0.32	-0.17	-0.14	0.1	-0.12	-0.14	0.07	0	-0.13	-0.34
	**	*	*			**			**	***
	(-2.35)	(-1.07)	(-1.73)	(1.07)	(-1.24)	(-1.96)	(-1.08)	(-0.05)	(-2.09)	(-3.24)
Forced inside succession in family control firms	0.17	0.02	0.09	0.15	-0.09	-0.33	-0.32	-0.03	-0.14	-0.81
										**
	(0.47)	(0.13)	(0.37)	(0.49)	(-0.36)	(-1.06)	(-1.44)	(-0.12)	(-1)	(-2.2)
<i>t</i> -statistic( $H_0$ : forcedoutsider = forcedinsider)	-1.46	-0.84	-1.12	-0.2	-0.11	0.9	1.48	0.1	0.06	1.66
										*

	[-4,0]	[-4,-3]	[-3,-2]	[-2,-1]	[-1,0]	[0,1]	[1,2]	[2,3]	[3,4]	[0,4]
Panel D : Mean change in percentage deals ownership (%)										
Forced outside succession in family control firms	0.03	0.03	0.05	0.02	-0.07	0.04	0	-0.03	-0.02	-0.01
					**					
	(0.64)	(0.86)	(1.61)	(0.82)	(-2.06)	(1.28)	(0.17)	(-0.94)	(-0.62)	(-0.13)
Forced inside succession in family control firms	0.11	-0.01	0.03	0.06	0.02	-0.09	-0.03	0.07	-0.04	-0.1
	(1.27)	(-0.18)	(0.92)	(1.1)	(0.42)	(-2.08)	(-0.67)	(1.01)	(-0.87)	(-1.12)
<i>t</i> -statistic( $H_0$ : forcedoutsider = forcedinsider)	-0.72	0.5	0.28	-0.54	-1.19	1.94	0.58	-1.35	0.28	0.81
						**				
Panel E : Mean change in percentage institutional ownership (%)										
Forced outside succession in family control firms	-2.60	-1.11	-0.62	0.17	-1.03	0.97	-0.03	-1.09	-0.22	-0.38
	(-2.74)	(-1.85)	(-1.84)	(0.37)	(-2.94)	(1.24)	(-0.07)	(-2.98)	(-0.70)	(-0.48)
	***	*	*		***			***		
Forced inside succession in family control firms	-1.67	-0.67	-0.37	-0.25	-0.39	-0.48	-0.38	-0.18	-0.57	-1.61
	(-5.10)	(-3.37)	(-2.03)	(-1.26)	(-1.94)	(-2.94)	(-2.07)	(-0.97)	(-3.39)	(-4.74)
	***	***	**		**	***	**		***	***
<i>t</i> -statistic( $H_0$ : forcedoutsider = forcedinsider)	-1.12	-0.88	-0.61	0.88	-1.37	2.87	0.75	-2.1	0.89	1.49
						***		**		

\*Indicates statistical significance at the 10% level; \*\*at 5% level; \*\*\*at 1% level.

shares prior forced top management turnovers because of the possibility that direct involvement in corporate decision under concentrated corporate structure making it too costly. However, even though institutional holdings dose not decrease in nonfamily-controlled samples, there is limited evidence regards to the active participation in nonfamily-controlled firms prior forced turnovers.

Consistent with the pattern of shareholding changes a quarter prior forced turnovers, institutional holdings declines, on average, 1.83% (statistically significant at 1% level) a year prior forced turnover in family-controlled. Further investigating institutional holding changes a year after forced turnovers, I find that institutional holdings continue to decline, on average, 1.4% (statistically significant at 1% level) in family-controlled firms. On the other hand, shareholding changes in nonfamily-controlled firms are reversed and start showing negative changes of -2.61% (statistically significant at 1% level). This result provides no support for the intention of institutional selling prior forced top management turnovers. If institutional investors tend to sell their shares to influence the corporate decisions by replacing top managers, they shall regain their shares following the turnovers for the fulfilled purpose. But neither family-controlled nor nonfamily-controlled firms provide the evidence.

