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Research on the Relationship Between Corporate Green M&A and Joint Institutional Investors

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Abstract: In the booming financial environment, various investment methods emerge endlessly. To pursue more benefits, institutional investors often choose to hold equity in multiple companies at the same time to ensure the maximization of their interests. Joint institutional investors are an integral and important part of financial markets. At the same time, today, as green development has become mainstream, green mergers and acquisitions are an important means for enterprises to achieve green development. Based on this, this article systematically sorts out the current research on joint institutional investors and green mergers and acquisitions and divides them into three categories: policy support, corporate transformation, and green innovation according to the content. In terms of policy, the government promotes corporate green M&A through policy constraints and factor support; in terms of corporate governance, green M&A is conducive to curbing corporate greenwashing behavior, improving environmental performance, and promoting corporate transformation; in terms of green innovation, green M&A is of great significance and can Sustainable development enhance the ability of enterprises to carry out green innovation.

Keywords: joint institutional investors, corporate governance, green mergers and acquisitions

1. Introduction

1.1. Research Background

Institutional investors can trace their roots back to the "Overseas and Colonial Government Trust Fund" that emerged in the United Kingdom in 1868. The "Overseas and Colonial Government Trust Fund" is a securities investment fund and can be said to be the most typical institutional investor. The reason for its emergence is that many people want to invest overseas but lack relevant knowledge and the high risks of the market, thus promoting the formation of government funds. Subsequently, various types of institutional investors sprung up, such as public equity investment, private equity investment, and venture capital, etc., promoting the development and prosperity of the financial market. In this case, the phenomenon of joint institutional investors is formed. According to statistics from Xiang et al. and others, the shareholding ratio of the top ten shareholders of S&P 500 companies in the United States is as high as 40%; while in China, the shareholding ratio of ordinary shareholders among the top ten shareholders of A-share listed companies in the last period was stable at around

15% [1]. It can be seen that joint institutional investors have become an indispensable and important part of the financial market and have also become a hot topic in current academic research.

Since the beginning of the British Industrial Revolution, the contradiction between humans and the environment has continued to deepen. In 1952, London was occupied by deadly smog, causing thousands of people to die from inhaling toxic gases. It was known as the "London Smog" in history. In addition, more and more words such as greenhouse effect and microplastics have entered people's lives, telling people that environmental protection is urgent. The Paris Climate Change Conference is a good example. Therefore, in recent years, more and more companies will consider reducing pollution and protecting the environment when operating. At the same time, governments around the world are also actively promulgating corresponding laws and regulations to help companies achieve environmental protection goals.

1.2. Literature Review

The emergence of joint institutional investors can be traced back to the 1980s, and relevant scholars have discovered and studied this phenomenon. Bresnahan and Salop (1986) analyzed the impact of competitors establishing joint ventures on parent companies' competitive motivations. Under this condition, since the merger of part of the company's resources leads to the merger of part of the interests, the change in competitive motivation will be smaller than the change caused by the merger of two companies [2]. Kogut (1988) analyzed two motivations for joint ventures from the perspective of transaction costs and strategic behavior. The first motive is the reaction of domestic oligarchs to attract foreign companies to enter the market; the second is that joint ventures are a means for large companies to win over small companies to increase their control [3].

Over time, the focus of academic research on joint institutional investors has also changed, and more and more scholars have begun to study the common shareholders behind these companies' joint ventures (of which joint institutional investors are one type). Governance implications. For example, Ren et al. (2022) found that ordinary institutional investors can inhibit inefficient investments of enterprises through corporate governance [4]. Wang et al. (2023) found that joint institutional investors can control enterprises through regulatory effects and synergistic effects. Curb managers' short-sighted behavior [5].

1.3. Research Significance

In this environment and trend, more and more enterprises will consider reducing their own externalities when conducting economic activities to reduce the negative impact of their actions on the environment. For example, companies such as Starbucks and KFC are gradually replacing plastic straws with paper straws to protect the environment. Similarly, in recent years, institutional investors have also intentionally moved towards green aspects when conducting financial activities. For example, when companies engage in mergers and acquisitions, joint institutional investors often provide corresponding suggestions to reduce the premium of mergers and acquisitions and achieve smooth mergers and acquisitions. In the current context of green development, joint institutional investors will provide suggestions on environmentally friendly mergers and acquisitions, allowing companies to choose more environmentally friendly companies for mergers and acquisitions, so as to achieve green mergers and acquisitions and protect the environment.

