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CORPORATE GOVERNANCE, INSTITUTIONAL INVESTORS, AND FIRM PERFORMANCE IN FRANCE

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A B S T R A C T

Using data of firms making up SBF120 during 2005 and 2010, this paper examines the influence of institutional investors on corporate governance and the relationship between institutional investors and firm performance in France. Institutional investors have become active in strengthening corporate governance with an eye of enhancing corporate value since early 2000s. They exercise the voting rights at the general shareholders' meeting and some of them engage in dialogue with investee companies. The results suggest that corporate governance was enhanced by institutional investors. However, it was found that there is not a statistically significant difference between the changes in share ownership of institutional investors and firm performance. By classifying the firms into three groups based on the change in the ownership share of institutional investors during 2005-2010, I observe that the mean value of ROE in group 3 is higher than in other groups, indicating that the group with the highest increase of institutional investor's ownership during the period shows better performance than other groups. This implies that institutional investors select firms for investment based on the expected performance of ROE.

Keywords: corporate governance in France, institutional investors, firm performance.

INTRODUCTION

Corporate governance had not been a subject of discussion until around the early 1990s in France. Corporate governance reform in France has rapidly evolved since the mid-1990s. It is attributed to an increased ownership of foreign institutional investors in French companies, shareholder's expectation of a return commensurate with the investment in the wake of the privatization of state-owned enterprises, and a check associated with performance incentives and actual performance of management. Further, the adoption of good corporate governance was considered necessary in order to gain access to international capital market. The changes in corporate governance led to the adoption of various practices intended to promote shareholder value. Of particular significance was a dramatic increase of foreign investment, inter alia, Anglo-Saxon institutional investors, in large companies. This increasing international ownership had a significant impact on corporate governance in France. CALPERS, a longtime leader of the US corporate governance movement, had its first major round of meetings with European and Japanese corporate managements in 1994. In France, CalPERS endorsed the Viénot Code as the minimum benchmark for French corporate governance best practice. Chairman of CalPERS investment committee said that "France needs to begin meeting market expectations and requirements in order to continue to attract capital from institutional investors and better disclosure and a greater focus on the role of shareholders when defining the corporations' interest are key to continuing the capital flow." CalPERS also outlined its recommendations for an accountable and independent board for French companies and identified ways to strengthen the director-shareholder relationship. Thus, foreign institutional investors attempted to strengthen corporate governance so as to improve shareholder's value. Then, to what extent institutional investors exerted an influence on corporate governance and firm performance in France? This question is the main focus of this study.

The contribution of the paper is twofold. The first is that the paper employs a dynamic analysis of the changes of

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share ownership of institutional investors during 2005-2010 for the examination of improvement of corporate governance and firm performance, instead of conventional static analysis which employs share ownership of institutional investors at a specific fixed date. The second is to appreciate the investment behavior, inter alia, criteria on investment in and value creation of firms by institutional investors in France. The study consists of seven parts. In the following section, corporate governance reform in France is described. Section 3 discusses institutional investors. Section 4 reviews the preceding researches on corporate governance and institutional investors. In section 5, the research design and methodology employed in the study is explained. Section 6 presents the results and discussion. The last part concludes the study with general remarks.

Corporate Governance Reform in France: The characteristic of corporate governance reform in France is that it was principally initiated by the private sector, albeit there was strong pressure from international institutional investors. Two reports on recommendations on corporate governance by Mr. Viénot committee, established by AFEP (Association Française des Entreprises Privées) and MEDEF (Mouvement des Entreprises de France), laid the foundation of corporate governance reform in France. The first Viénot report[i] dealing with the board of directors of listed companies was published in 1995, followed by the second one in 1999. The first report recommends that, while the board of directors itself should basically determine the organization and structure according to the specific situation of an individual company, the company selecting unitary structure could maintain the PDG (Président-Directeur Général) style, traditional French governance system. On the other hand, it recommended to appoint at least two independent directors, establish audit, compensation, and nomination committee, as well as to conduct self-evaluation of the board every year to improve accountability and transparency. The second Viénot report[ii] partially changed the concept of the first report by providing the board of directors with the choice to separate the CEO and chairman of the board or not for the company selecting unitary structure. In addition, it was proposed that the maximum term of office of directors has to be determined by the articles of incorporation, and remuneration and basic principles of executive compensation has to be presented. Bouton report[iii], submitted in 2002 in response to the scandals such as Enron and WorldCom in the United States, recommended: (i) to raise the proportion of independent directors on the audit committee to more than two-thirds; (ii) to tighten the definition of independent directors; and (iii) to forbid audit firms to provide consulting services to the audited firm. In addition, the report also proposed to strengthen checks on management compensation and stock options by setting up a compensation committee composed of more than half the independent directors, as well as to abolish the special discount system of stock options.

