Institutional Investor Shareholding and Corporate Cash Holding: A Literature Review

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Abstract: The purpose of this article is to give a reference for relevant studies by focusing on the influence relationship between institutional investors' shareholdings and company cash holdings in recent years. This paper examines and summarizes relevant domestic and international literature to determine the factors that influence institutional investors' behavioral patterns in terms of corporate financial impact, firm performance, and innovation. The study of institutional investors' shareholding and company cash holdings based on internal management and external market government factors, as well as macro factors, determines that institutional investors' attitude has a significant influence on organizational financial impact, corporate performance, and innovation. It is determined that institutional investors' actions have a significant impact on businesses, and that reasonable and timely management will be beneficial, whereas excessive meddling will be detrimental.

1. Introduction

The amount of cash held for transaction, prevention, and speculation by institutional investors and corporations is referred to as cash holding. It is commonly used in business operations by publicly traded companies. Previous research has made available observable repercussions and properties about institutional investor controlling interest and corporate cash holding based on developed capital markets; this review will primarily addition to academic articles available in top journals and provide directions for future research. First, this article focuses on the impact of hedge funds on corporate financing habits, the impact of investment firms on firm performance, and the impact of institutional investors on entrepreneurship and innovation in the field of inquiry due to the financial consequences and factors influencing the performance of asset managers. Second, for the further analysis, this paper pays attention to characteristics of the firm's internal management, external market governance factors and macro-economic policies or macro-environment factors. Eventually, exploring more about the promotion effect and the dampening effect.

2. Research related to the economic consequences and factors influencing the behavior of institutional investors

2.1 The influence of investment firms on company financing strategies

The actions of asset managers have a major effect on a company's financial performance. For example, Mizuno and Shimizu review the effect of major investors on managerial ownership. They discover a link between good corporate finance and the behavior of institutional investors who choose companies to invest in based on expected return on investment and monitor activities to improve portfolio companies' value creation [1]. Baker et al. likewise demonstrate that investor inertia improves the collecting business's conditions in a securities transaction by retaining the acquirer's

shares in the hands of investors who do not transfer them in the market in public transactions. Reduced pricing pressure and hence lower equity financing costs are the result of a downward sloping demand curve. As a result, it has an impact on the company's financial policies [2]. Stress-sensitive directors, according to Gao et al., can provide a capital structure tool to limit excessive financial risk-taking. They discovered that stable investment firms with long-term participation intentions can effectively decrease the price of equity when compared to ephemeral institutional investors. The data also show that even under observation of solid hedge funds, true discretionary accruals can be more widely recognized by stockholders, lessening the influence of earnings management on stock prices [3]. According to Chen et al., the total increase in institutional investor holdings is related to the long-term market success of privately traded companies. Furthermore, the presence of these organizations enhances the possibility that distressed offers will be withdrawn, as these institutions manage their positions over time so instead of trading for relatively brief gains and only sell before such a catastrophic occurrence occurs. This demonstrates that fund managers' actions have a substantial influence on business finances [4].