Based on this, this article sorts out the current academic articles on the theme of joint institutional investors and green mergers and acquisitions and divides them into three categories according to related topics, namely policy, governance and green innovation. In terms of policy, the government's active support policies help companies carry out green mergers and acquisitions, and the effect is significant. Therefore, the government can learn from the existing policies of other countries to formulate its own policies and promote the green development of companies; in terms of governance, joint institutional investors intervene the corporate merger and acquisition link helps companies carry out green mergers and acquisitions; in terms of green innovation, joint institutional investors investing in companies help companies carry out green innovation. In addition, this article starts from the content and summarizes the main contents of existing articles, including research background, research methods and research conclusions, and puts forward relevant suggestions. It is hoped that this article can lay a certain foundation for subsequent research.

2. Common Institutional Investors and Policy Support

To cope with global warming, the Chinese government has proposed a "carbon peaking and carbon neutrality" strategy from a macro perspective, that is, a "double carbon" strategy. The “Implementation Plan for Energy Saving and Low-Carbon Action for Ten Thousand Enterprises” has been proposed on the corporate side. Green mergers and acquisitions can be seen as corporate responses to strategies. Some scholars used the propensity score matching double-difference method to analyze the impact of such policies on green mergers and acquisitions of listed companies in A-share heavily polluting industries from 2008 to 2020. The study found that relevant policies mainly achieved control of heavily polluting industries. Businesses do this in two ways. The first is energy-saving constraints, which are the direct supervision and restraint of enterprises; the second is the incentive mechanism, which promotes the green activities of heavily polluting enterprises by providing financial policies. Driven by environmental protection policies, companies are more willing to carry out green M&A activities. At the same time, this promotion effect is more obvious in the eastern region, non-resource-based cities, areas with strong environmental supervision and law enforcement, and areas with high product market competition [6].

It can be seen that to guide enterprises to green M&A, policy constraints and incentives are essential. The government needs to strictly supervise and restrict enterprises through rules and regulations; at the same time, it also needs to provide incentives and financial support for enterprises to carry out green activities, a two-pronged approach to ensure that enterprises achieve green mergers and acquisitions.

3. Common Institutional Investors and Green Governance

Under the current "double carbon" policy, when companies disclose their information, they should improve their corporate environmental information disclosure level to meet policy, social, and other requirements. However, there is a situation where some companies only talk but do not do anything, that is, they promote environmentally friendly behaviors but lack substantive actions. This behavior is called "greenwashing".

The impact of joint shareholdings by institutions of different natures on corporate green behavior is also the focus of current research. Some scholars selected China's A-share listed companies from 2010 to 2020 as research samples to conduct heterogeneity analysis [7]. The study found that joint shareholding by non-green institutions will lead to collusion and fraud through anti-competitive means and intensify corporate "greenwashing" behavior, while green joint institutional investors inhibit corporate "greenwashing" behavior through authorization. In addition, rule constraints and media supervision can effectively curb the "greenwashing" behavior of non-green institutional holding companies.

In terms of joint institutional investors and corporate environmental performance, some scholars used the Shanghai and Shenzhen A-share manufacturing industry from 2011 to 2021 as a research sample to analyze the impact of joint institutional investors on the environmental performance of the companies they invest in [8]. They suggested two possible effects. First, the company improves

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environmental performance through internal governance and optimizing market competition; second, the company's short-term profit-seeking motives and "interest barriers" increase corporate environmental violations. The study found that joint institutional investors improve corporate environmental performance by improving corporate governance, optimizing industry competition, and linking financing constraints. Further research found that these joint institutional investors have a more significant promotion effect on the environmental performance of state-owned enterprises, enterprises in highly market-oriented regions, and enterprises in highly regulated industries.

Currently, green M&A strategies (GMA) are mainly divided into two categories. One is the source emission reduction strategy, which is generally considered to be conducive to the green transformation of enterprises; the other is the terminal governance strategy, which is considered to be detrimental to the green transformation of enterprises [9]. The former refers to the use of green and environmentally friendly means by enterprises during production to reduce pollution emissions. For example, corporate scientific research reduces the generation of pollutants by improving its own technological level and using new processes in the production stage; or after pollutants are generated, they use green high-tech means to purify the pollutants generated and meet emission standards. Then discharge. Because this strategy starts from the source of pollution and intervenes and treats pollution before it occurs, it can usually reduce the pollution of enterprises and accelerate the green transformation of enterprises. The latter refers to corporate intervention after the pollution has been discharged. For example, after companies discharge sewage into rivers, they use green methods to purify the rivers.