Following the initiatives by the private sector, the government enacted 'Law on New Economic Regulations[iv]' (Nouvelles régulations économiques) and 'Financial Security Law[v]' (Loi de sécurité financière) which include the recommendations of the above reports. The former was enacted in 2001, reflecting in general the second Viénot report. The law revised various contents relating to securities market legislation, competition law, and company law. The main amended points are the following: (i) to reduce the number of directors to 18 from 24, however, it can raise to 24 in the immediate aftermath of a merger; (ii) to permit to separate the function of chairman (président) and CEO (directeur général); (iii) to limit the number of concurrent directors to five companies from eight; and (iv) to disclose executive remuneration in an annual report. In addition, the law allows attendance to the board of directors, supervisory board, and the general meeting of shareholders by video conference. Financial Security Law was enacted in 2003. Bouton report had a big impact on the provisions of the Law related to corporate governance reform. The Law set limits to three years during which auditors of identical audit groups can audit the same company and also forbids auditors to provide audit and consulting services at the same time. This is a signal that there should be a clear separation of consulting and audit services. Moreover, the authority of the Minister of Justice was strengthened including, for example, the power to order audit instructions and to approve the instruction for auditors to suspend audit.

Although there were no provisions related to takeover defense in the above reports and Financial Security Law, an ordinance was issued by AMF (Autorité des Marchés Financiers) in 2006, which states that an approval by shareholders is required if the board of directors wish to block or interfere the public tender offer. In parallel with the governance reform in France, European Commission has recommended to member countries the following improvement since 2002 for the purpose of coordination and convergence of corporate governance in EU: information disclosure of remuneration and corporate governance, disclosure of voting by institutional investors, special investigation rights of shareholders, sufficient number of independent directors and active role, clear definition of the role of specialized committees such as audit, remuneration and nominating committee, high qualifications of directors and members of the supervisory board and high criteria of concurrent directorship, and improvement of female director ratio.

In 2011, a bill was approved by the parliament requiring a large company to reserve at least 20 percent and 40 percent of their boardroom positions for women by 2014 and 2017. The legislation applies to some 2,000 companies which are either listed, have more than 500 employees or revenues exceeding 50 million euros (Table 1). In response to corporate governance reform in France, AFEP and MEDEF jointly announced the corporate governance code for listed companies in 2003, 2008, and 2010. AFEP and MEDEF have also drawn up recommendations on the compensation of executive directors in 2007, which were integrated into the governance code of AFEP-MEDEF of 2008. The governance code of 2010 recommended enlarging women representation within the boards. Corporate governance standards to which most of the French companies listed on the Euronext Paris refer is a governance code of AFEP-MEDEF. AMF, the regulatory authority, also utilizes AFEP-MEDEF code to check whether listed companies comply with the code in the annual reports. The general outline of corporate governance code of AFEP-MEDEF in 2008 is as follows: (i) a firm can select either unitary structure with CEO and chairman of the board or two tier structure similar to German style. In the case of unitary structure, a firm can select the form of either separating the office of chairman and CEO or combining such office. It is also possible to change to alternative structure; (ii) the number of independent directors has to be more than half the directors for a firm with a dispersed shareholder structure. In addition, more than one-third of the directors must be independent for a firm with a controlled shareholder structure; (iii) it is recommended to set up specialized committees of the board of directors such as audit, remuneration and appointment, albeit the number and structure of the committees are determined by each board; (iv) the director should be a shareholder personally and hold a fairly significant number of shares; and (v) the director should not, in principle, agree to hold more than four other directorships.

There is no obligation to comply with this criterion in France, however, disclosure of the reasons is required if a firm does not wish to comply with, thus adopting the so-called "comply or explain" system. It is noted that while in Japan, only a firm with committee based structure is obliged to set up specialized committees, establishing audit, remuneration and appointment committees is recommended in France in whatever board structure is selected. Besides, remuneration criteria and the disclosure of individual remuneration of the board of directors and executive officers are shown in the annual report including a variable portion and attendance fee. In particular, individual remuneration disclosure of France is the vanguard in European countries. As mentioned above, corporate governance in France is characterized by separation of execution and oversight with the appointment of more than one-third independent directors, while it allows flexibility in the choice of the board structure. AMF request listed companies to describe the reference governance code in the annual report. At present, most of the French firms refer to the governance code of AFEP-MEDEF and stick to the principle of 'comply or explain' system.

Institutional Investors: Institutional investors are organizations that pool large sums of money which they invest in various companies. Insurance companies, mutual funds, investment advisors, pension funds, hedge funds, private equity, and university endowments are the most common types of institutional investors. They have some influence in the management of firms because they are entitled to exercise the voting rights. As such, they can actively engage in corporate governance. There are different types of institutional investors. Bushee (1998) classifies institutional investors in three groups. Dedicated institutional investors with concentrated and long term institutional holdings, transient institutional investors with short term and diversified holdings while Quasi-indexers have diversified and long term holdings.

