A Study on Relationship between Shares-proportion of Institutional Investors and Corporation Performance Based on the Dates of the Chinese listed Company

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Abstract

We have a study on relationship between shares-proportion of institutional investors and corporation performance during 2001 to 2005 in China. According to the positive analysis, we found the institutional investors have ability to choose the corporation which performance of them are markedly higher than which are not chosen by them. Moreover, from year of 2003, the more shares-proportion, the more corporation performance and the more restrict level to big shareholder, the more corporation performance are. Furthermore, the performance after the institutional investors investing exceeds the performance. So the institutional investors in China have value-creator characteristic. Development of the institutional investors to establish competition shareholder share structure and institutional investor union action then are advised.

Keywords: Institutional Investors, Corporation Performance, Corporate Governance

1. Introduction

Institutional investors generally have a huge amount of capital, and have a strong ability to collect and analyze the information on the securities, and can carry out the diversification of investment. They absorbed a lot of money from the investors, insurance families and savers, and then put a part of money on the securities market to invest. Institutional investors we talk about mainly include: all types of investment funds, social security funds, insurance funds, securities companies and QFII (Qualified Foreign Institutional Investors).

Institutional investors on western capital markets started early and developed maturely. After the 1980s, the majorities of institutional investors actively participate in corporate governance through electing the agents, participate in the struggle for the agent right. Institutional investors on the United States hold 53.3% shares of the total stock market until 1990, and in 2003 Institutional investors already hold more than 2/3 of the shares in all the major American companies.

Compared to the institutional investors in foreign country, Chinese institutional investors started relatively lately. The Stock Exchange of Shenzhen allows institutional investors to go into the market in 1991, and the Stock Exchange of Shanghai in 1993. Before the implementation of "Securities Act" in 1999, institutional investors in China mainly include securities companies, trust and investment companies, banks and a few of state-owned enterprises. The operation of all kinds of the fund is in the disorder. Then the governors cultivated institutional investors. On November 5th in 2002, the China Securities Regulatory Commission and the People's Bank of China issued "The Procedures of Qualified Foreign Institutional Investors Investment Management in China" together. It allowed the foreign institutional investors coming to China. At present, Chinese institutional investors formed diversified pattern including securities investment funds, social security funds, insurance companies, corporate annuity and qualified foreign institutional investors. In 2001 the market value of the holdings of institutional investors in Shanghai account for 11.4% of the total market value. It increases to 44% in the December of 2005. Institutional investors gradually replace the retails and become a dominant force of the market.

2. Previous Research

Since the 1980s, institutional investors' shareholders in the Western countries have begun to emerge especially in the US and UK markets, they begun to participate in corporate governance as the representative of the interests of shareholders. The main focuses on research of the institutional investors are as following aspects:

2.1 The Research on the Choice of the Target Company

Stulz (1998) and Shivdasani (1993) believed that the relationship between the internal level of shareholding and the possibility of being acquired was negative correlation, because an internal high level of shareholdings would reduce the likelihood of success of the acquisition. Michael P. Smith (1996) studied the situation that the largest institutional investors give the proposal to the company, and found that it had a reverse correlation relationship between the price of the stock and the possibility of being the target company, and had a positive correlation relationship between the size of enterprises, the amount of shareholding of institution investors and the possibility of being the target company. While He found the internal ownership, the ratio of market capitalization and value are not the significant factors affecting the institutional investors to choose the goal company.

2.2 The Research on the Affection about Institutional Investors Taking Part in Corporate Governance

It is still in the theoretical debate stage for institutional investors taking part in corporate governance. The focus is primarily that the goal of institutional investors participating in corporate governance is a long-term holding or short-term interests, and whether they improve corporate performance through participation in corporate governance.

