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Corporate Governance and Institutional Ownership: Evidence from Kuwait's Financial Sector

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ABSTRACT

In this article, we examine the relation between corporate governance and institutional ownership. The study sample contained 98.5% of Kuwait's financial sector corporations, which are listed in Kuwait Stock Exchange and which are 66 Corporations during 2010. The descritive results indicated that there is an average application, which was statically significant to the corporate governance conditions in Kuwait's financial sector. The empirical results indicate that the fraction of a company's shares, held by institutional investors, decreases with the quality of its governance structure. These results are not consistent with the conjecture that institutional investors gravitate to stocks of companies with good governance structure.

Keywords: Corporate governance, Institutional ownership, Kuwait Stock Exchange.

INTRODUCTION

This paper sheds further light on the behavior of institutional investors by analyzing the relation between corporate governance and institutional ownership. In contrast to prior research which relied on a single governance attribute, this study employs comprehensive measures of corporate governance quality that are constructed from five governance factors for a large number of Kuwait companies. The current study provides answers to the following questions: Do institutional investors prefer stocks of companies that have better governance structure? If so, does the institutional investors' preference toward better-governed companies vary across different types of institutions? What kinds of corporate governance provisions are most attractive to institutional investors?

Corporate governance as system can provide the corporation with a sufficient degree of independence and efficiency to enable it to operate with a clear understanding and implementation of rights and responsibilities. There is yet no universally accepted or definite meaning of corporate governance (Al-Wasmi, 2011). Many scholars and organizations have their own definition. Each such definition has been founded according to the understanding or the interests of the person provided the definition. Monks and Minow (1995) defined corporate governance in terms of interactions between various players in the corporate environment and the processes used in achieving consensus in the allocation of corporate resources along with the determination of corporate direction to ensure improved performance. Since organizations' resources are limited and have alternative uses, their allocation deserves considerable attention in order to optimize returns from such usage.

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We define institutional ownership as the fraction of a firm's shares, held by institutional investors. Hence, by definition, institutional ownership of a company is the fraction of its shares, held by non-institutions (i.e., individual investors). If we were to examine institutional investors' preference towards a certain group of companies, we would consider why institutional investors' preference for those companies is likely to be greater than that of individual investors. Institutional investors (e.g., banks, insurance companies and pension funds) have strong fiduciary responsibilities. Del Guercio (1996) indicates that many institutional investors tilt their portfolios to stocks, viewed as prudent investments. Grinstein and Michaely (2005) suggest that institutions avoid firms which do not pay dividends, because a "prudent" stock should have a history of stable dividend payments. Because investors in poorly governed companies are likely to face large risks of expropriation and other self-dealing problems, they may not earn fair rates of return or may even fail to preserve the invested capital (i.e., fail to meet the prudent-person rule). Hence, institutional investors' fiduciary responsibilities give them a strong incentive to choose stocks of companies with a good governance structure (Chung & Zhang, 2011).

In short, we conjecture that institutional investors are more likely to prefer stocks of better-governed companies than individual investors are because better-governed companies are likely to require less monitoring, have higher stock market liquidity, and more easily, meet fiduciary responsibilities. In what follows, we test our conjecture by examining whether a firm's institutional ownership increases with its governance quality.

The paper is organized as follows: Section II is for background and literature review. Section III describes research design and methodology. Section IV presents empirical results. Section V provides a brief summary and concluding remarks.

Background and Literature Review: Corporate Governance in Kuwait:

Corporate governance practice has recently become an important topic across over the world, specifically within the emerging stock markets in order to avoid expropriation by corporate management at the expense of minority shareholders. Although corporate governance is considered to be tremendously important in many countries, whether developed or developing, corporate governance does not exist in Kuwait as a mean of shareholder protection (Al-Wasmi, 2011).

Numerous initiatives have addressed corporate governance in Kuwait. The Chamber of Commerce and the Union Investment Companies have organized conferences, seminars and forums on the subject to encourage the government to set up guidelines for corporate governance. Company Law 15 contains 12 provisions on corporate governance practices. The topics include the election of boards of directors and their term in office; board vacancies; minimum number of board meetings in the fiscal year; and the liability of the board to the company and shareholders. Each company must have a minimum of three directors, with no ceiling on the maximum and renewable terms of not more than 3 years.