2.2 The influence of company investor on firm performance

Fund managers have such a big impact on the stock market. Cella's research found that enterprises with long-term institutional investors had lower capital expenditures than firms with a large number of shareholders. These firms' reduced capital expenditures resulted in improved profitability and stock market performance, demonstrating that institutional investors' efforts aimed at reducing over-investment can add value [5]. Cao et al. also look at the effect of macroeconomic factors on institutional investors' inventories preferences, finding that policy uncertainty reduces financial firms' firm holdings. Nevertheless, when the variety of property rights and institutions is taken into consideration, the disincentive impact becomes even stronger for non-state firms and fund institutions [6]. Boubakri et al. show that this effect is more suggestive of institutional investors' involvement in corporate governance using data from listed companies in the same industry as their sample. According to them, governments surrender power over time, favoring local institutions, individuals, and international investors, whereas private ownership concentrates over time. This explains the wide range of ownership concentration among enterprises, and the favorable impact of ownership concentration on business reputation is stronger in countries with weak investor protection [7]. According to Bhojraj et al., governance mechanisms are vital significance bond ratings and lower bond yields. Foreclosure risk can be reduced by cutting agency fees, monitoring and regulating productivity, and closing communication gaps between businesses and lenders, for example. As a result, they investigate the relationship between changes in economic policy and credit spreads on business bond issuance and discover a positive and significant correlation [8]. Institutional investors' desire for stock features, as well as the impact of this demand on stock prices and returns, are studied by Gompers and Metrick. They discover that "vast" institutional investors have increased their stock market holdings. This shift in composition tends to boost demand for large company equities while lowering demand for small company stocks. The increase in the price of large business stocks relative to small company stocks, as well as the partial removal of the small company stock premium, could be explained by the composition change. [9]. The goal of Basak and Pavlova's research is to persuade institutions to invest in the equities that make up their benchmark indexes. Index stocks are driven by the resulting price pressure. Institutions exacerbate the volatility of index stocks by requesting more risky equities than regular investors. As a result of their research, they show that institutional investors' trading has a considerable impact on asset prices, leading to phenomena like the index effect and the asset class effect. [10]. According to Cornett et al., organizational stock ownership, investment company participation on the executive board, and the presence of independent outside directors on the board all have a detrimental effect on the use of abnormal accruals. Option compensation, which heavily encourages earnings control, was essentially offset by these considerations. After compensating for the effectiveness of creative accounting, true discretionary accruals can be assessed, and reliable fund managers can lessen the effect of earnings management on the stock prices [11].

2.3 Financial firms contribute to business innovation

At any time, institutional investors have the power to influence corporate investment innovation. The benefit of fund managers' crossholdings in much the same market on venture creation, for example, is studied by Gao et al. The outcomes of the study suggest that IICOs have a bigger effect on production when a company's possession is densely packed, and when a company competes in a highly competitive product market [12]. Similarly, Jiang and Yuan investigate into whether and how institutional investors' field visits effect firm innovation. They demonstrate that field visits by institutional investors boost firm innovation significantly, and that this effect is stronger for firms with inferior information environments and corporate governance. The governance effect of field trips on innovation is determined to be compatible with the career concern rather than the quiet life hypothesis after further evaluation. As a result, the impact of institutional field excursions can be used as a proxy for the impact of institutional shareholding [13]. Wang et al. look at how financial investors react to a company's CSR performance based on their investment behavior, and how that behavior changes in response to events that call their attention to and worry about CSR. According to the study, a company's CSR performance in the lead-up to an event has little effect on individual and institutional investors' behavior. Beyond a certain criterion, CSR performance has a significant impact on financial firms' behavior in the thread era, and the firm's performance and investors' activity influence the firm's stock returns in the article era rather than the which was before era [14]. According to Luong et al., foreign institutions actively monitor corporate executives. They next look into three possible physical factors that multinationals use to affect firm growth. Multinationals operate as active examiners, providing insurance against creativity failure to corporate leaders and promoting knowledge spillovers from highly inventive economies. It can be demonstrated that both domestic and foreign investors have an impact on enterprises' digital assets, regardless of the location [15].

3. Research on institutional investor ownership and corporate cash holding

3.1 Characteristics of the firm's internal management

This part analyzes and sorts out the influencing factors of corporate cash holding from the perspective of internal management: corporate governance mechanisms, corporate refinancing risk, corporate information asymmetry and real estate value. To be specific, Yuanto Kusnadi finds that firms with poor governance attributes tend to accumulate cash more than those with more effective governance attributes. The results do great favor to the elasticity hypothesis that increased agency conflicts between managers and minority shareholders, giving entrenched managers more discretion to build cash reserves [16]. Gao finds that when the debt maturity structure is short, that is, facing high refinancing risk, if the company try to avoid the adverse impact of market friction in the process of refinancing, they prefer to hold more cash and accumulate more cash from the cash flow of operating activities [17]. Kee et al. find that when talking about the value of cash holdings, it is inversely related to information asymmetry and higher information asymmetry, lowers the value, which also the reason why managers often waste money on inefficient investments or their interests in the existence of information asymmetry [18]. Han finds that there is significant impact effect of real estate value in China. During the period from 2004 to 2013 when the housing price was relatively high, corporate cash holdings have negative correlation with real estate value, corporate cash marginal value was negatively correlated with real estate value, corporate cash-flow sensitivity has negative correlation with real estate value, and the correlation between pure real estate price index and corporate cash holding behavior was no longer significant [19]