Table 1. Corporate governance reform in France

Year	Main focus	Contents
1995 First Viénot report	Board structure of listed companies (competence and duty, composition, operation)	(i) to set up audit, remuneration and appointment committees; (ii) to shorten the term of office of directors from 6 to 4 years; (iii) to place at least two independent directors in the Board; (iv) upper limit of the number of concurrent directors by PDG to five companies; (v) to conduct self-evaluation of the board of directors every year
1996 Marini Report	Function and capability of the board of director	Proposal on enhancing the function and capability of the board of directors, independent directors, limit on the number of concurrent directors of other companies, and the role of specialized committees
1999 Second Viénot report	Board structure and remuneration	(i) a company with a unitary structure has an option between separation of the offices of chairman and chief executive officer and maintenance of these positions as a single office.; (ii) to disclose remuneration and the basic principles of executive compensation; (iii) independent directors should account for at least a third and half the members of the board at audit and appointment committees, and remuneration committee, respectively; (iv) maximum term of office for a director has to be determined by the articles of incorporation; (v) to describe the implementation status of Viénot's recommendation in the annual report, and clarify the reason if not implemented.
2001 New Economic Regulations (NER)	Legislation of Viénot report	(i) a company with a unitary structure has an option between separation of the offices of chairman and chief executive officer and maintenance of these positions as a single office.; (ii) to disclose remuneration including fixed and variable portion and the basic principles of executive compensation; (iii) to reduce the number of directors to 18 from 24, however, the figure can rise to 24 in the immediate aftermath of a merger; (iv) to limit the number of concurrent directors to five companies from eight and disclose the name of companies; (v) to reduce the shareholding percentage of question right of shareholders to 5% from 10%; (vi) call right of the shareholders' emergency meeting and attendance by employee representatives
2002 Bouton report	To further strengthen the New Economic Regulations for better corporate governance	(i) to apply a strict definition to independent directors; (ii) independent directors should account for more than two-thirds the members of the board at audit committee and to strengthen checks on stock options and remuneration of executive officers at a compensation committee, (iii) to prohibit auditors from providing audit and consulting services at the same time; (iv) to limit the number of concurrent directors to four companies
2003 Financial Security Law	The French equivalent of Sarbanes-Oxley Act	(i) to shorten the continuous auditing of an audit firm to 6 years from 7, and to prohibit consulting services to an audited company; (ii) mandatory disclosure of information on internal control in the annual report; (iii) mandatory report on internal control process by an audit firm; (iv) mandatory report by executive officers on their company's stock trading
2003 Montaigne Institute report	Examination of corporate governance from neutral position	(i) to prohibit concurrent directorships in listed companies which do not have a significant capital relationship; (ii) explicit voting policy of institutional investors
2010	Improvement of the ratio of female officer	a bill was approved by the parliament requiring large companies to reserve at least 20 percent and 40 percent of their boardroom positions for women by 2014 and 2017

Source: Prepared from various materials.

Dedicated institutional investors are involved in monitoring. Their role in the economy is to act as highly specialized investors on behalf of others. Çelik, S. and M. Isaksson (2013) classifies institutional investors in three categories. The first category of institutional investors is referred to as "traditional" institutional investors and comprises pension funds, investments funds and insurance companies. Second category is referred to as "alternative" institutional investors for hedge funds, private equity firms, exchange-traded funds and sovereign wealth funds. Third category is referred to as "asset managers" that invest in their clients' name.

Numerous institutional investors act as intermediaries between lenders and borrowers. Thus, they have a critical importance in the functioning of the financial markets. Acting as savings pools, they also play a critical role in guaranteeing a sufficient diversification of the investors' portfolios. Their greater ability to monitor corporate behavior as well as to select investors' profiles implies that they help diminish agency costs. Furthermore, they influence corporate payout and investment policies. Higher payouts are encouraged by institutional investors, especially in firms with high free cash flow and poor investment opportunities. They also positively influence stock repurchases, particularly in firms with high information asymmetry. The substitution of stock repurchases for dividends as a percentage of total payout is frequently encouraged by them.

LITERATURE REVIEW

Institutional investors as corporate monitors are a focus of many studies and research. It is widely argued that institutional investors are an important corporate governance mechanism that improves firm performance, as they possess both the ability and the incentive to monitor and discipline corporate managers (Ping & Wing, 2011). Rose (2007) justifies the effectiveness of institutional investors as a corporate governance tool based on the grounds that institutional investors might discipline management, because the free-rider problem associated with dispersed ownership is alleviated. The institutional investors and corporate governance in various countries is described in the book entitled "The institutional investors and corporate governance" (edited by Baum, et al., 1993). The Centre for European Policy Studies (1995) points out that international diversification and increasing cross-border activity of institutional investors can be instrumental in changing corporate governance standards as a result of the active stance towards investment that is required by local laws and codes. Mallin (2007) pointed out that there has been a general increase in the level of engagement of institutional investors with their investee companies. Monco and Finet (2011) describes the influence of long term institutional investors on corporate governance and strategy by citing the case of Wendel in France.