The Company Law allows directors to hold office concurrently with any other office in the company but does not specify the balance between executive and non-executive directors. The law is also silent on the proportion of family members on the board. In terms of board structure based on duality, the same individual may function as chairman of the board and chief executive officer (CEO). The law does not require an audit committee or any other committee. The Stock

Exchange law is silent on all of the above provisions, requiring that only board members inform the stock exchange administration of how many shares they own within one month of being appointed to the board. However, such information is not published, and only the exchange is informed. The law also stipulates that board members may not have any direct or indirect interest in contracts and transactions with or for the company unless they have been granted authorization from the general meeting (Al-Shammari & Al-Sultan, 2010).

Corporate Governance and Institutional Ownership:

Corporate governance has been a subject of numerous studies during the last two decades. Williamson (1985) and Grossman and Hart (1986) hold that managerial opportunism reduces the amount of capital that investors are willing to contribute to the firm. Shleifer & Vishny (1997) note that corporate governance deals with various constraints that either managers put on themselves or investors put on managers to reduce the agency problem. Gompers, Ishii, and Metrick(2003) indicate that better corporate governance leads to greater firm values and higher stock returns. Chung, *et al.* (2010) determine that better governance results in higher stock market liquidity (Chung & Zhang, 2011).

A number of previous studies have examined the corporate governance in Kuwait, the study of Hamdan, (2011) tried to test the relation between corporate governance and accounting conservatism in KSE in 2010, but this study didn't fount any role to corporate governance in improving accounting conservatism, in the same time the study of Hamdan *et al.,* (2012) in KSE showed that corporate governance affected only the market value added in the financial indexes, and it affected all operational indexes. It didn’t have any effect on return on investment as an index of financial performance and earnings per share as an index of stock performance. The the study didn’t find any effect of corporate governance due to difference in corporations size, activity, and financial leverage, but one effect on the market value is added due the corporation size. The study recommended that a guided and the index should be developed for measuring corporate governance in Kuwait Stock Exchange, and there should be a control when applying its conditions by the authorities and supervising the market.

Al-Shammari & Al-Sultan, (2010) investigated the relationship between corporate governance characteristics and voluntary disclosure in the annual reports of 170 Kuwaiti companies listed on the KSE in 2007. The results indicate that only the existence of a voluntary audit committee is significantly and positively related to the extent of voluntary disclosure. The result is robust with respect to controls for company size, leverage, and auditor type and industry memberships. These results indicate the need to improve Kuwaiti market transparency through additional constraints on corporate governance characteristics. This result will prove useful to regulators, preparers of financial statements and investors. Specifically, users of accounting information like investors may consult the findings to understand Kuwaiti companies better when diversifying their investment portfolios.

The study of Al-Wasmi, (2011) aims at considering corporate governance in Kuwait from a legal perspective. This study investigated the legal infrastructure in Kuwait in order to examine the efficiency of the current laws and regulations that should relate to the application of corporate governance. The examination was made to the legal system of the state-owned enterprises in Kuwait in addition to the legal system that governs the joint stock companies in Kuwait stock Exchange. Moreover, this study also addressed the importance of corporate governance before the privatization of the state-owned enterprises begins to attract investors to participate in such privatization. Furthermore, Kuwait has not yet adopted a corporate governance code for either the state-owned enterprises or for the listed companies in the KSE. Accordingly, this study contributes in bringing the attention of the policy makers in Kuwait to the importance of adopting corporate governance to provide proper protection for investors in addition to the important steps that should be taken to facilitate the application of a sound corporate governance system in Kuwait to avoid the enviable issues.

About the institutional investors, Bushee, *et al.* (2010) analyze whether institutional investors tilt their portfolios towards firms with preferred governance mechanisms. The authors conclude that although institutional investors have incentives to tilt their portfolios towards firms with better governance mechanisms, there is no significant relation between institutional ownership and corporate governance. Chung & Zhang, (2011) examine the relation between corporate governance and institutional ownership in 12,093 corporations listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), between 2001 and 2006. The results are consistent with the conjecture that institutional investors gravitate to stocks of companies with good governance structure to meet fiduciary responsibility as well as to minimize monitoring and exit costs. The study of Wahab *et al.,* (2008) finds evidence that a positive relationship exists between corporate governance and institutionalownership434firms listed on Bursa Malaysia during 1999–2002. Huang et al., 2010 studied the relation between corporate governance mechanism and institutional ownership in 220 exchange-listed companies in Taiwan during 2004 to 2006. The findings of their study showed that the corporate governance mechanism increases ownership of institutional investor.

