INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES
Vol 13, Issue 11, (2023) E-ISSN: 2222-6990

The Roles that Institutional Investor Playing in Corporate Governance: An International Literature Review

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To Link this Article: http://dx.doi.org/10.6007/IJARBSS/v13-i11/19683 DOI:10.6007/IJARBSS/v13-i11/19683

Published Date: 27-11-2023

Abstract
The increase in institutional investors has changed the shareholding structure of listed companies. Research on the roles that institutional investor playing in corporate governance has attracted attention. Scholars have conducted a great deal of normative research on this and have also provided empirical evidence. In the early days of the study, scholars studied investors as a whole. During this period, there were mainly three different views on the roles that institutional investors playing in corporate governance. With the development of research, scholars gradually realized that institutional investors have different characteristics, and classified research began. There are mainly four types of classification standard. Classified research provided meaningful exploration for institutional investor research, however even with the same classification, completely opposite conclusions often appear. This paper reviews scholars' research on the roles that institutional investors playing in corporate governance, analyzes the reasons for the opposite conclusion, and makes suggestions for future research.
Keywords: Institutional Investors, Corporate Governance, Review

Introduction
Institutional investors are a special type of financial institution. For specific purposes, institutional investors manage the savings of small investors together and seek to maximize the return on their investments within an acceptable range of risk and over a specified period of time (Davis, 2001). The growth of institutional investors has changed the ownership structure of listed companies, resulting in the emergence of new influential investor groups in addition to major shareholders and management shareholders in the company’s ownership structure. Institutional investors can directly participate in the decision-making of listed

companies through shareholdings – "voting by hand," they can also influence managers' decision-making behavior through stock trading – "voting by foot" (Lin & Tan, 2013). It is for this reason that one sees with the rise of institutional investors a new hope to solve the agency problem caused by the separation of ownership and control. In recent years, the research on the identification of governance roles of institutional investors has gradually gained attention, and the theoretical community has conducted a large number of normative studies and provided abundant empirical evidence, but the conclusions about this are not uniform. Scholars based on the effective supervision hypothesis believe that institutional investors have a positive governance function, while scholars based on the negative supervision hypothesis believe that the involvement of institutional investors can have a negative impact on the company (Jamadar et al., 2021) and scholars based on the ownership structure irrelevance hypothesis believe that institutional investors have nothing to do with listed companies (Yang, 2013). That being the case, it is worth-knowing that corporate governance function of institutional investors is highly controversial (Hossain et al., 2022). This paper will sort out, summarize and conclude the existing research literature to provide a reference for more in-depth identification of the governance roles of institutional investors.

Homogeneity Research

In the early stage of institutional investor research, scholars studied institutional investors as a homogeneous whole, and in these studies, some scholars supported the effective supervision hypothesis. Since the 1980s, institutional investors in the U.S. and U.K. have gradually abandoned the "Wall Street Rule" and shifted from negative indirect governance to positive direct governance. Institutional shareholder activism has gradually emerged against the backdrop of financial market developments (Chen, et al., 2007), the absence of board governance functions (Fama & Jensen, 1883), and the decline in takeover activity (Karpoff, 2001). Institutional investor activism is widely recognized as a new corporate governance mechanism replacing ordinary investors' participation in corporate governance. This is because institutional investors have an advantage over the ordinary investor when it comes to corporate governance. First of all, institutional investors are usually composed of professionals with a high level of expertise, who have more information, talent advantages, resource advantages and rich experience, and are motivated to collect and process information (Korczak & Tavakkol, 2004). Secondly, as the proportion of shares held by institutional investors rises, if they sell a large number of shares, it is likely to bring about stock market turmoil, so the cost of the traditional "voting by foot" will be increased, and institutional investors shall choose long-term investment strategies and supervise the company's operation and management to obtain more profit. Finally, when holding a certain proportion of shares, institutional investors will have scale economies effect that is not available to ordinary investors, and are able to overcome the situation of internal control by major shareholders (Boyd & Smith, 1996). When institutional investors perform their supervisory and regulatory functions, they have a variety of ways to choose from, including making suggestions openly, forming an institutional investor alliance, filing shareholder lawsuits, exercising voting rights, submitting shareholder proposals, negotiating privately with management, and submitting explanatory letters (Luo, 2008; Tong, 2018). Scholars who support the effective supervision hypothesis believe that institutional investors can play a positive role in corporate governance. Institutional investors can reduce management's "opportunistic behavior" and alleviate the agency problem. David and Kochhar (1996) argue that institutional investors' attention to the governance of listed companies contributes to the independence of the board of directors. Research and Development expenditure is an important financial decision, and Wahal and McConnel (2000) found that institutional investors' shareholding can promote company's long-term investment behaviors such as R&D expenditure. Related party transactions intensify the second type of agency problem. Wang and Xiao (2005) found that listed firms with institutional investors among their top ten shareholders have significantly less funds being occupied by related parties than other firms, and that an increase in the proportion of shares held by institutional investors is significantly negatively correlated with the extent to which listed firms have funds being occupied by related parties. Cheng (2006) found that in China's listed companies, the higher the percentage of institutional investors' shareholding is, the more effective the company's earnings management behavior can be curbed. Lu et al (2012) believed that institutional investors' shareholding decreased the possibility of corporate violation and increased the possibility of being inspected.

