An Analysis of Institutional Investor Governance Behavior from the Perspective of Portfolio

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Abstract. As a third-party force independent of management and shareholders, institutional investors have been highly expected by domestic and foreign scholars and government regulators to improve corporate governance. However, there are still three debates on the role of institutional investors in corporate governance: effective supervision, invalid supervision and strategic collusion. In order to answer the question of what role institutional investors play in corporate governance, the article takes the two types of agency costs of enterprises as the starting point, re-examines the governance behavior of institutional investors from the perspective of investment portfolios, and explains its Participating in a contingency view of governance behavior. Based on principal-agent theory and limited attention theory, the sample data of my country's Shanghai and Shenzhen A-share listed companies from 2013 to 2017 are used. By defining supervised institutional investors, from the two dimensions of portfolio weight and portfolio concentration, the fixed effect regression model is used to empirically test the impact of institutional investors on the two types of agency costs of the company, and the instrumental variable method is used to make robust results. At the same time, combined with different situations inside and outside the company, with the help of sub-sample test, it dialectically analyzes the differences in the governance behavior of institutional investors.

Keywords: Institutional Investors, Corporate Governance, Direct Engagement.

1. Introduction

In essence, the governance role of institutional investors should be brought into play by suppressing the opportunistic behavior of company insiders and reducing the first type of agency cost between management and shareholders and the second type of agency cost between large shareholders and small and medium shareholders. Regarding the governance role of institutional investors, there are three kinds of debates in academia: effective supervision, invalid supervision, and strategic collusion [1][2]. This paper believes that most of the existing research is from the perspective of a single company, and believes that different companies are equally important to institutional investors, but in fact institutional investors often adopt a portfolio strategy to diversify risks and invest in multiple companies at the same time. Participate in corporate governance and obtain corresponding benefits. Compared with other companies in the portfolio, the more resources controlled by institutional investors in a company [3][4], the more likely it is to gain benefits by intervening in this company. Therefore, based on the theory of limited attention, considering that institutional investors are under pressure from performance, they will

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not treat all companies in the portfolio equally, but pay more attention to relatively important companies in the portfolio. From the perspective of investment portfolio, this paper refers to some work [5][6], and defines supervised institutional investors as the institutional investors corresponding to the top 10% of listed companies in the investment portfolio. They are able to actively govern the more important companies in their portfolio.

Therefore, from the perspective of investment portfolio, this paper analyzes the impact of institutional investors' portfolio weight and portfolio concentration on two types of agency costs of companies. The results show that: as the "representative of small and medium shareholders", the supervisory institutional investors can significantly reduce the second type of agency costs between large shareholders and small and medium shareholders within the company, but they will condone the opportunistic behavior of managers [7][8], resulting in the first type of agency. Costs increase; and, institutions tend to govern companies with higher portfolio concentration, exerting a "double-edged sword" effect to affect both types of agency costs; the above results also demonstrate from a portfolio perspective that institutional investors are viewed with a contingency perspective The need for governance behavior. In addition, considering that the governance role of institutional investors is closely related to the internal and external situations of the company, this paper further explains the governance behavior of institutional investors from three aspects: the level of marketization, the control of executives, and the degree of separation of the two rights of controlling shareholders.

2. Report On Institutional Investment And Board Of Directors

Morrow Sodali's survey investigates the practical implications of Environmental, Social, and Governance (ESG) considerations in the context of shareholder meetings, voting, and various management strategies [9]. The survey encompasses a wide range of topics, including shareholder activism, disclosure practices, and the interest in a dedicated vote on sustainability issues. The overarching conclusion is that while investors are poised to assume the role of proactive capital managers, significant efforts are still required for companies to effectively report and manage environmental and social issues.

A crucial aspect is devising a strategy that enables investors to influence management practices effectively while allowing companies to maintain autonomy in their business operations. For instance, a substantial proportion of respondents (70%) expressed a desire for increased involvement in the oversight of their company's non-financial information [10]. In the early stages of ESG reporting, the focus was primarily on validating the accuracy of the reported data rather than evaluating the adequacy of performance outcomes. Currently, there is an observable shift towards greater clarity in corporate reporting practices, with advancements in ESG reporting aligning with frameworks such as those recommended by the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD).

It is anticipated that readers will find value in the specific survey questions pertaining to investor priorities. While the pay-for-performance paradigm remains prevalent, especially in the context of climate change, there is an emergent emphasis on identifying and rectifying scenarios wherein companies and their boards exhibit a lack of responsiveness to shareholder concerns. It

is becoming increasingly critical for companies to comprehend investor expectations regarding ESG, sustainability, and other non-financial factors.

2.1. US institutional investors

Generally speaking, institutional investors mainly include pension funds, insurance companies and mutual funds. But for different countries, the development of their institutional investors is very different. Take the seven most economically developed countries as an example in the table1, the United Kingdom and the United States have the largest proportion. Although each country has achieved great growth, it still lags far behind the United States and the United States.