2.2.1 One view is that institutional investors had a positive effect to corporate governance.

Kaplan (1994) found that the existence of the institutional investors as major shareholders would facilitate companies to replace the incompetent managers. Walhal (2000) analyzed the property, manufactory and equipment (PP&E), research and development (R&D) costs of 2500 American companies from 1988 to 1994, and didn't find the evidence of institutional investors leading managers to conduct short-sighted performance. Moreover they found it was the positive correlation relationship between the costs on PP&E and R&D and the amount of the shares owned by the institutional investors. McConnell (1994) found the value of Tobin Q and shares owned by the institutional investors have a positive correlation relationship. Chaganti (1995) measured the company performance by the return rate of assets, and had a conclusion that the scale of the shareholdings owned by the institutional investors and company's performance had a obvious correlation relationship. Michael P. Smith (1996) analyzed 51 companies which had huge achievement on changing governance structure by CalPERS's activism, and gradually led to the increase of shareholder's wealth. Guercio and Hawkins (1999) found that the performance of the target company grew by 50% in the subsequent years since participating in the governance. Institutional investors had more ability to intervene in corporate governance, supervised the business activities of company. Gillan & Starks,(2001), and studied the positive role of activism by the 2042 company's proposal from 1987 to 1994, found that institutional investors had obvious effect to the outcome of voting as the same as the assumption.

2.2.2 Another view thought that the institutional investors had a negative effect to corporate governance.

Lipoton (1991) thought that the institutional investors did not have the skills and experience about managing the company, and didn't improve the decision-making of enterprises. Murphy (1994) thought that the objectives were inconsistent between the institutional investors and the maximizing the value of enterprises, and had short-sighted problems. Their goal often included the social or political factors. In the 1980s, the excellent CEO and influential scholars all claimed that the stock market in United States forced the manager of the company make short-sighted decisions (Monks, 1988; Jacobs, 1991; porter, 1992). American commentators said the two economic characteristics of American may be responsible for the behavior: Active or very active companies controlled the popularity of the market and the concentration of stock which the institutional investors hold in short-term, and make the managers to reduce the object investment about long-term investment returns. Elkins (1990), Daily (1995) pointed out that the institutional investors holding share only, or only taking part in governance didn't have any meaning to corporate performance, the number of the published annual shareholder proposals had no correlation relationship with company performance. Brands and Kim (1994) and Bamer and Cheon (1995) believed that institutional investors had better information-processing capabilities compared to individual investors, but they might not develop its supervision's function, because of the different of its investment objectives and incentives. Given these incentives, Pound (1998) gave efficiency supervision hypothesis, interest conflict hypothesis and the strategy cooperation hypothesis, so the relationship between institutional investors and the efficiency of the company did not exist an inevitable link. Holdermess (2001) found that it had not significant correlation relationship between the concentration of institutional investors holding and the operating performance of business. Keyes's (1997) study showed that institutional investors had not obvious impact on the performance of corporation.

2.3 The Study of the Relationship between Institutional Investors and the capacity of supervision.

Maug (1998) believed that the market's flow could reduce the cost of the bulk transaction, thereby it facilitated investors to exercise the right of supervision and control through accumulating a large share. Shleifer and Vishnny (1986) showed that the existence of institutional investors would help to alleviate the "free-rider" problem caused by shareholding decentralization, and might strengthen internal supervision mechanism to a certain extent. Chidanbaran & John (1997) thought that institutional investors as a major shareholder could get more internal information from the managers. It slowed the problem about asymmetric information in a certain extent on the capital market, strengthened the supervision to enterprises. Holnstrom & Tirole (1993) believed that the growth of institutional investors would reduce the flow of investment increasing the transaction costs of selling the stock.

2.4 The Research on Chinese Institutional Investors.

The government has been vigorously developing institutional investors since 1998 in China. The institutional investors gradually replaced individual investors, and become a dominant force of the market.

2.4.1 Introducing the course of development and current conditions about foreign institutional investors.

Such literature analyzed the course of development and the status about institutional investors, and the function as the role of corporate governance in the United States and other foreign countries. These researches gave some proposal to the domestic institutional investors. They showed that the basis of institutional investors rapidly developing is the legal regulatory, the framework of the organization, the scale's advantages and the mode of operation. Institutional investors in china to participate in corporate governance were necessity and feasibility. They should cultivate the diversification of investors, and improve the relevant legal system (Xu Yunkai, 2002). Zhong Ji yin (2000) carried out the analysis that why and how the institutional investors in the United States were actively involved in corporate governance, and pointed out the unreasonable ownership structure in Chinese securities market (price-earnings ratio much higher than other countries) hampered the development of the company's control right and the development of institutional investors. They should draw successful experiences of the United States, and adopt the investment strategy oriented by corporate governance.