In UK, the Cadbury (1992) Committee considered institutional investors as having a special responsibility to try to ensure that its recommendations are adopted by companies, stating that 'we look to the institutions, in particular, to use their influence as owners to ensure that the companies in which they have invested comply with the Code'. Similarly, Greenbury (1995) and Hampel (1998) Committees emphasized an important role played by institutional investors in ensuring corporate governance. The Combined Code (2003) principles of good governance state the following concerning institutional shareholders:

i. Institutional shareholders should enter into a dialogue with companies based on the mutual understanding of objectives;
ii. When evaluating companies' governance arrangements, particularly those relating to board structure and composition, institutional investors should give due weight to all relevant factors drawn to their attention; and
iii. Institutional shareholders have a responsibility to make considered use of their votes.

Moreover, Financial Reporting Council of UK (2012) sets out the principle of institutional investors which require them to publicly disclose their policy on how they will discharge their stewardship responsibilities. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.

Three-quarters of institutional investors say that board practices are at least as important as financial performance when they evaluate companies for investment (Coombes and Watson, 2000). Over 80 percent of them say that they would pay more for the shares of a well-governed company than for those of a poorly governed one with a comparable financial performance. It is, therefore, surmised that there exists a positive relationship between good corporate governance and institutional investor's attitudes. But a question arises as to whether companies with a high ratio of institutional ownership outperform those with lower institutional ownership. So far, various studies suggest that there has been no strong evidence of correlation between share ownership of institutional investors and financial performance of firms. However, a company with good corporate governance is more likely to attract investment from institutional investors compared to poorly governed companies (Mckinsey & Co, 2002). Another question is whether institutional investor activism targeted at specific companies brings about better performance. **S**hareholders are growing increasingly active in the United States and elsewhere because they believe that better corporate governance will bring them higher rewards. Daily, et al. (1996) found no significant relationship between firm performance measured by abnormal stock price returns, return on assets, or return on equity and ownership by institutions as a whole, or ownership by activist institutions. However, Nesbitt (1994) reports positive long-term stock price returns to firms targeted by CalPERS. Opler and Sokobin (1997) find significant above-market performance in the year after targeting. Sahut and Gharbi (2011) shows that there exists positive impact of institutional activism by analyzing firms making up SBF120 during 2006-2008. In spite of the fact that the amount of activism has increased during the past decade, a majority of the studies could, however, not find a link between monitoring and an increase in firm performance.

Gompers, et al. (2003) found that in 1991-99, investors going long on well-governed firms, as defined by an index combining 24 different aspects of corporate governance, while shorting poorly-governed ones, would have enjoyed an unusually high annual return of 8.5%. Similarly strong returns were found for a trading strategy based on a narrower list of what reformers consider the six core elements of good corporate governance, such as making the company's whole board face re-election each year, and not having any "poison pill" defenses against takeovers. However, a recent study by Bebchuk, et al. (2010) doubts the results of the research by Gompers, et al. by repeating the study for 2000-08. It finds that, in contrast with the 1990s, neither the 24-factor index nor the six-factor one would have helped investors beat the market. They argue that the disappearance of the good-governance premium during the past decade is actually a sign that investors have woken up to the importance of governance. They think that this was due to a huge increase in discussion of the issue in the media in 2001-02, following the Enron and WorldCom scandals and the publication of the Gompers study. As a result, they argue, early in the decade differences in the quality of governance between different firms were fully incorporated in their share prices. Since this adjustment was a one-off, well-governed firms' shares have not subsequently outperformed the market.

RESEARCH DESIGN

Governance code of AFEP-MEDEF[vi] is used as reference to analyze the status of compliance of companies that made up the SBF120 in 2005 and 2010. Governance items such as a defense against takeover measures and the number of upper limit of the board of directors are added as they are not mentioned in the governance code of AFEP-MEDEF. The data are collected from those companies which continuously made up the SBF120 in 2005 and 2010 plus several others equivalent to the criteria of SBF120, leading to 119 companies (hereinafter referred to SBF120 companies). Large companies composing CAC40 are also separately examined. However, the number of CAC40 companies whose data were continuously available was 39. The SBF120 is a French stock market index. It is based on the 120 most actively traded stocks listed in Paris. It includes all 40 stocks in the CAC40 index plus a selection of 80 additional stocks listed on the Premier Marché and Second Marché under Euronext Paris. The example of companies belonging to CAC40 includes Air Liquide, Alcatel-Lucent, AXA, Carrefour, EADS, Groupe Danone, L'Oréal, LVMH, Michelin, PSA Peugeot Citroën, Saint-Gobain, SANOFI-AVENTIS, Société Générale, Suez Environnement, Total, Vinci, and Vivendi. Companies listed on the Euronext Paris are divided into compartment A, compartment B, and compartment C, in accordance with the market capitalization; €1 billion or more for compartment A, €150 million~€1 billion for compartment B, and less than €150 million for compartment C. In addition, there exists foreign compartment. In terms of market segments of examined companies, all belong to compartment A for CAC40 companies except for 2. On the other hand, 47 companies belong to compartment A, 23 companies to compartment B, 9 companies to compartment C, and 1 company to foreign compartment for non-CAC40 companies.