Not all scholars support the effective supervision hypothesis, some believe that the involvement of institutional investors can have a negative impact on the company and these are the scholars, who support the negative supervision hypothesis. On one hand, due to the dual agency role institutional investors play, frequent performance evaluation can lead institutional investors to trade frequently, and frequent trading is likely to lead to short-sighted behavior of the company. Potter (1992) argued that frequent trading made by institutional investors will induce management to engage in earnings management in order to avoid the situation of earnings not reaching the expected level. On the other hand, if institutional investors and executives find it a contributing factor in mutual benefits to both parties when they cooperate with each other, such cooperation can reduce the positive effect on corporate value generated by institutional investors' supervision of executives, and major decisions may be made at the expense of small and medium-sized outside investors. Thus, both the conflict of interest hypothesis and the strategic alliance hypothesis predict a negative correlation between corporate value and the shareholding ratio of institutional investors (Coffee & J, 1991; Robert et al., 2003). Scholars have found some empirical evidence for both hypotheses. Yang et al (2012) found that the overall shareholding of institutional investors reduces the reliability of corporate financial reporting. By empirically analyzing the impact of institutional investors' shareholdings on listed companies' violations, Zhu and Fang (2014) found that institutional investors' overall shareholdings have not played an effective supervisory role in China's securities market, and with the purpose of short-term speculative profit-making, institutional investors have induced the violations of listed companies.

The scholars who support the ineffective supervision hypothesis believe that institutional investors' shareholding has no significant effect on corporate governance. Pound (1998) argued that institutional investors do not effectively supervise corporate governance behavior. The study conducted by (Sunil, 1996) shows that the effect of pension fund participating in corporate governance is not significant. Karpoff et al (1996) examined the impact of shareholder proposals on the market value of the firm and found that there is no significant correlation between shareholder proposals and the market value of the firm.

Heterogeneity Research

As the research goes further, scholars gradually find that different institutional investors play different roles in corporate governance due to the differences in the source of funds, investment restrictions, behavior pattern, investment preferences and shareholding cycle.

Therefore, scholars began to group institutional investors for research. Currently, there are four main criteria for the classification of institutional investors

Firstly, Brickley et al (1988) categorized institutional investors into two types, pressure-resistant institutional investors and pressure-sensitive institutional investors, based on whether they have an existing or potential business relationship with the invested company. The former are those institutional investors, who have only an investment relationship with the investee company. Generally speaking, only the former can adhere to their own investment philosophy, focus on long-term investment returns, and have an incentive to supervise the management and thus reap the benefits of governance; the latter are those institutional investors who have a dependence on the investee company's business, resulting in the coexistence of both an investment and a business relation. They usually do not want to jeopardize their business relationship with the investee company and often tend to adopt a moderate or supportive attitude towards the company's management decisions. Chen et al (2007) found that only the institutional investors who have no business relationships with investee company, but with a high percentage of shareholding, and long-term investment portfolio that can supervise company. This has been proved by Yuan's research (Yuan, et al., 2021). They took A-share listed companies from 2010-2018 as the research samples to study the impact of different types of institutional investors on corporate social responsibility (CSR), and found that pressure-resistant institutional investors were able to enhance CSR through their supervision, while pressure-sensitive institutional investors are unable to implement effective supervision. However, some scholars hold a different view. Zhu and Fang (2014) found that pressure-resistant institutional investors can induce violations to listed companies, while pressure-sensitive institutional investors have more incentives to participate in corporate governance and exercise their supervisory power with the influence of the existing or potential business relationships which, in turn, can inhibit violations in listed companies.