Through the analysis of China’s heavily polluting enterprise data from 2011 to 2020 and the environmental protection investment strategies of green M&A enterprises, it was found that most enterprises are more willing to choose source emission reduction strategies, but this choice only occurs when there is little pressure from the media or strong government supervision. proceed below. [9] One possible hypothesis is the “market pressure hypothesis” [10]. In other words, media coverage increases corporate pressure and triggers management shortsightedness.

To sum up, the emergence of joint institutional investors has greatly promoted the green governance of enterprises. As the behind-the-scenes managers of enterprises, joint institutional investors need to consider current policies and media requirements while maximizing their interests, so they often choose to appoint managers for corporate governance. Under this kind of governance, most companies will choose to explore the green direction and achieve green governance.

4. Common Institutional Investors and Green Innovation

Under the requirements of the current green strategy, mergers and acquisitions of heavily polluting enterprises have become an effective way for corporate green innovation, but the true purpose of corporate green mergers and acquisitions still needs to be verified. Currently, there are two motivations for companies to choose green mergers and acquisitions. One is altruistic motivation, where companies are eager to develop and use green mergers and acquisitions as a means of transformation; the other is instrumental motivation, where companies use green mergers and acquisitions as a gimmick to please the government, market, and consumers [11].

Based on this, some scholars used data from China's Shanghai and Shenzhen A-share listed companies from 2008 to 2020 to analyze the impact of green mergers and acquisitions on green innovation of heavily polluting enterprises. They found that green mergers and acquisitions are a strategy for companies to seek transformation, not to flatter themselves. Green mergers and acquisitions can promote corporate innovation in the long term. Because green mergers and acquisitions can help companies send good signals to society and obtain better policy preferences, companies are willing to invest more in green innovation. From the perspective of heterogeneity, for non-state-owned enterprises, green M&A is more effective in improving the green innovation level of such enterprises. In addition, companies are more willing to conduct green mergers and acquisitions in areas with weak environmental law enforcement and places with high levels of green development [12].

Some scholars have analyzed green mergers and acquisitions and corporate green innovation based on the perspective of stakeholders [13]. They hypothesized that the input of stakeholders such as the government and suppliers would become an intermediary factor for green mergers and acquisitions to affect corporate green innovation, because in this case, green mergers and acquisitions can obtain more factor support, thus promoting green innovation. Subsequently, they examined Shanghai and Shenzhen A-share industrial listed companies from 2009 to 2018 and found that companies that implemented green mergers and acquisitions had stronger green innovation capabilities than companies that did not implement green mergers and acquisitions, confirming their hypothesis and this promotion is feasible. continuously. In addition, this intermediary effect only exists in small and medium-sized enterprises and high-tech enterprises with higher financing constraints.

It can be seen that based on the special nature of joint institutional investors, the existence of joint institutional investors will promote green mergers and acquisitions by enterprises. During the process of corporate mergers and acquisitions, co-institutional investors can stay behind the scenes and use their own information and experience, as well as developed information networks, to help companies successfully achieve green mergers and acquisitions. At the same time, because green mergers and acquisitions are in line with policies and development trends, companies often receive support from the government and policies during the process, further clearing obstacles for green mergers and acquisitions. Green mergers and acquisitions can promote further green development of enterprises to achieve long-term benefits and achieve a win-win situation. It should be noted that the purpose of green mergers and acquisitions by enterprises and joint institutional investors is not purely for their own development, or to cater to the requirements of the government and society. Therefore, enterprises and joint institutional investors must supervise each other, disclose their information in a timely manner, and accept supervision from the government and the public.

5. Conclusion

Since the last century, with the booming development of finance, investment methods, and investment strategies have undergone earth-shaking changes. The main investors are gradually shifting from individuals to institutions. In addition, more and more ordinary shareholders have begun to enter the public eye, become active in the investment arena, and have also become the subject of research by scholars. At the same time, in recent years, as the global climate has become increasingly warmer, governments, international or civil organizations, etc. have taken action to deal with increasingly severe climate challenges. For example, 195 countries made arrangements to deal with climate change at the Paris Climate Change Conference. This means that humanity is constantly advancing towards environmental protection.

Based on this, this article combines the two to analyze the relationship between ordinary institutional investors and green mergers and acquisitions and finds that ordinary institutional investors with green preferences can promote green mergers and acquisitions, while green mergers and acquisitions are conducive to improving corporate governance. This conclusion reveals a certain relationship between ordinary institutional investors and green mergers and acquisitions and provides a reference for future research.

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