The investigated corporate governance items include the board structure, the average number of directors, number of independent directors, ratio of companies setting up specialized committees, introduction of employee director, composition of shareholder (dispersed or concentrated), adoption of anti-takeover measures, ratio of institutional investors, etc. Next, the relationship between the changes in the share ownership of institutional investors and firm performance is looked into. The number of samples used for this analysis is 111 due to the availability of data on share ownership of institutional investors. As proxy for performance, ROA, ROE, and TobinQ are used. The companies are classified into three groups as follows from the viewpoint of changes in the share ownership of institutional investors:

Group 1: first one-third of companies-the least increase in the share ownership of institutional investors (37 companies).

Group 2: second one-third of companies-the middle increase in the share ownership of institutional investors (37 companies).

Group 3: third one-third of companies-the highest increase in the share ownership of institutional investors (37 companies).

Data used for the analysis are Thomson One and the annual report of each company.

RESULTS AND ANALYSIS

Corporate governance reform in France and institutional investors: More than half the SBF120 companies adopted PDG management system in both 2005 and 2010. This can presumably be explained by French society which has traditionally attached importance to leadership. The next most common management system in 2005 was a German style structure, where supervisory board and an executive board is separated, however, unitary structure where the chairman and CEO is separated became more common after PDG management system in 2010 (Table 2). Similar trend is also observed in the companies belonging to the CAC40 companies (Table 3). But, it is premature to determine that corporate governance deteriorated only by this change. As mentioned later, taking into account that appointment of independent directors amounted to more than 90% of companies in unitary structure and a recommendation by AFG, asset management association of France, to separate the chairman and CEO, it can hardly be said that corporate governance retreated. The average number of directors of companies selecting unitary structure was 11.7 and 12.2 in 2005 and 2010, and the average number of directors of companies belonging to CAC40 was 14.9 and 14.8 in the respective year in reflection of the large size of business. On the other hand, in the case of companies selecting two-tier structure, the number of executive directors was 4.1 and 4.5 in 2005 and 2010, which were less compared to those of unitary structure. This is attributed to the fact that unitary board structure is composed of both directors and executive officers, whereas two-tier structure system is composed of supervisory board and management board. According to the governance code of AFEP-MEDEF, listed companies are required to appoint independent directors (auditors). The survey results indicate that in the case of unitary board structure, about 73% of companies appointed independent directors in 2005, which increased to 94.6% in 2010 intimating improvement in corporate governance. All the companies belonging to CAC40 put in place independent directors. It is also noted that the companies CAC40 companies had higher ratio of independent directors 100% compared to non-CAC40 companies.

As mentioned earlier, negative effects of concentration of authority to PDG has also been pointed out in France, however, it might be said that independent directors play a role of checking PDG. The ratio of companies setting up independent auditors in the case of two-tier structure amounted to 95.3% in 2005 which further rose to 100% in 2010, slightly higher that of unitary board structure. In addition, the ratio of the number of independent auditors to the total number of auditors was 49%, slightly higher than that of unitary board structure. AFEP-MEDEF recommends establishing specialized committees such as audit, nomination and remuneration in order to improve corporate governance. Looking at the survey results it is found that the majority of SBF120 companies established specialized committees, in particular, over 90% companies established the audit and remuneration committees, indicating high compliance rate. In the case of CAC40 companies, all of them established the audit committee and 97% companies established the audit and nomination committees, intimating extremely high compliance rate. There were also companies in unitary board structure which set up specialized committees such as corporate strategy, corporate governance, environment, finance, investment and sustainability depending upon their needs.

Table 2. Summary of Check-items on corporate governance (SBF120 companies).