The real contribution of the current study is to provide additional evidence about the relationship between the corporate governance and institutional ownership from developing countries. It also uses the new variables to measure the corporate governance, which is not used by previous studies in this environment.

Research Design and Methodology:

Sample selection and data sources:

Multiple sources have been used in this study to generate the data set employed in the analyses. Institutional ownership information and the information about the factors of corporate governance regarding the companies are compiled from the publicly available database of the Kuwait Stock Exchange (KSE). The corpus of the study is composed of all financial firms listed on the KSE 67 include three sectors are: banks, investment and insurance. The final sample consists of 66 companies. The sample-selection procedure is summarized in table 1.

Table 1: Sample selection

Sector	Listed Companies	Excluded Companies	Study Sample
Banks	9	0	9
Investment	51	1	50
Insurance	7	0	7
Total	67	1	66

1. Hypothesis development and study model:

The major problem of this study is reflected in its attempt to find answers to the following questions: Do institutional investors prefer stocks of companies that have better governance structure? If so, does the institutional investors' preference toward better-governed companies vary across different types of institutions? What kinds of corporate governance provisions are most attractive to institutional investors?

The hypotheses can be written, based on study questions as follows:

H_{01}: There is no statistically significant impact of the corporate governance characteristics on enhancement the institutional ownership in Kuwait's financial sector.

H_{02}: There is no statistically significant impact of the corporate governance characteristics on enhancement the institutional ownership under different types of institutional investors in Kuwait's financial sector.

H_{03}: There is no statistically significant impact of the corporate governance characteristics on enhancement the institutional ownership under different corporate governance characteristics in Kuwait's financial sector.

Most of the research available has considered the relationship between corporate governance and institutional ownership(for example, Chung & Zhang, 2011).Based on the results of prior research as well as the corporate governance environment in Kuwait and data availability, we have adapted a definition for this study. We define corporate governance characteristics as ownership of the largest shareholder in the company that does not exceed 20% in which size of board of directors is at least 7 but not more than 13 members. In addition, the ownership of the three largest shareholders in the company is not more than 50% of the shares, and the board of directors is controlled by more than 50% independent outside directors. The CEO and chairman duties are separated or a lead director is specified, a property manager in the company's shares of between 1-20% not more. These characteristics are independent variables in our model. The dependent variable is institutional ownership. To examine the relation between institutional ownership and corporate governance after controlling for the factors that are associated with both or either of the two variables, we estimate the following regression model:

$$\begin{aligned} InstOwnership_i = {} & \beta_0 + \beta_1 OLSh_i + \beta_2 SBoard_i \\ & + \beta_3 OThLSh_i + \beta_4 IndepB_i \\ & + \beta_5 ChCSEO_i + \beta_6 PManager_i \\ & + \beta_7 CSize_i + \beta_8 Leverage_i \\ & + \beta_9 Turnover_i + \beta_{10} Price_i \\ & + \beta_{11} FirmAge_i + \beta_{12} DYield_i \\ & + \beta_{13} ROA_i + \varepsilon_i \qquad \text{.........} \ (1) \end{aligned}$$

Where:

InstOwnershipi: is a continuous variable; the dependent variable is the ratio of the number of shares, held by institutional investors to the total number of shares outstanding, for the company (i).

β_0: is the constant.

$\beta_{1..13}$: is the slope of the independent and controls variables.

$OLSh_i$: is dummy variable, coded 0 if a shareholder owned more than 20% and 1 otherwise, for the company (i).

$SBoard_i$: is dummy variable, coded 0 if the board of directors' members is not between 7-13 members and 1 otherwise, for the company (i).

$OThLSh_i$: is dummy variable, coded 0 if the ownership of the three largest shareholders more than 50% and 1 otherwise, for the company (i).

