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The Relationship Between Shareholding of Common Institutions and Stock Price Stability

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Abstract. In recent years, the global capital market has undergone earth-shaking changes. In the stock market, the dominant force influencing stock price fluctuations has shifted from individual investors to the current situation, where institutional holdings account for the majority. In China, although the development history of the capital market is relatively short compared with that of the West, the shareholding ratio of common institutions continues to rise in the Chinese stock market and holds a place. The phenomenon of joint institutional shareholding is becoming increasingly common, and the shareholding ratio is also growing day by day. China's capital market is also becoming more and more mature. Against this backdrop, the relationship between common institutional shareholding and stock price fluctuations has gradually become a focus of attention in both the academic community and the market. In view of this, this paper summarizes the research results of scholars at home and abroad. By summarizing their research achievements, it is found that they mainly focus on two conclusions: "Joint institutional shareholding can promote stock price fluctuations" and "joint institutional shareholding can alleviate stock price fluctuations". This article aims to review the conclusions of domestic and foreign scholars on the relationship between common institutional shareholding and stock price stability, summarize its core ideas, and provide references for future scholars' research as well as for market practice and regulatory decision-making.

Keywords: Joint Institutional Shareholding, stock price stability, Overview

1. Introduction

In the last century, the capital markets of mainstream developed countries such as Europe and the United States had completed the transformation from being dominated by individual investors to being dominated by institutional investors. Although China's capital market started relatively late, it has also developed rapidly. In recent years, the A-share market has also transformed from being dominated by individual investors to a significant increase in the proportion of joint holdings by institutions. The 14th Five-Year Plan clearly states that the proportion of direct financing should be increased, and professional institutional investors should be strengthened. This policy orientation further highlights the core position of institutional investors in the capital market.

At present, on average, the constituent companies of the CSI 300 Index in China are cross-held by nine institutions. This extensive cross-holding model enables the fluctuation of a single

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company's stock price to be transmitted to the entire market through the institutional holding network, amplifying its impact on the overall market. Stock price stability is a core indicator of the healthy operation of the capital market. However, there has always been controversy over whether the shareholding of common institutions is a "stabilizer" for maintaining stock price stability or a "booster" for intensifying stock price fluctuations.

This article, by sorting out the research achievements of renowned scholars at home and abroad in recent years, summarizes their core viewpoints and conclusions. It not only provides theoretical and methodological references for the subsequent research of scholars, but also offers empirical basis for regulatory authorities to formulate relevant policies and maintain market stability, ultimately contributing to the sound operation and high-quality development of the capital market.

2. Theoretical basis

Joint institutional shareholding refers to the situation where institutional investors, such as public funds, insurance funds, private equity funds, qualified foreign institutional investors (QFII), and other professional investment institutions, simultaneously hold equity in multiple enterprises [1]. Moreover, according to the Securities Law of the People's Republic of China, when the shareholding ratio reaches 5% or more, it constitutes "significant shareholding". Therefore, we often clearly define the threshold for joint institutional shareholding as 5% [1].

However, the formation of this phenomenon is no accident. It stems from the core demand of institutional investors for diversified asset allocation and risk dispersion - in a complex and volatile market environment, by simultaneously investing in competing enterprises within the same industry or complementary enterprises across industries, institutional investors can leverage the diversification of their asset portfolios to mitigate the impact of price fluctuations in a single company. By building an equity network, it integrates scattered industry information and high-quality resources, thereby forming a unique advantage that distinguishes it from individual investment.

The connotation of joint institutional shareholding can be understood from three aspects: core attributes, essential characteristics, and internal logic. Institutional investors can conduct in-depth research and dynamic tracking on industry development trends and enterprise fundamentals by relying on professional investment research teams, complete information channels, and scientific valuation models. Its shareholding decisions are not driven by short-term market sentiment, such as the common practice of retail investors buying high and selling low or irrational speculation, but are based on judgments of the intrinsic value of assets. For instance, when evaluating the new energy industry, institutions will comprehensively consider factors such as the intensity of policy subsidies, the progress of technological research and development, and the supply and demand relationship of the upstream and downstream of the industrial chain, rather than merely focusing on short-term stock price fluctuations. This professionalism enables capital to flow more precisely to high-quality enterprises, enhancing the overall resource allocation efficiency of the market.