Governance item and market segment	2005	2010
Board structure		
Unitary structure ：PDG：1	63 (53.0%)	63 (53.0%)
Unitary structure ：separation of chairman and CEO ：2	15 (12.6%)	29 (24.3%)
Two-tier structure：3	41 (34.4%)	27 (22.7%)
Total no. of companies	119 (100%)	119 (100%)
Average no. of directors (unitary structure)	11.7	12.2
Average no. of executive directors(two-tier structure)	4.1	4.5
No. of companies establishing independent directors (unitary structure)	57 (73.1%)	87 (94.6%)
Average no. of independent directors(unitary structure)	5.9	5.8
No. of companies establishing independent auditors (two-tier structure)	35 (85.3%)	22 (81.4%)
Average no. of auditors(two-tier structure)	10.5	10.0
Average no. of independent auditors (two-tier structure)	4.9	4.9
Specialized committees		
unitary structure	78	92
audit committee	65 (83.3%)	85 (92.4%)
nomination committee	56 (71.8%)	79 (85.9%)
remuneration committee	61 (78.2%)	83 (90.2%)
others	Strategy, corporate governance, investment, finance	Strategy, corporate governance, sustainability, environ.
two-tier structure	41	27
audit committee	36 (87.8%)	25 (92.6%)
nomination committee	24 (63.4%)	21 (77.8%)
remuneration committee	30 (73.2%)	22 (77.8%)
others	Strategy, corporate governance, finance, human resource mgt.	Strategy, corporate governance, finance, human resource mgt.
Employee director (auditor)	8 (6.7%)	21 (17.6%)
Shareholder composition (40% criteria) Dispersed：1 Concentrated：2	n.a	1：76 (63.9%) 2：43 (36.1%)
Anti-takeover measures Yes:1 No:2 n/a:3	n.a	1:71 (60.0%) 2: 6 (5.0%) 3:42 (35.0%)
Market segment		
Compartment A 1 Compartment B 2 Compartment C 3 Foreign compartment 4	n.a	1: 84 (70.6%) 2: 25 (21.0%) 3:9 (7.6%) 4:1 (0.8%)
Ratio of share ownership by institutional investors	15.7％	26.4％

The same trend was observed in the companies adopting two-tier structure, however, the ratio was slightly lower. The introduction of employee directors and employees auditor scheme was relatively high in large CAC40 companies compared to non-CAC companies, namely, approximately a quarter of them adopted it. Looking at the degree of concentration of shareholder, it was observed that while 45% of non-CAC40 companies had concentrated shareholder, only about 18% of CAC40 companies had concentrated shareholder indicating they had dispersed share ownership. With respect to anti-takeover measures it was found that quite a few companies adopted them presumably because the definition of anti-takeover measures used by Thomson One is rather wide. If narrow definition is used, the adoption ratio of anti-takeover measures was much small. Typical example of anti-takeover measures used was unlimited authorized shares, poison pill, and golden parachute.

Table 3. Summary of Check-items on corporate governance (CAC40 companies)

Governance item and market segment	2005	2010
Board structure Unitary structure ：PDG：1 Unitary structure：separation of chairman and CEO：2 Two-tier structure：3 Total no. of companies	 20 (51.3%) 9 (23.1%) 10 (25.6%) 39 (100%)	 21 (53.8%) 11 (28.2%) 7 (18.0%) 39 (100%)
Average no. of directors (unitary structure)	14.9	14.8
Average no. of executive directors(two-tier structure)	5.0	4.3
No. of companies establishing independent directors (unitary structure)	24 (82.7%)	32 (100%)
Average no. of independent directors(unitary structure)	7.4	7.2
No. of companies establishing independent auditors (two-tier structure)	9 (90.0%)	7 (100%)
Average no. of auditors(two-tier structure)	12.4	12.0
Average no. of independent auditors (two-tier structure)	6.7	8.0
Specialized committees unitary structure audit committee nomination committee remuneration committee others two-tier structure audit committee nomination committee remuneration committee others	 29 24 (82.7%) 24 (82.7%) 25 (86.2%) Strategy, corporate governance, investment 10 7 (70.0%) 4 (40.0%) 6 (60.0%) Strategy, corporate governance, finance, human resource mgt.	 32 32 (100%) 31 (96.9%) 31 (96.9%) corporate governance, sustainability 7 7 (100%) 6 (85.7%) 5 (71.4%) Strategy, corporate governance, finance, human resource mgt.
Employee director (auditor)	3 (7.7%)	10 (25.6%)
Shareholder composition (40% criteria) Dispersed：1 Concentrated：2	n.a	1:32 (82.1%) 2: 7 (17.9%)
Anti-takeover measures Yes:1 No:2 n/a:3	n.a	1: 36 (92.3%) 2: 1 (2.6%) 3: 2 (5.1%)
Market segment Compartment A 1 Compartment B 2 Compartment C 3 Foreign compartment 4	n.a	1: 37 (94.9%) 2: 2 (5.1%)
Ratio of share ownership by institutional investors	14.1%	27.9%

If comparison of share ownership of institutional investors is made between SBF120 companies and CAC40 companies, the difference was not significant. However, it was observed that share ownership of institutional investors had increased in 2010. While it cannot be said that corporate governance had improved due to an increase in share ownership of institutional investors during the investigated period, we might say that companies themselves became conscious of investors and had tried to improve corporate governance. In particular, the rise of ratio of independent directors (auditors) and specialized committees which are considered important to corporate governance during 2005-2010 implies that companies made efforts to strengthen governance to comply with the code of AFEP-MEDEF as well as to meet the demand of institutional investors.