$IndepB_i$: is dummy variable, coded 0 if the board of directors is not controlled by more than 50% independent outside directors and 1 otherwise, for the company (i).

$ChCSEO_i$: is dummy variable, coded 0 if the chairman is also the CEO and 1 otherwise, for the company (i).

$PManager_i$: is dummy variable, coded 0 if the property of managers in the company's shares not between 1-20% and 1 otherwise, for the company (i).

$CSize_i$: is a continuous variable: the company size, for the company (i).

$Leverage_i$: is a continuous variable: Financial Leverage is the ratio of total debt to the book value of total assets, for the company (i).

$Turnover_i$: is a continuous variable: is the average ratio of monthly trading volume to the number of shares outstanding, for the company (i).

$Price_i$: is a continuous variable: is annual average stock price, for the company (i).

$FirmAge_i$: is a continuous variable: is the number of years since the firm first appeared in the KSE database, for the company (i).

$DYield_i$: is a continuous variable: is the annual dividend yield, for the company (i).

ROA_i: is a continuous variable: is the ratio of net income to the book value oftotal assets, for the company (i).

ε_i: random error.

Measuring of variables

The selection of variables is based on an examination of previous empirical studies, table 2 shows the dependent variable, the independent variables, in terms of corporate governance, and the control variables employed for all estimated models of the study.

Table 2: The labels and measurement of the variables

Variable	Label	Definition and Measurement
Dependent variables:		
Institutional Ownership	InstOwnership	is the ratio of the number of shares held by institutional investors to the total number of shares outstanding
Independent variables:		
Corporate governance characteristics:		
Ownership of the largest shareholder.	OLSh	Dummy variable coded 0 If a shareholder owned more than 20% and 1 otherwise.
Size of the board of directors.	SBoard	Dummy variable coded 0 if the board of directors members are not between 7-13 member and 1 otherwise.
Ownership of the three largest shareholders.	OThLSh	Dummy variable coded 0 if the ownership of the three largest shareholders more than 50% and 1 otherwise.
Independency of board of directors.	IndepB	Dummy variable coded 0 if the board of directors is not controlled by more than 50% independent outside directors and 1 otherwise.
Posts of chairman and CEO.	ChCSEO	Dummy variable coded 0 if the chairman is also the CEO and 1 otherwise.
Property of managers.	PManager	Dummy variable coded 0 if the property of managers in the company's shares not between 1-20% and 1 otherwise.
Control variables:		
Company size	CSize	Natural log of total assets.
Financial leverage	Leverage	The ratio of total debt to total assets.
Shares trading	Turnover	Is the average ratio of trading volume to the number of shares outstanding.

Variable	Label	Definition and Measurement
Stock price	Price	Is annual average stock price
Firm Age	FirmAge	Is the number of years since the founding of the company.
Dividend	DYield	Is the annual dividend yield.
Return on assets	ROA	Is the ratio of net income to the book value of total assets.

The Empirical Results:

This section presents the results of validity data tests, descriptive statistics, and the results of regression analyses on the relation between corporate governance and institutional ownership.

Validity Data, Descriptive Statistics, and Univariate Tests:

At the onset, we have to examine the validity of data for statistical analysis. For the purpose, we used the normal distribution test, and the Multicollinearity test, the Autocorrelation test, and the Homoskedasticity test. The validity of the study model representing the correlation between corporate governance and performance was secured. Thus, we can say that the study model is accurate. All the variables on the right side express non-random variables excluding the last one $\varepsilon_{i,1}$ which is supposed to belong to the natural distribution with a zero average and a fixed variance is expressed in $\sigma 2_1$. All these variables are independent ones. As for the variable "InstOwnership" there is dependent in the model and have the same probability random error $\varepsilon_{i,1}$with a variance of $\sigma 2_1$ and the average is:

$$\begin{aligned}&\beta_0+\beta_1.\ell(OLSh_i)+\beta_2.\ell(SBoard_i)\\&+\beta_3.\ell(OThLSh_i)+\beta_4.\ell(IndepB_i)\\&+\beta_5.\ell(ChCSEO_i)+\beta_6.\ell(PManager_i)\\&+\beta_7.\ell(CSize_i)+\beta_8.\ell(Leverage_i)\\&+\beta_9.\ell(Turnover_i)+\beta_{10}.\ell(\mathrm{Pr}ice_i)\\&+\beta_{11}.\ell(FirmAge_i)+\beta_{12}.\ell(DYield_i)\\&+\beta_{13}.\ell(ROA_i)+0 \qquad ....(2)\end{aligned}$$

Table 3, presents descriptive statistics on governance characteristics, institutional ownership, and other control variables for our study sample of corporations. The mean percent of corporate governance index is 52%, indicating that our sample corporations meet about half of the governance characteristics.