As institutional investors hold equity in multiple enterprises simultaneously, their interests are no longer focused on a single enterprise but rather on maximizing the overall long-term value of their investment portfolios. This orientation makes it pay more attention to the sustainable development capabilities of enterprises and the industry synergy effects. For instance, when joint institutional investors hold equity in multiple semiconductor enterprises simultaneously, they are more inclined to promote cooperation among the enterprises in chip research and development rather than maliciously competing on their prices. Excessive competition may lead to a decline in profits across the entire industry and harm the overall returns of the investment portfolio.

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Meanwhile, the shareholding behavior of institutional investors in multiple enterprises not only affects the business decisions of individual enterprises but may also influence the pricing efficiency of the entire sector and even the capital market through industry linkage. For instance, when co-institutional investors discover systemic risks in a certain industry, they will simultaneously adjust the portfolios of multiple holding enterprises within that industry. It may trigger capital flows within the sector, thereby affecting the overall valuation of the sector. Institutions promote the overall governance level of the industry by passing on effective governance experiences among different enterprises, reducing abnormal stock price fluctuations caused by governance deficiencies, and ultimately facilitating the stable operation of the capital market. Due to the influence of institutional investors on multiple enterprises, while achieving their own investment goals, they also affect the operation of the overall capital market.

3. The stock price is stable

In the stock market, it is often referred to as stock price stability when the stock price fluctuates slightly and orderly within a certain period of time without experiencing sharp or irrational surges or crashes. Its core feature is that the price fluctuation range is within a reasonable range, the price trend matches the fundamentals of the enterprise, and it has a strong recovery ability when subjected to external shocks.

There are mainly three types of factors influencing the stability of stock prices: enterprises, the market, and investor behavior.

Enterprises are the core support for the stability of stock prices. The sustainable development and predictable profitability of an enterprise are the cornerstones of stable stock prices. Conversely, significant fluctuations in performance can easily trigger abnormal stock price movements. At the same time, if an enterprise possesses core competitiveness and a stable market share, it can enhance its ability to resist risks. Even in the face of market fluctuations, its stock price is more likely to remain stable. The corporate governance capacity and the quality of information disclosure should not be overlooked either. Standardized corporate governance and timely, accurate information disclosure can reduce the asymmetry of market information and thereby curb abnormal fluctuations in stock prices.

Secondly, when the macroeconomic growth rate is stable and inflation is moderate, it can promote the equilibrium of market flows, enhance investors' confidence, and make it easier for stock prices to remain stable. Conversely, if the economic growth rate drops sharply and policies are adjusted significantly, it may trigger market panic and lead to intensified stock price fluctuations. Most enterprises in mature industries (such as public utilities and consumer staples) are less affected by the economic cycle, and their stock price fluctuations are usually lower than those in cyclical industries (such as steel and real estate). Furthermore, when the overall market funds are abundant and supply and demand are balanced, the buying and selling forces of stocks are relatively balanced, and stock prices tend to be stable, less likely to experience sharp fluctuations.

Investor structure serves as a regulator of market sentiment. Institutional investors pay more attention to long-term value investment, and their trading behaviors tend to be more rational, making them less susceptible to short-term emotions. The higher the shareholding ratio, the more stable the stock price. At the same time, the higher the consistency of market expectations for an enterprise or industry, the more stable the stock price will be. If there are significant differences in expectations, it is more likely to cause fluctuations in stock prices.

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4. The importance of institutional investors to stock prices

The behavior of institutional investors has a significant impact on stock prices and is also a sign of market maturity. Institutional investors can maintain the stability of stock prices and curb short-term significant fluctuations. At the same time, enhance the efficiency of stock price pricing to reflect the true value of the enterprise. Because institutional investors have professional research teams, they can more deeply explore the intrinsic value of enterprises.

Due to the relatively high proportion of institutional investors' capital scale, they have a significant impact on the supply and demand relationship of stocks.If multiple institutions hold a certain stock heavily for a long time, the price of that stock is more likely to stabilize. Conversely, if institutions withdraw collectively, it may lead to a long-term slump in stock prices. Meanwhile, through the research and prediction of industry trends, it is easier to trigger a collective flow of funds, driving up the stock prices of this industry structurally.