Relationship between the change in the ratio of share ownership of institutional investors and corporate governance & firm performance

(i) Have institutional investors contributed to the improvement of corporate governance? Important corporate governance items such as independent directors (auditors), three specialized committees, and the separation of the chairman and CEO were analyzed in relation to the changes in the ratio of share ownership of institutional investors. As shown in Table 4, it is observed that in 2010, 36 companies have established the independent directors (auditors) in group 3, indicating an influence of institutional investors. Pearson χ^2 test was carried out to examine whether there is a difference on the above corporate governance items among the three groups. The result indicates that there was a significant difference between independent directors (auditors) and the change in the ratio of share ownership of institutional investors at the 5% level in 2010, although it was not significant in 2005. Cross tabulation on the changes in share ownership of institutional investors and three specialized committees appears in Table 5. In group 3, 34 companies established three specialized committees in 2010. It is also found that there was a significant difference between three specialized committees and the changes in the ratio of share ownership of institutional investors at the 5% level in 2010, although it was not significant in 2005. Table 6 presents cross tabulation on the changes in share ownership of institutional investors and separation of the chairman and CEO. But, there was not a significant difference between the changes in share ownership of institutional investors and separation of the chairman and CEO.

Table 4. Cross tabulation on the changes in share ownership of institutional investors and independent directors/auditors.

			Independent directors/auditors		No. of companies
			No	Yes	
Changes in share ownership of institutional investors	Group 1	2005	13	24	37
		2010	8	29	37
	Group 2	2005	12	25	37
		2010	4	33	37
	Group 3	2005	6	31	37
		2010	1	36	37
		2005	30	81	111
Total		2010	13	98	111

Table 5. Cross tabulation on the changes in share ownership of institutional investors and three specialized committees.

			Three specialized committees		No. of companies
			No	Yes	
Changes in share ownership of institutional investors	Group 1	2005	18	19	37
		2010	13	24	37
	Group 2	2005	19	18	37
		2010	9	28	37
	Group 3	2005	14	23	37
		2010	3	34	37
		2005	2005	51	60
Total		2010	2010	25	86

Table 6. Cross tabulation on the changes in share ownership of institutional investors and separation of the chairman and CEO.

			Separation of the chairman and CEO		No. of companies
			No	Yes	
Changes in share ownership of institutional investors	Group 1	2005	15	22	37
		2010	15	22	37
	Group 2	2005	19	18	37
		2010	21	16	37
	Group 3	2005	25	12	37
		2010	24	13	37
		2005	59	52	111
Total		2010	60	51	111

(ii) Have institutional investors contributed to the improvement of firm performance? A multiple regression analysis was conducted to see whether institutional investors had contributed to the improvement of firm performance. As explanatory variables, the changes in board structure and independent directors (auditors), changes in three committees, introduction of employee director, and shareholder composition as well as the change in the ratio of share ownership of institutional investors were considered. I also added firm size and industry dummy as control variables. It turned out that result of the analysis with ROE as dependent variable is not a good model as R^2 is low and the significance probability of the F value is high. However, the analysis with ROA as dependent variable revealed that R^2 and F value were 0.109 and 0.059 in model 1, and 0.2 and 0.003 in model 2 which includes control variables, suggesting that model 2 is superior to model 1. In model 2, it was found that it is not significant in relation to the changes in share ownership of institutional investors, but, it is significant at the 5% level in relation to shareholder composition and firm size, and also significant at the 10% level in relation to the changes in independent directors (auditors). The coefficient of the change in board structure and independent directors (auditors), introduction of employee director are negative, albeit they are not significant, suggesting that separation of the chairman and CEO, the change in independent directors (auditors), and introduction of employee director had a negative impact on firm performance (Table 7).

Table 7. Summary of regression results-ROA as dependent variable.

	coefficient	p-value	coefficient	p-value
C	3.716	.000	-1.765	.488
Changes in the share ownership of institutional investors	.050	.143	.036	.283
Changes in board structure	-.978	.332	-.928	.336
Changes in board of directors independence & supervisory board	-.039	.037	-.035	.052
Changes in 3 committees	.154	.768	.089	.859
Introduction of employee director	-3.603	.058	-3.410	.063
Shareholder composition	2.172	.046	2.558	.015
Firm size			1.930	.002
Industry			-.404	.211
R^2	0.109		0.2	

Next, one-way ANOVA and multiple comparison analysis are conducted to examine the difference between the groups by classifying the firms into three groups in accordance with the changes in ownership share of institutional investors during 2005-2010. The descriptive statistics of the relationship between the changes in the ratio of ownership share of institutional investors and firm performance appear in Table 8. Number of samples is 111 SBF120 companies whose financial data and the ratio of share ownership of institutional investors were available, and the effect of the changes in the ratio of share ownership of institutional investors on firm performance was carried out. As proxy for performance, ROA, ROE, and TobinQ are used. The results of one-way ANOVA and multiple comparison analysis are summarized as follows (Table 9 & 10):

i- The mean value of ROA and ROE is the highest in group 3, indicating that the group with the highest increase in institutional investor's ownership share shows better performance than other groups. Statistically significant difference of ROE was observed at the 10% level between the group 1 and 3.