3.2 External market governance factors

This part analyzes and sorts out the influencing factors of corporate cash holding from the perspective of external market governance factors: SOE reform, inflation expectation, marketization process and internationalization strategy. To be specific, Lu et al. find that the increase of external

financing cost of non-state-owned firms resulted in the increase of cash holdings; the improvement of enterprise performance after SOE reform resulted in the increase of cash holdings based on the large micro database of Chinese industrial enterprises and using the multi-period differential difference model [20]. Li finds that there exists a negative correlation between inflation expectation and cash holding, and a positive correlation between inflation expectation and investment expenditure. Meanwhile, inflation expectation will weaken the dependence of investment expenditure on cash holding [21]. He et al. finds that the higher the marketization degree is, the faster the adjustment speed of cash holding is, the faster the improved marketization, the faster the speed of cash holdings adjustment on a basis of the research of a share listed companies in Shanghai and Shenzhen stock markets from 1999 to 2012 [22]. Dai et al. find that with the deepening of internationalization strategy, the cash holdings of enterprises will increase significantly, and the marginal value of cash holdings will also increase accordingly, that is, internationalization strategy is positively related to cash holding behavior; With the intensification of domestic market competition, the promotion effect of internationalization strategy on cash holding level and marginal value of enterprises will be enhanced accordingly, that is, the fierce domestic market competition strengthens the positive effect of internationalization strategy on cash holding decision [23].

3.3 Macro-economic policies or macro-environment factors

This part analyzes and sorts out the influencing factors of corporate cash holding from the perspective of factors affecting macro-environment: business environment, interest rate liberalization and economic policy uncertainty. To be specific, Ming-Lang Tseng et al. find that when the business environment becomes better, firms reduce their cash holdings and vice versa. Ultimately, the quality of the business environment is more powerful than country ownership in determining the behavior of firms in holding cash in response to market risk [24]. Hu finds that in the macroeconomic boom stage, the company will hold less cash and higher the marginal value of cash is. When monetary policy is tightened, cash holdings of listed companies rise, and the marginal value of cash is lower. When the country implements active fiscal policy, listed companies will reduce cash holdings and the marginal value of cash will be higher. The influence of macro factors on the value of cash held by non-state-owned listed companies is stronger than that of state-owned listed companies [25]. Liu et al. find that asset reversibility has a significantly negative effect on the sensitivity of cash holding with positive uncertainty, especially for enterprises with strong financial constraints. In addition, enterprises with higher asset reversibility invest more in fixed assets, indicating that physical investment is an important mechanism. In addition, results of baseline are steady for potential endogeneity and alternatives to reversibility of assets and uncertainty of economic policy [26].

4. The impact of institutional investors on corporate cash holding behavior

4.1 The promotion effect

Several studies have shown that the behavior of institutional investors significantly increases firms' cash holdings. Institutional investors often indirectly affect the company's cash holding behavior. For example, institutional investors influence corporate cash holdings by affecting leverage level and corporate governance efficiency. The leverage ratio is very important for corporate cash holding. According to Wijaya, leverage is strongly linked to cash holdings, and leverage has a negative influence on cash holdings. Because the ability to acquire debt may be used as a proxy for a firm's cash needs, high leverage results in a decline in corporate cash holdings. [27]. Based on a sample of Shenzhen and Shanghai exchange in 2007-2017, Jiang and Li point out that institutional investors can collect complete information and therefore their prudence may be higher. Institutional investors and corporate cash holdings show a positive correlation [28]. Yu and Zhou show that institutional investors' effect on corporate cash holdings varies depending on the type of institutional investor. Because sensitive institutional investors prefer to hold low leverage ratios, while pressure-resistant institutional investors pay attention to long-term run benefits, the investor can undertake high leverage ratios, sensitive institutional investors will promote the growth of corporate cash holdings,