Table 1. National institutional investor development index[11]

-	1980	1988	1990	1991	1992	1993	1994	1995
U.S.	59.3	88.1	127.4	139.6	145.7	155.2	153.5	170.8
U.K.	64.1	115.3	114.5	126.2	115.3	163.8	149.6	162.3
Japan	23.1	50.3	81.7	79.3	78.1	81.4	84.9	77.4
Germany	20.3	37.1	36.5	39.3	33.8	38.3	44.2	46.1
France	23.4	46.1	52.9	60.1	58.3	69.7	72.3	75.3
Canada	35.2	52.6	58.6	64.2	66.9	76.9	80.9	87.9
Italy	6.2	10.6	13.3	15.3	12.5	17.7	19.6	20.6

Duriusz Wojcik studied the changes in the distribution of voting rights in German listed companies from 1997 to 2001 and found that the changes during this period were striking: the concentration of ownership Institutional investors are showing signs of taking their place as major shareholders. The situation in Japan is similar. In 1997, the asset portfolio restriction of pension funds was abolished, non-trust banks and life insurance companies were allowed to manage pension funds, and they were allowed to participate in investment in foreign mutual funds. In 1998, banks were allowed to trade their own entrusted investment assets over the counter, and securities companies were allowed to expand their asset management services. In 1999, the prohibition of banks, trust companies and securities companies from entering each other was abolished [12]. It can be seen that the future development direction of corporate governance in Japan clearly allows institutional investors to replace banks as major shareholders of enterprises. Supervision of enterprises, while resolving bad debts of banks.

2.2. Research method

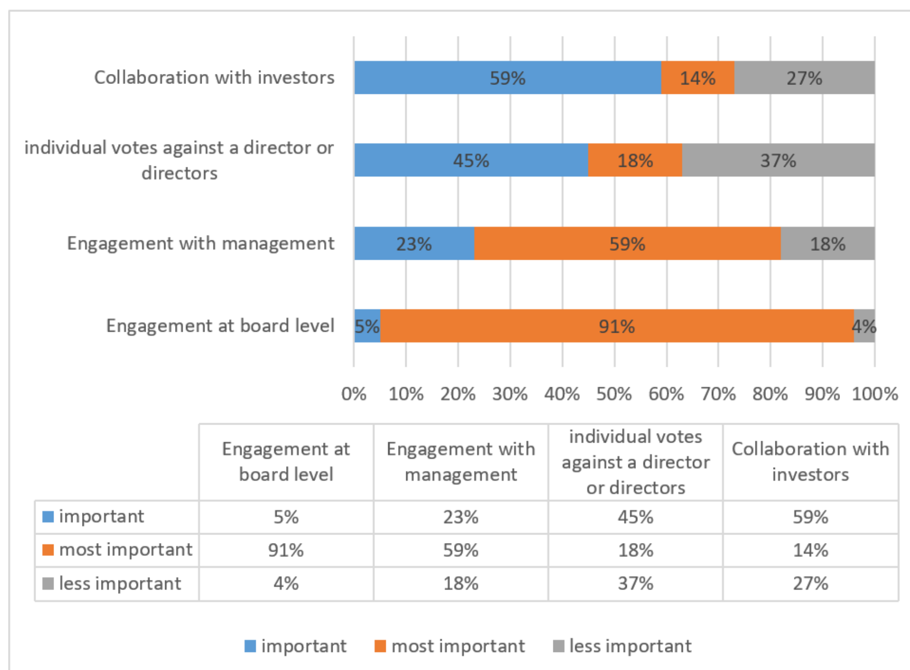
A total of 130 institutional investors from Beijing, China were investigated, and 100 valid questionnaires were finally obtained, including 80 males (61.5%) and 50 females (38.4%). The number of institutional investors from just becoming company managers to senior institutional investment managers is: 98 juniors (75.3%) and 32 seniors (24.7).

2.3. Measuring tools

It obtained the survey results by distributing questionnaires to large investment firms.

3. Research And Analysis

3.1. The most effective way for investors to influence board policies and decisions



	Engagement at board level	Engagement with management	individual votes against a director or directors	Collaboration with investors
important	5%	23%	45%	59%
most important	91%	59%	18%	14%
less important	4%	18%	37%	27%

Figure 1. The most effective way for investors[13].