2.4.2 The development of institutional investors would help to form the competition ownership's structure, and improve enterprise performance.

Wang Bin, Yuan Lin (2002) proposed to introduce diverse shareholders, establish a competitive stock mechanism, let institutional investors fill the seats, in lieu of state-owned shares and turn it into a balancing, constraint, incentive and high efficiency shareholding structure. Wang Qibo (2005) demonstrated the institutional investors in listed companies taking part in corporate governance would help to reduce the control of private shareholders, reduce invading the benefit of small shareholders, and improve enterprise performance. A major shareholder taking part in the competition of the control right would cause two functions. On the one hand, institutional investor shareholders would have a positive effect on enterprise's performance through supervising managers' activities. On the other hand, after institutional investors as shareholders accessed the control right, they would use its influence on enterprises.

2.4.3 The authors analyzed the conditions and the effecting factors of institutional investors to participate in corporate governance by the model.

Hao Yun hong(2005) showed that only when the institutional investors investment and the expected return of actively participation in corporate governance were greater and greater, institutional investors would be more motivated to choose on investment and actively participate in corporate governance, and improve the management through the analysis of the cost-benefit' compare model. Jiang Xiang Cai (2004) selected 246 listed electronics industry as the study object, got a conclusion that there was a significantly correlation relationship between the proportion of institutional investors holding share and the proportion of the board of directors holding share, and with information disclosure had not significantly correlation, but with the financial transparency had a significant positive correlation, so he proposed to strengthen the transparency of information.

2.4.4 The study on institutional investors 'sheep effect'.

Song Jun, Wu Chong Feng studied the fund from the October in 1998 to the September in 2000, totally eight quarters, and Shi Dong Hui studied the fund in group from the first-quarter of 1999 to the third-quarter of 2000, they found that the fund exist typical sheep's effect.

We can find through the analysis of the literature the current domestic scholars all regard the fund as the study object of the empirical studies about the relationship between the proportion of institutional investors and listed companies' performance. The scope of the study is small. In addition, as to institutional investors advancing company's performance through forming the balancing shareholding stock structure, the theoretical circle only analyzed in the theoretical model, didn't write any article on this issue to give special empirical research. This paper will study the relation between institutional investor shareholding and company's performance by some, empirical research.

3. The Empirical Analysis of the Relationship between Institutional Investors Holding and Company's Performance

3.1 Sample and data.

We select the sectional data from 2001 to 2005, analyze the relationship between the shareholding of institutional investors and company's performance through empirical studies. According to the annual financial report from 2001 to 2005, we selected the listed companies which their top 10 shareholders have the institutions holding and the listed companies which their top 10 shareholders don't have the institutions holding as the sample in Shanghai and

Shenzhen stock exchanges. We selected all samples that suit all the conditions, and don't remove samples of companies in bad performance (such as ST and PT companies). We think that these companies also reflect the investment orientation of institutional investor, they can make people have a more comprehensive inspection to the effect degree of institution holding.

In order to ensure the validity of data, and eliminate the impact of samples of abnormal, we remove the following data: a. financial companies. This is the international experience of the research on shareholder structure. Its financial management has special character. b. Removing the listed companies which don't have complete data.
We selects with the software, such as Excel, Access, and get the 3892 sample data about institution holding, and the 2178 sample data about no institution holding. The data used in this paper derive from CSMAR database, the website of the China Securities Regulatory Commission (www.csrc.gov.cn), and the website of the China Insurance Regulatory Commission (www.circ.gov.cn).

3.2 Variable Definitions.

The variables of this study mainly include performance variables, the related variables of institutional holdings. Furthermore, in order to control the impact of the performance, this paper also selects assets and liabilities rate and company scale as the control variable.