#### *THE INTENTION OF CHANGES IN INSTITUTIONAL HOLDINGS*

By reexamining all 562 forced turnovers samples on date of announcement, name and resume of replaced chairman/CEO, name and resume of new chairman/CEO, reason for change, I surprisingly find that there are substantial successors, especially in family-controlled firms, either employed at firm prior the turnovers or related to replaced managers. By reclassifying the forced turnovers samples in family-controlled firms as outside succession or inside succession post chairman/CEO turnovers, Table 4 shows the percentage of forced outside succession following chairman/CEO turnovers in family-controlled firms over 2002 to 2007. The evidence in this table reports less than 20% of family-controlled firms experience an outside succession. Thus, there is a large chance that negative changes in institutional holdings after forced turnovers is caused by unhappy result from unchanged ultimate controller even after management replacement. Since outside successors are better able to change the direction of a firm (Parrino, 1997), institutional investors would better content with outside succession if they have intention to influence corporate decisions by top managers replacement.

To further investigate, I assume if the selling behavior prior top management turnovers is to influence corporate decisions, institutional investors shall behave differently on outside appointments which appear to be more likely to substantially alter firm policies (H2). Panel E in Table 3 reports the mean industry-adjusted

Table 4

The number and frequency of forced outside succession after chairman/CEO turnovers in listed family control firms, 2002-2007.

	Number of listed family control firms experience forced management turnovers	Number of outsider succession of chairman turnover in listed family control firms	Number of outsider succession of CEO turnover in listed family control firms	Percentage of outsider succession in listed family control firms
2002	41	4	4	19.51
2003	77	8	6	18.18
2004	82	6	9	18.29
2005	86	8	5	15.12
2006	76	10	5	19.74
2007	99	8	8	16.16
Total	461	44	37	

institutions holdings changes of the outside succession and inside succession after forced top management turnovers in family-controlled firms including a year prior the turnovers and a year following the turnovers. In the first quarter post turnovers, the institutional holdings stop declining, instead, increase 0.97% (but not significant), on average. As to inside succession firms, institutional investors are still selling their shares of 0.48% (statistically significant at 1% level). Moreover, the t-statistics for tests of differences in mean holdings changes between outside succession and inside succession reported below are statistically significant at 1% level. This result indicates

the intention of institutional investors to influence corporate decisions by selling their shares prior forced turnovers. Even though changes of institutional holdings a year post the turnovers are still negative in both outside and inside succession, only significant in insider succession firms.

### *ROBUST TEST*

Furthermore, this section testifies the robustness of the relation between ownership structure and changes in institutional ownership prior forced turnovers by regressing the changes in institutional holdings during a year preceding the turnovers on forced turnover samples in family-controlled firms (Model 1) and in nonfamily-controlled firms (Model 2) while controlling other governance variables: outside succession dummy and the fraction of shares held by managers, see Table 5. Additional variables are included in the regression to control for firm specific characters including industry-adjusted stock return, operating performance (EBIT/assets) and firm size (the log nature of assets).

Results in table 5 show that family-controlled firms experience statistically significant declines in institutional holdings (at 5% level) prior forced chairman/CEO turnovers. Instead, institutional investors increase their shares in nonfamily-controlled firms (statistically significant at 5% level) prior forced turnovers. Overall, the evidence consists with H1, which indicates that institutional investors under

Table 5

Regression of changes in institutional ownership on governance variables and other variables  
 This table reports results from OLS regressions of changes in institutional ownership in a year prior to forced turnover on governance characteristics, including outside succession dummy (one if the successor is outsider) and the fraction of shares held by managers. The change in institutional ownership represented by industry-adjusted changes in institutions ownership during a year prior the forced turnover in family control firms (Model 1) and in nonfamily control firms (Model 2). The firm characteristics include forced family dummy variable (one if the family control firm experience forced turnovers), nonforced family dummy variable (one if the nonfamily control firm experience forced turnovers), industry-adjusted stock return a year prior turnovers, operating performance (EBIT/assets) a year prior turnovers and firm size (the log nature of assets). T-statistics are reported in parentheses.