4.1. Stabilizer

Many scholars have conducted systematic analyses on the argument that joint institutional shareholding can promote stock price stability.

Deng took Chinese A-share listed companies from 2007 to 2021 as samples and measured the risk of stock price crashes by constructing the NCSKEW and DUVOL [2]. The endogeneity test and robustness test were conducted using methods such as the Heckman two-stage, and the mechanism of action was verified by combining the Sobel test and Bootstrap method [2]. Research has found that joint institutional ownership can significantly reduce the risk of stock price crashes through two channels: enhancing the transparency of corporate information and improving corporate governance levels. The higher the shareholding ratio, the more obvious the effect [2]. This conclusion is more pronounced in state-owned enterprises, companies with high industry concentration, and those whose executives have a financial background [2].

Li took the A-share listed companies on the Shanghai and Shenzhen stock exchanges from 2000 to 2020 as samples and measured the risk of stock price crashes by constructing the NCSKEW and the DUVOL [3]. Taking the dummy variables of CIO1, CIO2, and CIO3 as explanatory variables, endogeneity tests and robustness tests were conducted using methods such as Heckman two-stage, PSM-OLS, and PSM-DID, and the mechanism of action was explored through the mediating effect model [3]. Research has found that joint institutional shareholding can significantly reduce the risk of stock price crashes by alleviating agency problems and lowering information asymmetry [3]. This research is more evident when the level of internal governance within a company is relatively low. Meanwhile, joint institutional ownership, as an external governance mechanism, can effectively reduce the risk of stock price crashes [3].

Li et al. took A-share listed companies from 2003 to 2019 as the research objects. By applying quantitative methods such as regression analysis, they found that institutional investors could influence the stability of stock prices by virtue of their capital and professional advantages [4]. Take stock price synchrony as an example. The relevant indicators of stock markets in developed countries are relatively low. In emerging markets, the development levels of institutional investors vary, and their impacts on stock price synchrony differ [4]. In terms of the risk of stock price crashes, research shows that institutional investors can curb stock price crashes, and the higher the shareholding ratio, the more obvious the effect [4]. Overall, institutional investors play the role of stabilizers and optimizers in the market. Their rational investment behavior helps to reduce abnormal fluctuations in stock prices, making stock prices closer to the true value of companies,

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optimizing resource allocation, and promoting the healthy development of the capital market [4]. At the same time, joint institutional shareholding can effectively promote cooperation among enterprises, avoid the inefficiency of individual enterprises, and thereby enhance the value of the investment portfolio [4].

In conclusion, in state-owned enterprises, companies with high industry concentration and executives with financial backgrounds, when the ownership of common institutions is used as an external governance mechanism, the higher the shareholding ratio of common institutions, the lower the risk of a stock price crash. At the same time, joint institutional shareholding can effectively promote cooperation among enterprises and enhance the value of the investment portfolio. However, due to the limitations of data collection and taking into account the shareholding ratios of common institutional investors in non-listed companies, the research conclusions are not accurate.

4.2. Reinforcing device

Some scholars, however, believe that joint institutional shareholding will intensify stock price fluctuations, and they have also researched this.

Liu Menghui et al. took A-share listed companies in Shanghai and Shenzhen from 2007 to 2022 as samples and empirically examined the impact of common institutional ownership on stock price synchrony based on the irrational behavior view of stock price synchrony [5]. The study uses the Negative Return skew coefficient (NCSKEW) and the return fluctuation ratio (DUVOL) to measure the risk of stock price crashes. It takes the dummy variables of common institutional ownership (Coz1), connection degree (Coz2), and shareholding ratio (Coz3) as explanatory variables, and controls for variables such as enterprise scale and asset-liability ratio. Endogeneity tests were conducted through instrumental variable methods, PSM, Heckman two-stage, and multi-period DID, etc. Meanwhile, robustness tests such as variable substitution and sample interval alteration were carried out [5]. The results show that the common institutional ownership significantly enhances the synchronicity of stock prices, that is, the Coz1, Coz2, and Coz3 coefficients are all significantly positive at the 1% level [5]. This research provides empirical evidence for understanding the capital market effects of common institutional ownership and has reference significance for regulatory authorities to guide institutional development, for listed companies to optimize governance, and for improving the efficiency of market resource allocation [5].