Secondly, Bushee (1998) classifies institutional investors into short-term institutional investors, long-term institutional investors, and quasi-indexed institutional investors by measuring their past investment behaviors with two indicators: trading frequency and degree of portfolio diversification. Preferring diversified investment and frequently changing portfolio investment, short-term institutional investors generally employ a "buy good and sell bad" investment strategy; Having a preference for balanced investment and portfolios that are not easily changed, long-term institutional investors usually focus on relationship investment and can provide a stable investment volume over the long term. Taking diversified investment and relatively stable portfolio investment as their preference, quasi-indexed generally implement investment strategy passively on a broader scale. Bushee's study found that only long-term institutional investors can supervise management and are favorable to corporate governance. However, through the study on firm value, Gwinyai (2008) found that short-term institutional investors are positively correlated with firm value thus favoring corporate governance. Gao and Chen (2017) found that long-term institutional investors are significantly negatively correlated with accrued earnings management compared to short-term institutional investors. Wang & Wen (2020) found that by promoting innovation investment, the institutional investors can improve firm performance. Compared with short-term institutional investors, long-term institutional investors are more motivated to participate in the production and operation decision-making of the company and their impact on innovation investment and firm performance is more significant (Nur-Al-Ahad et al., 2022).

Thirdly, Chen et al (2007) classified institutional investors into four groups based on the duration and the proportion of their shareholding, namely long-term shareholding, short-term shareholding, large shareholding, and small shareholding. And their empirical results showed that institutional investors with long-term shareholding as well as high shareholding ratios have the motivation and ability to participate in corporate governance.

Fourthly, Bushee et al (2008) categorizes institutional investors into governance-sensitive and governance-insensitive institutional investors based on whether they prefer companies with better corporate governance mechanisms. Governance-sensitive institutional investors tend to invest in companies with better governance mechanisms (Jamadar et al., 2022); whereas, for governance-insensitive institutional investors, the degree of perfection of corporate governance mechanisms is not an important determinant of their investment and trading decisions. Governance-sensitive institutions contribute to corporate governance and there is a two-way relationship between institutional shareholding and corporate governance.

Conclusion

The growth of institutional investors has changed the shareholding structure of listed companies. More interests have aroused in the research on the governance role of institutional investors. Scholars have carried out a large number of normative studies on this issue and have also provided abundant empirical evidence. In early stage of the relevant research, the mainstream views considered institutional investors as a whole for research, and during this period, scholars mainly held three views on the role played by institutional investors in corporate governance: the effective supervision hypothesis, the negative supervision hypothesis and the ineffective supervision hypothesis, and all of them were supported by empirical evidence. The different conclusions drawn by scholars have attracted even more attention. As the research going further, scholars gradually realized that institutional investors have different characteristics and they may play different roles in corporate governance, and thus they began to study the heterogeneity of institutional investors. Since institutional investors differ in terms of funding sources, investment restrictions, behavior patterns, investment preferences and shareholding cycles, in order to better study the role of institutional investors played in corporate governance, scholars have conducted classification research on institutional investors according to different criteria. The classification research provided meaningful explorations for institutional investor research, but it is worth noting that even when the same classification method is used, completely opposite findings can occur from time to time.

The different findings may be caused by the following reasons: first, differences in the institutional environment across countries may affect the supervision role of institutional investors. Second, institutional investors have their own characteristics, and they inherently differ in their governance motivations, governance styles, and governance attitudes. Third, there are many indicators to measure the effectiveness of corporate governance, and these indicators are affected by multiple factors. Fourth, there is an endogenous problem between institutional investors' shareholding and corporate governance.

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