Explanatory variable	Dependent variable	
	Model 1	Model 2
	$\Delta$ % institutional ownership	$\Delta$ % institutional ownership
Constant	-7.17 (-1.83) *	-8.70 (-2.12) **
Forced family dummy	-1.41 (-2.07) **	
Forced nonfamily dummy		1.69 (1.99) **
Forced outside succession dummy	-1.25 (-1.61)	-1.47 (-1.89) *
% manager holding	-0.22 (-2.00) **	-0.24 (-2.08) **
Industry-adjusted return	-0.10 (-0.92)	-0.09 (-0.79)
EBIT/assets	-0.06 (-1.44)	-0.07 (-1.48)
Log (assets)	0.46 (1.87) *	0.48 (1.92) *
N	638	638
R <sup>2</sup>	0.03	0.03

\*Indicates statistical significance at the 10% level; \*\*at 5% level; \*\*\*at 1% level.



consideration of ownership structure tend to sell their shares forced chairman and CEO turnovers.

### *CORPORATE GOVERNANCE AFTER TOP MANAGEMENT TURNOVERS*

This section investigates whether institutional selling prior to top management turnovers can lead to improved corporate governance (H3). The indicators of corporate governance used here are focused on the board efficiency including the percentage of outside directors and supervisors on the board, board size and board holdings. These indicators help determine the influence to the functioning of the board with respect to its monitoring ability. For example, evidence suggests that the board effectiveness in its monitoring function is determined by its independence, size, and composition ( John and Senbet, 1998). In order to investigate how the changes in institutional ownerships can influence firm's corporate governance in terms of board efficiency through top management turnovers, I estimate frequencies of the percentage of outside directors and supervisors changes, board size changes and board holdings changes while institutional holdings decline prior to forced turnovers, forced turnovers in family-controlled firms and turnovers with outside succession in family-controlled firms (Table 6). In this table, even though the evidence shows higher frequencies of percentage of outside directors and supervisors increase, board size decrease and board holdings increase, only board size is significantly decreased

Table 6

Frequencies of board efficiency indicators including the percentage of outside directors and supervisors on the board, board size and board holdings during a year post top management turnovers. Turnovers are classified as forced turnovers, forced turnovers in family-controlled firms and turnovers with outside succession in family-controlled firms.

			All samples	Forced turnovers	Forced turnover in family-controlled firms	Family-controlled firms with outside succession
Percentage of outside directors & supervisors on the board	Increase	N	169	152	127	26
		Percentage of total		89.94%	75.15%	15.38%
	Decrease	N	108	96	73	19
		Percentage of total		88.89%	67.59%	17.59%
	$\chi^2$				0.08	1.87
Board size	Increase	N	109	93	77	17
		Percentage of total		85.32	70.64%	15.60%
	Decrease	N	105	99	87	22
		Percentage of total		94.29%	82.86%	20.95%
	$\chi^2$				4.66 **	4.46 **
Board holdings	Increase	N	128	114	100	24
		Percentage of total		89.06%	78.13%	18.75%
	Decrease	N	261	230	182	36
		Percentage of total		88.12%	69.73%	13.79%
	$\chi^2$				0	3.03 *

\*Indicates statistical significance at the 10% level; \*\*at 5% level; \*\*\*at 1% level.

when institutional holdings declined prior forced turnovers and forced turnovers in family-controlled firms; marginal significant in board holdings increase following forced turnovers in family-controlled firms. As a result, there is only limited support for the H3 that institutional selling can influence firms toward better corporate governance through top management turnovers. Even though institutional investors have intention to influence corporate activities through top management turnovers, the power of institutional selling is not strong enough to affect governance attribute after all.

## 6. CONCLUSION

This paper examines the role of institutional investors in corporate governance under concentrated ownership structure by investigating the changes of shareholding around chairman of board and CEO turnovers in Taiwan listed market. The result reveals that institutional investors are more likely to sell their shares as passive shareholders to influence corporate decisions in firms under concentrated family control. Furthermore, considering the ability of outside successors in altering the directions of a firm, the intention of institutional selling prior top management turnovers is illustrated by different ownership change patterns between outside succession versus inside succession, suggests satisfactory result of corporate decisions influence to some

institutional investors post top management turnovers. Empirical tests relating the changes in institutional holdings and corporate governance attributes indicate only partially support for institutional selling power to significantly influence corporate governance.



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