We sorted corporations due to governance index and group them into governance-score quintiles, table 4, presents the mean institutional ownership of corporations within each quintile. The results indicate that institutional ownership decreases monotonically with governance scores. The mean institutional ownership of corporations that belong to the lowest governance-index quintile is 59.7%, whereas the corresponding figure is 29.3% for firms that belong to the highest governance-indexquintile.

Table 3: Descriptive statistics of governance

Corporate governance characteristics:	Label	Frequency of 1's		Frequency of 0's	
		Frequency	Percent	Frequency	Percent
Ownership of the largest shareholder.	OLSh	26	39	40	61
Size of the board of directors.	SBoard	43	65	23	35
Ownership of the three largest shareholders.	OThLSh	32	48	34	52
Independency of board of directors.	IndepB	15	23	51	77
Posts of chairman and CEO.	ChCSEO	38	58	28	42
Property of managers.	PManager	52	79	14	21
Mean (corporate governance index)			52		48

Table 4: Descriptive statistics of institutional ownership

Corporate Governance Quintile	Mean of Institutional Ownership					
	Total Institutional ownership	Type 1 Banks	Type 2 Other companies	Type 3 Pension funds	Type 4 General Authority for Investment	Type 5 Other public authorities
1 (lowest)	0.597	0.387	0.572	0.000	0.000	0.000
2	0.606	0.722	0.636	0.000	0.000	0.000
3	0.469	0.122	0.530	0.120	0.000	0.091
4	0.376	0.336	0.283	0.000	0.000	0.000
5 (highest)	0.293	0.000	0.276	0.097	0.184	0.000
Statistics:						
Mean	0.458	0.339	0.452	0.108	0.328	0.123
Std. Deviation	0.257	0.270	0.226	0.056	0.292	0.069
Minimum	0.000	0.086	0.058	0.052	0.150	0.050
Maximum	0.927	0.778	0.927	0.232	0.762	0.188
Mean *t*-values	-13.959	-5.092	-12.359	-9.034	-6.469	-5.581
(Student's *t*-test*p*-value)	(0.000)	(0.000)	(0.000)	(0.000)	(0.007)	(0.031)
Mean *z*-values	-7.062	-2.934	-6.275	-3.059	-2.826	-2.604
(Wilcoxon test*p*-value)	(0.000)	(0.003)	(0.000)	(0.002)	(0.018)	(0.009)

The study perform the Student's t-test and Wilcoxon test to determine whether the mean value of institutional ownership for corporations, belonging to the highest governance-index quintile is statistically different from the corresponding value for corporations that belong to the lowest governance-index quintile. The results indicate that the difference in the mean institutional ownership between the two quintiles is statistically significant at the 5% level.

To determine whether the relation between institutional ownership and corporate governance varies across different types of institutions, we repeat the previous analysis, using data for each of the following five types of institutions. The results indicate that corporations with lower governance-index exhibit greater institutional ownerships across all types of institutions. For instance, for Type 1 institutions (banks), the mean institutional holdings of firms that belong to the lowest governance-index quintile is 38.7% whereas the corresponding figures for firms that belong to the highest governance-index quintile is 0.0%. The difference in the mean institutional ownership between the two quintiles is statistically significant at the 5% level.

Regression Results:

In this section, we examine how institutional ownership is related to corporate governance after controlling for other variables determinants of institutional ownership.