3.2.1 Company Performance Variables.

When we evaluate the indicators about the profits lever of listed companies, the most common index is net rate of asset earning (ROE) and earnings per share (EPS).
Net rate of asset earning (ROE) is a very comprehensive and the most representative financial indicator, and it is still the comprehensive of the scale of business sales, cost control, capital operation, can reflect the final results of the company's business activities and the profitability of shareholder investment, and it maximizes to pursuit the value of company.
Earnings per share (EPS) seldom is refrained by the industry and scale, it is the most intuitive indicator which can reflect company's profitable ability, and is the basis of the dividends shareholders receive, it is the indicator which investors highly concern and has a significant impact on investment decisions.

3.2.2 Institutions Holding Variables.

As to the measure of institutions holding's numbers, we used the proportion of institutional investors owning share (INS) and institutional holdings of balances (INZ).
The proportion of institutional investors holding was definite as the proportion of the share owned by the largest institutional investor in the target company. It is the indicator that can reflect the possibility of institutions taking part in corporate governance. The proportion of institutional investors holding is higher, the possibility is larger, and the possibility of sharing corporate earnings is higher, so the driving force taking part in corporate governance is higher.

The purpose of this paper is that study the effect that institutional investors holding on company's performance, the effect of institutional investors holding and the majority shareholder in the checks and balances on the company's performance, so we select the ratio about proportion of the largest institution shareholding comparing to proportion of the largest shareholder (INZ). The larger the variable is, the higher the balances degree is, and the result is near to one. It shows that the right of institutional investors is close to the power of control of the first large shareholders. In such circumstances, enterprises are controlled by some controlling shareholder including institutional investors. When the degree is closer to zero, the controlling degree of the first major shareholders is stronger; the degree of balanced by institutional investors is lower.

3.2.3 Internal Control Variables.

To control the effect that the other characteristics of the company arise, we selected the rate of assets and liabilities (HF), company size (SIZE) as a control variable, and the rate of assets and liabilities reflects the company's financial condition, the company' scale also have some impact on corporate performance. These variables affect the company's performance will be controlled, and we can observe that how institution holding affect to corporate performance.

3.3 The Establishment of Assumptions.

Institutional investors, particularly large institutional investors, their investment philosophy firstly is "Value Discovery" because of large scale and high-flow requirements. They carry out a deep level of analysis with their professional background and sophisticated financial analysis tools, and they choose the companies having the invest value to invest. They pay attention to the risk at the time they investing in order to achieve higher returns. From the whole situation, when choosing investment targets institutional investors generally choose the company that has good performance, stability, and a certain growth in future.

According to analysis above, the higher the proportion of institutional investors holding, the more power in corporate governance. When the percentage reached a certain extent, the returns participating in corporate governance surpass the cost of supervision, institutional investors actively want to involve in the supervision. So they can enhance company performance. After investment, it can have a positive on the governance of listed companies through some mechanisms, such as the right to vote, initiating shareholder proposal and private consultations. On the one hand, the performance of these companies is better than those no institutions holding, on the other hand, the company's performance can be improved.

Institutional investors actively involved in corporate control’s competition, and help to restrain the major shareholders, which helps to reduce the control of shareholders private profit and reduce major shareholder expropriating small shareholder, change the phenomenon of ‘one stock dominance’ in China, actively participation in corporate governance. The fact that institutional investors of the United States and other developed countries take part in the governance of listed companies shows that institutional investors actively involved in the control of the listed company competition achieved certain outcome, improving the lever of listed corporate governance.

Based the analysis we mentioned, we propose the following five assumptions, and establish a regression model:

H1: The company performance of institutional holding in the T-1, T year is superior to those company no institutional holding in the T year.

H2: The proportion of institutional holding has positive relationship with the company’s performance.

H3: The performance on the T +1 year is better than the performance before taking part in institutional shareholdings on the T-1 year.

H4: Check-balance shareholder structure has positive correlation with company performance.