Taking the non-financial industry listed companies in China's A-share market from 1999 to 2016 as samples, Wu, from the perspective of social networks, extracted institutional investor groups from the institutional investor network using the Louvain algorithm to explore the impact of institutional investor clustering on the risk of stock price crashes [6]. The results show that the proportion and shareholding ratio of institutional investors' collective shareholding are significantly positively correlated with the risk of stock price crash [6]. Moreover, this intensifying effect is more significant in non-state-owned enterprises, enterprises with higher agency costs, and enterprises in regions with a higher level of investor protection. Provide references for the supervision of institutional investors and the stability of the capital market [6].

Based on data from the Norwegian stock market, Che found that foreign institutions, due to their large trading volumes and short investment cycles, have increased the volatility of stocks. In contrast, local individual investors have reduced the volatility of stocks because they trade less and have longer investment cycles. Local institutional investors, on the other hand, fall somewhere in between [7].

To sum up, most scholars believe that joint institutional shareholding can intensify stock price fluctuations, and this is more pronounced in non-state-owned enterprises and those in regions with a

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higher level of investor protection.

5. Comprehensive review

Since the last century until now, since joint institutional shareholding entered the mainstream capital market, due to its own complexity and the impression of the stock market, it has quickly attracted widespread attention from scholars. The term "joint institutional shareholding" can be found in many authoritative journals. Summarizing the above research findings, the academic community mainly focuses on the "collaborative governance" hypothesis and the "collusion monopoly" hypothesis for research. Some scholars believe that joint institutional shareholding can stabilize stock prices and reduce stock price fluctuations. Some scholars also believe that joint institutional shareholding will accelerate stock price fluctuations and increase the risk of stock price crashes [8].

The collaborative governance hypothesis holds that common institutions can effectively reduce stock price fluctuations. Investors, through in-depth exploration of a specific industry, integrate industry information, break down barriers, and improve the information environment. Meanwhile, institutional investors, in order to maximize the benefits of their investment portfolios, effectively alleviate malicious competition among enterprises by integrating resource capabilities, reducing the uncertainty of stock prices caused by malicious competition, and achieving collaborative optimization. The conspiracy monopoly hypothesis holds that common institutions will intensify stock price fluctuations. Investors may collectively increase or decrease their holdings for their own interests, intensifying the impact on the market. At the same time, co-institutional investors are at risk of colluding with enterprises, thereby manipulating market pricing, monopolizing industry information, building industry barriers, and intensifying stock price fluctuations. However, despite the significant progress made in the research, there are still some deficiencies. Two hypotheses have long existed, but there is a lack of an integrated perspective. Meanwhile, there are still many gaps in the research on non-financial channels. For instance, in terms of cultural dissemination and other aspects.

Whether it is collaborative governance or collusive monopoly, both indicate that the shareholdings of common institutions are closely related to stock prices. For institutional investors, they should assist companies in improving governance, enhancing cooperation among enterprises, and ultimately achieving a win-win situation [8]. For listed companies, the transparency and timeliness of information disclosure should be enhanced, and the equity structure should be optimized [8]. For regulators, it is necessary to strengthen the supervision between institutional investors and enterprises, effectively prevent malicious competition and monopoly, and control market pricing [8]. At the same time, in the future, irrational patterns can be explored in depth or combined with the current system to draw conclusions that are more in line with letting go, ultimately achieving high-quality development of the capital market [8].

6. Conclusion

This article focuses on the relationship between common institutional shareholding and stock price stability. Firstly, it expounds the theoretical basis of common institutional shareholding, stock price stability and the importance of institutional investors to stock prices; Then, from the two aspects of "stabilizer" and "enhancer" respectively, combined with academic research, it is explained that joint institutional shareholding can not only reduce the risk of stock price crash and promote stock price stability by improving information transparency and alleviating agency problems, but also may enhance stock price synchronicity and intensify stock price fluctuations. Finally, it is pointed out that

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currently, there are mainly disputes around the hypotheses of "collaborative governance" and "collusion monopoly", and the existing research has deficiencies. Suggestions are put forward for institutional investors, listed companies, and regulators, and the future research directions are projected.

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