Corporate Governance and Institutional Ownership:

The main hypothesis tests the impact of the corporate governance characteristics on enhancement the institutional ownership in Kuwait's financial sector. In testing this hypothesis Ordinary Least Squares OLS test was used. Table 5 presents the OLS regression results with clustered standard errors at the firm level that are estimated from 66 firm observations. The results indicate that the coefficients of corporate governance characteristics on all Models are not statistically significant. The results indicate that all 5 types of institutional ownership are not significantly related to governance score and that the strength of the relation (as measured by t-statistics) varies across the types of institutions. These results don't add credence to our conjecture that the positive relation between institutional ownership and corporate governance may be driven, at least in part, by institutional preference toward companies with better governance structure.

Table 5: Regression results on the relation between institutional ownership and governance with control variables:

Models		Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Variables	**Label**	**Total Institutional Ownership**	**Type 1 Banks**	**Type 2 Other companies**	**Type 3 Pension funds**	**Type 4 General Authority for Investment**	**Type 5 Other public authorities**
Independent variables:							
Ownership of the largest shareholder.	OLSh	0.256	1.020	0.501	0.626	1.785	0.962
		(0.800)	(0.260)	(0.624)	(0.780)	(0.593)	(0.195)
Size of the board of directors.	SBoard	-0.125	1.610	-0.566	-0.708	1.060	-1.087
		(0.901)	(0.089)	(0.580)	(0.725)	(0.551)	(0.114)
Ownership of the three largest shareholders.	OThLSh	-1.550	0.099	-1.634	-2.043	1.039	-3.137
		(0.136)	(0.897)	(0.123)	(0.154)	(0.117)	(0.236)
Independency of board of directors.	IndepB	0.026	0.049	0.348	0.435	1.018	0.668

Models		Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
		(0.980)	(0.862)	(0.733)	(0.876)	(0.666)	(0.425)
Posts of chairman and CEO.	ChCSEO	-0.106	-0.201	-0.763	-0.954	0.998	-1.465
		(0.910)	(0.268)	(0.457)	(0.571)	(0.434)	(0.135)
Property of managers.	PManager	2.140*	1.100	0.981	1.226	0.978	1.884
		(0.044)	(0.151)	(0.342)	(0.428)	(0.325)	(0.657)
Control variables:							
Company size	CSize	-0.522	-0.532	-0.798	-0.998	0.318	-1.532
		(0.607)	(0.619)	(0.437)	(0.546)	(0.415)	(0.839)
Financial leverage	Leverage	0.722	0.736	1.101	1.376	0.312	1.114
		(0.478)	(0.488)	(0.288)	(0.360)	(0.274)	(0.553)
Shares trading	Turnover	0.638	0.651	0.836	1.045	0.306	1.605
		(0.530)	(0.541)	(0.416)	(0.520)	(0.395)	(0.799)
Stock price	Price	1.278	1.304	0.638	0.898	0.300	1.225
		(0.215)	(0.219)	(0.533)	(0.666)	(0.506)	(0.226)
Firm Age	FirmAge	-0.134	-0.137	0.420	0.625	0.294	0.806
		(0.895)	(0.913)	(0.680)	(0.850)	(0.646)	(0.306)
Dividend	DYield	-1.531	-1.562	-0.034	-0.043	0.288	-0.065
		(0.141)	(0.144)	(0.973)	(1.216)	(0.924)	(0.506)
Return on assets	ROA	0.303	0.309	0.644	0.805	0.282	1.236
		(0.765)	(0.780)	(0.529)	(0.661)	(0.503)	(0.087)
F-statistic		1.829	1.520	1.866	1.330	0.580	1.044
p-value		0.106	0.209	0.124	0.155	0.640	0.152
R^2		0.531	0.200	0.450	0.240	0.120	0.098
Adj. R^2		0.241	0.040	0.203	0.058	0.014	0.010

OLS: *t*-test (top), *p*-value (bottom), two-tailed.

t-Critical: at df65, and confidence level of 99% is 2.390 and level of 95% is 1.671 and level of 90% is 1.296

F-Critical (df for denominator n-β-1 = 66-13-1 = 52) and (df for numerator =β =10 and confidence level of 99% is 2.730 and confidence level of 95% is 2.040

* and ** denote significance at the 0.05 and 0.01 levels.

Testing the Control Variables:

Although our main research question is whether corporate governance affects institutional ownership in Kuwait's financial sector, we include a number of control variables in our empirical analyses. They are firm size, financial leverage, share trading, share price, firm age, dividend, and return on assets. (See model 1, table 5).