We study by multiple regression methods using the above assumptions, the regression models are:

$EPS/ROE = a_0 + \beta_1 INS + c_0 SIZE + c_1 HF + \varepsilon$ …… Model 1

$EPS/ROE = a_0 + \beta_1 INZ + c_0 SIZE + c_1 HF + \varepsilon$ ……Model 2

The variable EPS in the equation represent earnings per share, ROE is return of total assets, SIZE and HF are behalf of the logarithm of the total assets and the assets and liabilities rate, INS represents the proportion of institutional investor shareholding, INZ represents the proportion of institutional shareholding to the proportion of the first major shareholders shareholding. Model 1 observes the relationship between the proportion of institutional investors shareholding and company’s performance, and model 2 observes the relationship between balances of institutional investors holding and company’s performance.

3.4 Statistics Results and Discussion

3.4.1 Integrity Description Statistics

Table 1. Integrity description statistics data

year	number	the proportion of institutional investor shareholding(%)			
		Max	Mix	Median	Mean
2001	720	70.970	0.01	0.950	2.438
2002	908	70.520	0.01	1.560	2.878
2003	744	70.970	0.03	1.735	3.292
2004	773	70.970	0.03	2.385	4.340
2005	745	59.940	0.001	2.980	4.811

From Table 1 we can find: Not considering the factors of industry, with the increasing scale of institutional investors, equity ratio of institutional investors in listed company increases year after year. According to median, the figure increased from 0.95% in 2001 to 2.98% in 2005. But the equity ratio of institutional investors is not balance; in 2005 the minimum of equity ratio was 0.001%, while the maximum reached 59.94%. It suggests that the equity ratio of institutional investors varies greatly. It also shows that institutional investors′force of governing the corporate is relatively weak and the phenomenon that the equity ratio of the largest shareholder is too high still exists, although some institutional investors in listed companies play more important role.

3.4.2 To Test Whether If the Performance Will Affect Institutional Investors to Choose the Target Companies

As same as assumptions 1, the performance of the companies which are chosen by institutional investors is superior to those which are not. We assume the time when institutional investors entered is T. The whole samples whose stocks were not hold by institutional investors before T-1, were divided into two groups. One group is the listed companies whose stocks are hold by institutional investors in T year and the other is not. We use the average value of independent samples to test whether earnings of per share of the two group exists significant difference.

Table 2. Data of the average value of earnings of per share

year	Variable	number of samples	average value	Std. err.	F value	T value	Lower	Upper
2001	X1	181	0.034	0.023	0.095 (0.758)	-2.610*** (0.009)	-0.158	-0.001
	X2	204	0.113	0.020				
2002	X1	201	-0.017	0.028	9.697 (0.002)	-5.316*** (0.000)	-0.287	-0.098
	X2	57	0.175	0.023				
2003	X1	368	0.020	0.020	0.910 (0.341)	-3.181*** (0.002)	-0.239	-0.025
	X2	105	0.151	0.029				
2004	X1	446	-0.047	0.022	4.629 (0.032)	-4.615*** (0.000)	-0.373	-0.105
	X2	89	0.192	0.032				

①* significant at the 10% level using a two-tailed test; ** Significant at the 5% level using a two-tailed test; *** significant at the 1% level using a two-tailed test.

②the data in the ( ) is the value of P.

③X1 The listed companies whose stocks are not hold by institutional investors in T year

④X2 The listed companies whose stocks are hold by institutional investors in T year.

According to the test results, under the condition that listed companies have not been invested by institutional investors in the past, institutional investors choose the listed company which had significantly better performance than those which are not been chosen in the following year. From 2001 to 2004, the EPS of listed companies whose shares are hold by institutional investors the next year are higher 232.35%, 1129.41%, 655%, 508.51% than those not been chosen. And it is significant at the 1% level. This suggests H1 assumption is correct. That is to say institutional investors will choose investment companies whose performance is significantly better. It shows institutional investors have investment concept that they focus on the performance of the company. So we believe they are the discoverer of the value.