whereas pressure-resistant institutional investors can effectively curb corporate cash holdings. In another way, institutional investors can also influence corporate cash holding behavior by influencing the stock price of the company and corporate governance. Admati and Starks concluded that institutional investors who sell stocks will bring bad news to the market. Such withdrawal behavior leads to downward pressure on the stock price and damages the interests of the management. To protect its interests, management will take measures to retain major shareholders in advance. This "exit threat" is not an actual exit, but a possibility between voice and exit. Since the exit behavior of institutional investors will cause serious losses to the interests of management and major shareholders. The possible exit behavior of institutional investors can make management more self-disciplined and achieve a governance effect through the "threat effect", which affects corporate governance and corporate cash holding behavior. However, the institutional investors tend to pursue great cash flow and sufficient cash holdings, while companies with more institutional investors tend to have more cash holding.[29] Based on data from 220 listed companies on the Pakistan Stock Exchange from 2007 to 2018, Ilyas discovered that international institutional investors boosted their cash holdings in corporations by a large amount. Institutional investors have the motive and capacity to influence strategic decisions at the business level, as well as limit the possibility of expropriation inside the firm through effective oversight [30]. As a result, institutional investors raised the company's cash holdings.

4.2 The dampening effect

Some studies have found that the behavior of institutional investors can significantly inhibit corporate cash holdings. Specifically, institutional investors influence firms' cash holding behavior by influencing their dividend payout behavior and corporate governance. Loncon indicated that For the long-term benefit, institutional investors may inhibit the corporate cash holding behavior. By lowering agency costs and external financing expenses, foreign institutional ownership diminishes enterprises' desire to store cash. They also force management to maintain efficient cash levels and avoid expropriation. Furthermore, foreign institutional ownership promotes the marginal value premium of cash. It also reduces the cost of external funding and removes agency conflicts, which are two important conduits for connecting foreign institutional ownership and cash holdings. When cash on hand was depleted, money was shifted to other operations that may help the firm thrive. Foreign investors also avoid the waste of large economic resources that should belong to businesses and their owners by improving governance and preventing cash confiscation. Furthermore, foreign institutions can increase the marginal value of cash that investors value on the stock market, so adding economic value to enterprises. To put it another way, foreign institutional investors can help enhance business values by enhancing governance. [31] In the absence of effective regulation, Karpavicius and Yu discover that business managers with high free cash flows are more inclined to engage in negative NPV projects rather than return funds to shareholders or wait for profitable investment opportunities. Institutions substitute for debt and payments, as an increase in institutional holdings leads to a decrease in debt and payment ratios, therefore, the institutional investor inhibits the corporate cash holding behavior [32]. Furthermore, Tsung et al. (2012) did an empirical analysis on Taiwanese listed businesses from 1997 to 2009 and found that institutional ownership was adversely connected with cash holdings, but that this association was not as consistent and substantial as previously thought [33]. Harford (2008) analyzed the influence of company governance on cash holdings in 11645 samples and discovered that increasing institutional ownership increased cash holdings [34]. Qi et al. (2005) studied 15,832 Japanese listed companies from 1989 to 2000 and discovered a negative correlation between institutional investors and cash holdings [35].

5. Conclusions

This study tries to explore the relationship of institutional investors with corporate cash holdings. This study conducted a theory analysis on how institutional investor affects corporate cash holding behavior with leverage and corporate governance. Institutional investors often indirectly affect

corporate cash holding behavior. The article finds that internal factors, external factors and the overall market situation will affect corporate cash holding. The internal factors are corporate governance mechanism, enterprise refinancing risk and enterprise information asymmetry. The external factors are the perspective of state-owned enterprise reform, inflation expectation and marketization process. In addition, there are macroeconomic conditions. These factors will affect the company's cash holding behavior. Institutional investors can influence these factors. Moreover, it also can influence the firm financing behavior, firm performance and corporate innovation. At the same time, the article find that institutional investors have a strong correlation with corporate cash holding.

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