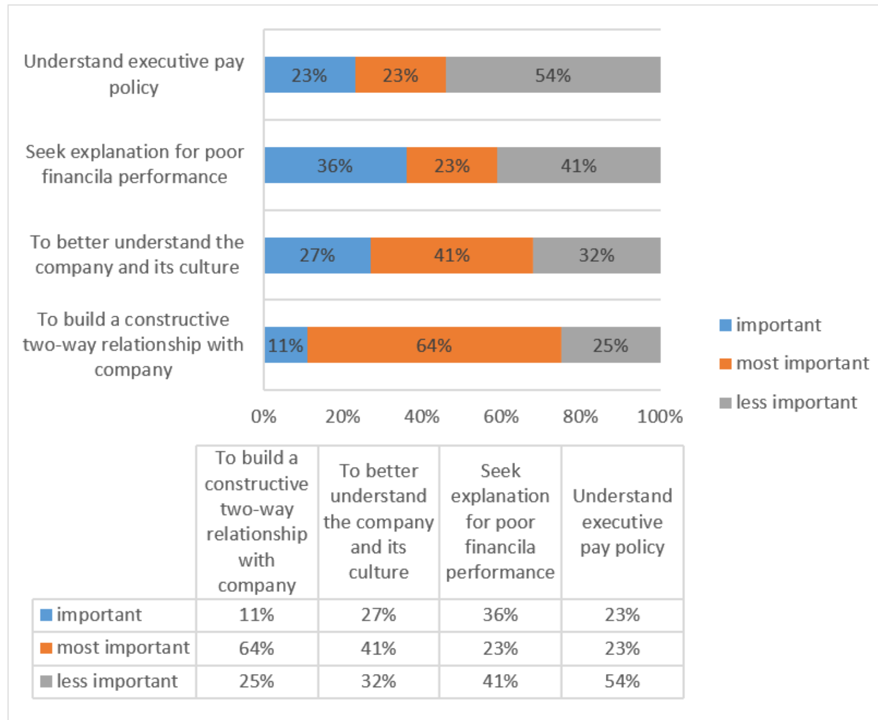
We see continued emphasis on board accountability in the Figure 1, with large investors signaling that they are prepared to pay attention: Are they “delivering” on ESG where board perceptions and decisions are inconsistent with investor or market expectations? Interest has grown.

There is no doubt that investors value direct engagement between companies and their shareholders, with an overwhelming 91% of respondents choosing "board participation" as the most effective way to influence board decisions.

This reflects the increasing responsibility of boards of directors for whether their company's performance can demonstrate sustainable wealth creation. To reinforce the theme of board accountability, almost one-fifth of 18 percent believe that the most effective way to influence board decisions is to target individual votes against a director or directors.

Uncle respondents (59%) chose "interacting with management" as their first choice to influence the board of directors. In addition, investors expect more collaboration with each other, with 14% of investors saying this is the most effective way to influence board decisions.

3.2. For what purpose is required to cooperate with the board



	To build a constructive two-way relationship with company	To better understand the company and its culture	Seek explanation for poor financila performance	Understand executive pay policy
important	11%	27%	36%	23%
most important	64%	41%	23%	23%
less important	25%	32%	41%	54%

Figure 2. The purpose is required to cooperate with the board[13]

Explanation(**Figure 2**): Direct involvement in corporate governance still allows investors to better understand the board's impact on corporate strategy. An important approach to thinking and risk management of the non-financial factors of performance and operating activities.

The emphasis of investors has shifted from solely focusing on financial performance to engaging with non-financial, ESG themes. This transition is partially attributed to the substantial rise in passive investing, which necessitates direct access and dialogue with boards deemed ultimately accountable. A significant majority (64%) of respondents expressed a need for interaction with the board, indicating the establishment of a trust-based relationship. Additionally, 41% of respondents indicated that the primary purpose of their interactions with board members was to gain a better understanding of company culture and identify potential investment opportunities. These findings suggest that investors are seeking collaborative approaches to work with companies to achieve favorable outcomes, rather than adopting a purely proactive stance. Other motivations for investors to request interaction with the board include seeking financial explanations and comprehending compensation management policies.

3.3. Result analysis

The findings from the mediation effect test reveal that average thinking indirectly influences social adaptation via the mediators of psychological resilience and emotional reevaluation.

Moreover, psychological resilience indirectly and positively impacts social transformation through the additional mediator of dynamic reevaluation.

4. Conclusion

Institutional investors, as a third-party force independent of management and shareholders, have been highly expected by domestic and foreign scholars and government regulators to improve corporate governance. In view of the current debate on institutional investors' governance behavior in the field of corporate governance, this paper, from the perspective of investment portfolios, defines the supervisory institutional investors, and empirically analyzes the impact of institutional investors' portfolio weight and portfolio concentration on two types of corporate agents. cost impact. The research shows that: (1) For the company, the supervisory institutional investors play a "double-edged sword" effect. While stabilizing the second type of agency costs between large shareholders and small and medium shareholders, they increase the first type of agency costs at the same time. for the price. (2) For institutional investors, based on the theory of limited attention, they tend to exert an effective influence on the governance process of one or several companies with relatively high concentration in the investment portfolio, although the current level of institutional shareholding is higher than that of the CSRC. After the partial cancellation of the "double 10%" limit, it has continued to increase, but compared with the major shareholders, its right to speak in the invested companies is still weak, and it is manifested in aggravating the management agency costs and alleviating the second type of agency problems. (3) Further distinguish the governance effects of institutional investors in different scenarios from the external market environment, internal executives, and controlling shareholders, and find that in less developed regions, institutional investors' portfolio concentration and marketization can jointly inhibit the company's first The second type of agency costs; and at different levels of separation of executive control rights and controlling shareholders, the influence of supervisory institutional investors on the two types of agency costs is different, that is, in companies with powerful executives, institutional investors are more They prefer to conspire with the management to increase the agency costs of the first type; in companies where there is no separation of powers between the controlling shareholders, supervisory institutional investors can play a more supervisory role to alleviate the second type of agency problems.

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