The coefficients on the control variables have the unexpected signs: Institutional investors prefer stocks of small companies as well as stocks with lower dividends and lower company age.

On another hand, the regression coefficients on other control variables indicate that there is positive relation between (leverage, share trading, share price, and return on assets) and institutional ownership. Institutional investors prefer stocks of larger leverage and higher return on assets, trading and price. Note that all the control variables relationship institutional ownership was not statistically significant, and the previous analysis of control variables was based on the direction of the relationship in slope (β).

Summary, Concluding and Recommendations:

The Cadbury Committee defines corporate governance as a system which guides and controls corporations. Corporate governance is one of the important factors in improving efficacy of economic (Mousavi, *et al*., 2012, p. 192). Extant literature documents that institutional investors are successful in improving firms' corporate governance. For institutional investors who demand good corporate governance, an alternative approach is simply to invest in firms with existing good governance mechanisms and to avoid firms with poor governance (Wahab *et al.,* 2008).

In this study, we examine the role of good corporate governance in attracting the institutional investors in (66) corporations in the financial sector in Kuwait stock exchange. Corporate governance was measured using 5 indicators and the institutional ownership was measured through the percentage corporate stocks owned by institutions. The descriptive study indicated that financial sector corporations fulfill corporate governance requirements more than the average level (52% general percentage). And unexpectedly the descriptive study found that the percentage of institutional investors ownership increases in the corporations that has low corporate governance and it decreases in the good corporate governance corporations.

The empirical study results proved that too, where there was no role for corporate governance in attracting institutional investors to invest in the financial sector in Kuwait. This study does not go with many other previous (e. g.Ishhadat&Abed Al-Jaleel, 2012; Chung &Zhang, 2011) studies conducted in other environments and it found a role for corporate governance in attracting institutional investors but this relation was not found in the Kuwaiti market, either because it is a new market or because Kuwait did not adopt a guide for corporate governance. These results indicate that institutional investor in Kuwait is not aware of corporate governance mechanisms, and their investment depends on other variables than corporate governance. On the other hand, the corporations with good corporate governance did not market itself and indicate its advantages to attract investors.

Based on that we can recommend working on increasing awareness of institutional investors to importance of taking corporate governance variable into consideration when taking investment decisions because it has an effective role in improving the performance of the corporation. We also recommend activating corporate governance mechanisms in Kuwait corporations and finally, Kuwait stock exchange must adopt a guide and an index for corporate governance to guide investors. In general, we recommend that organizers of works of Kuwaiti companies, like the stock market and government authorities, support the mechanism of corporate governance to secure more transparency in disclosures, and in improving earnings quality for they all leave a significant impact on the economic decisions of many parties.

However, with a small sample size, caution must be applied, as the findings might not be generalizable. This paper has thrown up many questions in need of further investigation; it is recommended that further research be undertaken in the following areas: the impact of audit committee characteristics on enhancement of institutional ownership, the relationship between corporate governance and Institutional Ownership in another sectors, and factors affecting the institutional ownership, and the impact of institutional ownership on enhancement of corporate governance on.

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التحكم المؤسسي والملكية المؤسسية: دليل من القطاع المالي الكويتي

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ملخـص

تبحث هذه الدراسة العلاقة بين التحكم المؤسسي والملكية المؤسسية، وقد اشتملت عينة الدراسة على 98.5% من شركات القطاع المالي في سوق الكويت للأوراق المالية بواقع 66 شركة خلال الفترة 2010، أشارت نتائج الدراسة الوصفية إلى تحقيق شركات القطاع المالي لشروط التحكم المؤسسي بمستوى متوسط وبدلالة إحصائية، وقد أشارت نتائج الدراسة التطبيقية إلى أن ملكية المؤسسات من أسهم الشركة تقل في ظل الحاكمية المؤسسية الجيدة، وهو ما يعد مخالفاً لإفتراضنا الأساسي أن الحاكمية المؤسسية الجيدة تستقطب المستثمرين المؤسساتيين.

الكلمات الدالة: التحكم المؤسسي؛ الملكية المؤسسية؛ سوق الكويت المالي.

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