3.4.3 Corporate Performance

Table 3. Description statistics of proportion of institutional investors holding and corporate performance

year	0-20%		20%-50%		50%-100%	
	EPS	ROE	EPS	ROE	EPS	ROE
2001	0.0777	0.037	0.1686	0.063	0.1927	0.068
2002	0.0670	0.031	0.0362	0.037	0.1670	0.060
2003	0.0783	0.028	0.1459	0.064	0.2264	0.084
2004	0.0261	0.049	0.1804	0.060	0.2574	0.086
2005	0.0502	0.017	0.1314	0.016	0.2260	0.054

Table 4. Regression analysis on the proportion of institutional investors holding and EPS

	2001	2002	2003	2004	2005
The proportion of institutional investors holding	0.001	0.003	0.007***	0.008**	0.012***
Total assets	0.079***	0.084***	0.080***	0.104***	0.125***
Financial release lever	-0.476***	-0.330***	-0.339***	-0.422***	-0.728***
R^2	0.334	0.332	0.328	0.340	0.434
Adjusted R^2	0.107	0.107	0.103	0.112	0.185
F value	27.4	34.465	27.923	32.177	55.704
P value	0.000	0.000	0.000	0.000	0.000
The number of sample	720	908	744	773	745

* Significant at the 10% level using a two-tailed test; ** significant at the 5% level using a two-tailed test; *** significant at the 1% level using a two-tailed test.

The above tests have confirmed the H2 and H3 establishment. According to proportion of institutional investor holding shares, in table3, there are three sections:(0,20%),(20%-50%),(50%,100). We found EPS and ROE in the section 50%-100% are higher than in the section 20%-50% and 0-20%. It shows the higher the proportion of institutional investor holding is, the more performances are. This is consistent with the statistical result. In table4, from 2003, value of R^2 and adjusted R^2 of regression equation are higher year by year. The correlation coefficient also year by year enhances. The proportion of institutional investor holding are significant correlation with EPS at the 10%, 5%, 1% level. That indicates the higher proportion of institutional investor holding is benefit to the corporate performance.

3.4.4 The research on the check-balance of Stockholder's rights and corporate performance

Table 5. Regression analysis on the check-balance of Stockholder's rights and EPS

	2001	2002	2003	2004	2005
the check-balance	0.001	0.003*	0.007***	0.008**	0.012***
Total assets	0.079***	0.084***	0.080***	0.104***	0.125***
Financial release lever	-0.476***	-0.330***	-0.339***	-0.422***	-0.728***
R^2	0.334	0.332	0.328	0.340	0.434
Adjusted R^2	0.107	0.107	0.103	0.112	0.185
F value	27.4	34.465	27.923	32.177	55.704
P value	0.000	0.000	0.000	0.000	0.000
The number of sample	720	908	744	773	745

* Significant at the 10% level using a two-tailed test; ** Significant at the 5% level using a two-tailed test; *** significant at the 1% level using a two-tailed test.

The regression result of the check-balance of Stockholder's rights and EPS in table5 is significant at the 1% level. The value of R^2 is in the section of 0.1-0.2, and higher year by year. The result is as same as H4. That is to say, on the check-balance shareholder structure institutional investor take part in corporate governs positively, then the performance will be better.

4. Conclusion

4.1 Institutional investor is a value discoverer in China

Based on the data of 2001, we use average value of independent samples to test EPS and find that the performances of listed companies which are invested by institutional investors are better than others. That is to say institutional investors will choose the target company according to a professional look and sophisticated financial analysis tools for investment analysis and they choose potential companies to enter. So we believe that Chinese institutional investors are "value discoverers."

4.2 Institutional investors also have feature of "value creator"

From 2003, the equity proportion of institutional investors and EPS significantly correlated. System of check-balance of institutional investors and performance of the company are significantly correlated. Our study indicates that after years of development, especially in the latest three years, institutional investors in our country, to a certain extent, improve the company's performance. This is similar with the current domestic Empirical Study. From 2001 to 2005, EPS of listed companies, with institutional investors in top 10 shareholders, was significantly higher than those with no institutional investors and their performance is significantly better than others. From 2003 to 2005, the performance of companies which get more growth in T +1 is better than that in T-1.It indicates that after the investment of institutional investors, it will produce positive impact on performance. The higher the proportion of institutional investors hold, the better the performance of the company is. Based on the above, we believe institutional investors are not only "Value Discoverers," but also "value creators", which is consistent with the conclusion about domestic institutional investors′investment philosophy. Since 2002, the process of securities market has accelerated in China. The security regulatory level is rising and our country vigorously promotes the development of institutional investors. Institutional investors started to change ideas, advocated value investment. There were more cases about institutional investors participating in corporate governance, such as the 2002 ZTE Issued H Share Storms. It shows that the awareness that our institutional investors participate in corporate governance is rising. From the initial self-interest to participation in company governance, it indicates the positive significance of institutional investors in corporate governance.