ii- Institutional investors had invested in a good company with high capital efficiency, i.e. high ROE. There exits positive correlation between ROE and share price and, therefore ROE is regarded as an important financial indicator for investment. It is confirmed that institutional investors attach importance to this indicator from the viewpoint of investment efficiency.

iii- The mean value of TobinQ in group 1, the least increase in share ownership by institutional investors, is the highest among the three groups. This is attributed to the fact that there was a company whose value of TobinQ was more than 10 during 2005-2006, but subsequently rapidly decreased to about 1 (Euro Disney). In addition, the value of TobinQ of three companies ranged from 3 to 4 during the analysis period (Hermes Intl, Dassault Systemes, Nicox). It might be surmised that judging from the high value of TobinQ the market anticipates greater profitability in the future for the three companies.

Table 8. Descriptive statistics

		No. of firms	Mean	Standard deviation	Standard error	95% confidence interval for the mean value	
						Lower limit	Upper limit
TobinQ	Group 1	37	1.5270	.99253	.16317	1.1961	1.8580
	Group 2	37	1.3424	.38825	.06383	1.2130	1.4719
	Group 3	37	1.3962	.90060	.14806	1.0959	1.6965
	Total	111	1.4219	.80202	.07612	1.2710	1.5728
ROE	Group 1	37	2.2762	28.68489	4.71577	-7.2878	11.8402
	Group 2	37	11.2405	7.95267	1.30741	8.5890	13.8921
	Group 3	37	20.7370	52.73655	8.66984	3.1538	38.3203
	Total	111	11.4179	35.46140	3.36585	4.7476	18.0882
ROA	Group 1	37	3.5230	7.54957	1.24114	1.0058	6.0401
	Group 2	37	4.7995	3.16156	.51976	3.7453	5.8536
	Group 3	37	5.4895	5.63713	.92674	3.6099	7.3690
	Total	111	4.6040	5.74404	.54520	3.5235	5.6844

*denotes statistically significant at the 10% level.

Table 10: Multiple comparison of ROE.

Dependent variable: ROE		Changes in the share ownership of institutional investors	Changes in the share ownership of institutional investors	p-value
ROE	Tukey HSD	1	2	.514
			3	.064*
		2	1	.514
			3	.475
		3	1	.064
			2	.475

* denotes statistically significant at the 10% level.

CONCLUDING REMARKS

Currently, global equity markets are characterized by a rapid increase in institutional investors, which have become an important element affecting the corporate management. Since early 2000s, institutional investors in France have become vocal and keen to exercise the voting rights to perform fiduciary responsibility. In accordance with the changing behavior of institutional investors, firms can no longer ignore the voice of institutional investors and the behavior of institutional investors has become an extremely important factor in considering corporate governance. Under the circumstances, this paper attempted to reveal how many items specifically related to corporate governance have been adopted and efforts made to strengthen corporate governance depending upon the change of ratio in share ownership of institutional investors. The study confirms the role played by the institutional investors in improving corporate governance, which is consistent with most of the previous research. Moreover, the higher an increase in the share ownership of institutional investors, more improvement of corporate governance is also confirmed. The survey results indicate that in the case of unitary board structure, about 73% of companies appointed independent directors in 2005, which increased to 94.6% in 2010 intimating improvement in corporate governance. It is found that the firm establishing specialized committees shows an increase during the 2005 and 2010, in particular, over 92% companies established the audit committee. These affirm the influence of institutional investors. In addition, the effect of monitoring by institutional investors on firm performance is examined. But, the result of regression analysis shows that there is no statistically significant difference between corporate governance and firm performance. However, one-way ANOVA and multiple comparison analysis indicate that statistically significant difference is observed in ROE at the 10% level between group 1 and 3.

As corporate activities become globalized, international portfolio investment by foreigners is likely to further increase in the foreseeable future. It is expected that the shareholding of institutional investors will rise in France due to an increase in investment trust. A larger presence of institutional investors is anticipated to further strengthen corporate governance with a view to enhancing corporate value, since the large equity stakes give them sufficient incentives to act as an important source of corporate governance. However, if short-term oriented institutional investors such as hedge funds dominate the institutional investors, it does not necessarily lead to the value creation of the firms. If there is a positive correlation between good corporate governance and institutional investors' behavior, an enhancement of corporate governance will contribute to reactivate the capital market in France, thus making a favorable impact on economic activities in general. In this regard, French firms are called upon to work on enhancing corporate governance. The limitations of this study are the following: the presence of share with multiple voting rights and the differentiation of companies' base on the identity of the controlling shareholders are not taken into account. These are areas for further study.

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