4.3 Proposal

So based on our study and the reality of shareholding structure of Chinese state-owned enterprise, we give some proposals:

4.3.1 Gradually eliminate the system shortcomings

The empirical results show that after 2003, the equity ratio of institutional investors is correlated with the company's performance. However, the equity ratio of institutional investors in our country is still small and its role is not very large. So we should gradually eliminate the system shortcomings limiting the role institutional investors and relax equity ratio of institutional investors in listed companies and provide the system conditions for institutional investors play a leading role in governance structure of listed companies. For example, in “Management Measures of Securities Investment Fund Operation ", a Fund holds shares of a listed company, which can not exceed 10% of the market value of its net assets; the same Fund managers hold a security of a company which can not exceed the 10% of it. To the reality of “only one major shareholder” in China, the ratio is not enough to form balancing force to the largest shareholder. To a certain extent, it limits the enthusiasm of institutional investors in corporate governance. Relevant government departments should revise and perfect related ordinances, according to the needs Chinese securities market development to institutional investors and the present situation of shareholding structure.

4.3.2 Modify investors′ structure and build competitive shareholding structure.

Modern enterprise theory believes, as a lease portfolio enterprise, the internal arrangements of its shareholding structure will directly affect the company's performance and value. Efficient shareholding structure should meet two conditions: first, the controlling shareholder equity can control the most resources by the least shareholding. Second, the other shareholders union is possible to replace the controlling shareholders. In China there exists phenomenon of "only one major shareholder" and the equity ratio of institutional investors is too low. It is very difficult for institutional investors to play their role to check and balance the largest shareholder. The ongoing shareholding reform will help to resolve the circulation of non-tradable shares, realizing same shares with same rights. But no fundamental solution to phenomenon of one stock dominance in Chinese listed companies. So it is necessary to develop institutional investors and guide the securities investment funds, insurance companies, social security funds and other institutional shareholders, institutional investors actively and narrow the gap between the largest shareholders and institutional investors. On one hand, the phenomenon of one stock dominance can be solved and can reduce the necessary portion of institutional investors for decision-making in listed companies; On the other hand, it can reduce the risk of individual investors, establish shareholding structure with the existence of several controlling shareholders including institutional investors and improve corporate governance and enhance performance in the deeper level.

4.3.3 Perfect the securities market and improve the quality of listed companies

The quality of listed companies and institutional investors′ actively participation in corporate governance is interactive. The stronger a listed company′ s growth is, the more institutional investors they can attract. Whether listed companies have sustained investment value, sustained development capabilities and the ability to give shareholders more satisfactory long-term rate of return are the basis for the healthy development of the market. It is also the important market conditions to attract institutional investors actively to participate in corporate governance.

4.3.4 Promote the government's supervision to institutional investors

Under the condition that the stock market are imperfect, institutional investors, as a group with strong influential to the market, are greatly possible to make market rent-seeking and market manipulation. The government's supervision to institutional investors, with relatively high direct costs and indirect costs, is inevitably failed. However, the government′ s failure is not meant to deny government regulation. It indicates the government is the role of complement of the market but not the role replacement when it handles the relationship between sides of the security market. In the future the government should improve the laws and regulations related to security supervision. At the same time, more focus should be placed on intensifying law enforcement and establish highly efficient enforcement mechanism. Government regulators should focus on the characteristics of institutional investors′ market behavior and establish a set of timely monitoring and warning mechanism for institutional investors. In addition, as the investment behavior of institutional investors becomes more complex, the government's supervision should be more refined and stringent.

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