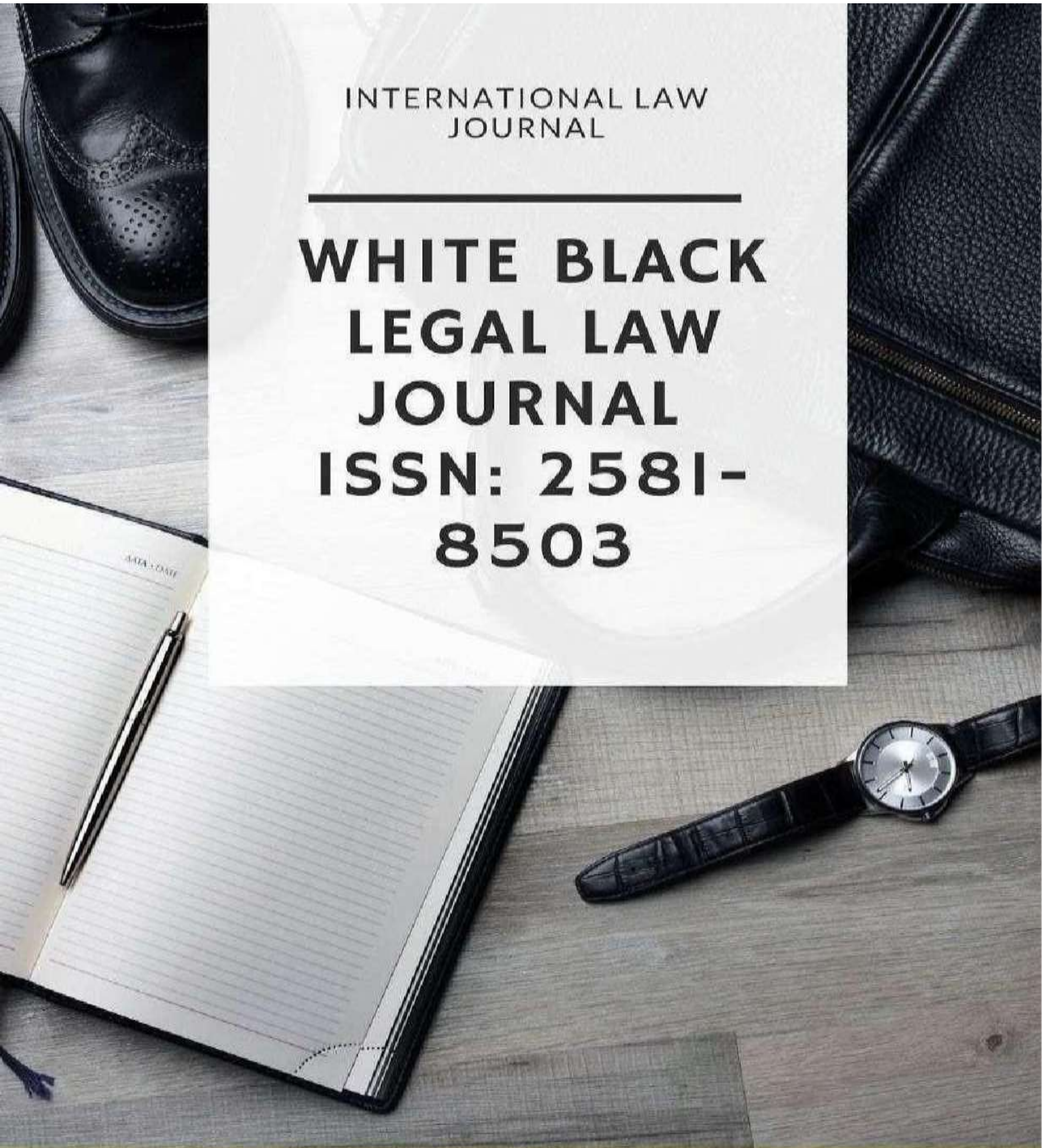

INTERNATIONAL LAW JOURNAL

WHITE BLACK LEGAL LAW JOURNAL

ISSN: 2581-8503

Peer - Reviewed & Refereed Journal

The Law Journal strives to provide a platform for discussion of International as well as National Developments in the Field of Law.

DISCLAIMER

EDITORIAL TEAM

Raju Narayana Swamy (IAS) Indian Administrative Service officer

Dr. Raju Narayana Swamy popularly known as Kerala's Anti Corruption Crusader is the All India Topper of the 1991 batch of the IAS and is currently posted as Principal Secretary to the Government of Kerala. He has earned many accolades as he hit against the political-bureaucrat corruption nexus in India. Dr Swamy holds a B.Tech in Computer Science and Engineering from the IIT Madras and a Ph. D. in Cyber Law from Gujarat National Law University . He also has an LLM (Pro) (with specialization in IPR) as well as three PG Diplomas from the National Law University, Delhi- one in Urban Environmental Management and Law, another in Environmental Law and Policy and a third one in Tourism and Environmental Law. He also holds a post-graduate diploma in IPR from the National Law School, Bengaluru and a professional diploma in Public Procurement from the World Bank.

Dr. R. K. Upadhyay

Dr. R. K. Upadhyay is Registrar, University of Kota (Raj.), Dr Upadhyay obtained LLB, LLM degrees from Banaras Hindu University & Phd from university of Kota.He has succesfully completed UGC sponsored M.R.P for the work in the ares of the various prisoners reforms in the state of the Rajasthan.

Senior Editor

Dr. Neha Mishra

Dr. Neha Mishra is Associate Professor & Associate Dean (Scholarships) in Jindal Global Law School, OP Jindal Global University. She was awarded both her PhD degree and Associate Professor & Associate Dean M.A.; LL.B. (University of Delhi); LL.M.; Ph.D. (NLSIU, Bangalore) LLM from National Law School of India University, Bengaluru; she did her LL.B. from Faculty of Law, Delhi University as well as M.A. and B.A. from Hindu College and DCAC from DU respectively. Neha has been a Visiting Fellow, School of Social Work, Michigan State University, 2016 and invited speaker Panelist at Global Conference, Whitney R. Harris World Law Institute, Washington University in St.Louis, 2015.

Ms. Sumiti Ahuja

Ms. Sumiti Ahuja, Assistant Professor, Faculty of Law, University of Delhi, Ms. Sumiti Ahuja completed her LL.M. from the Indian Law Institute with specialization in Criminal Law and Corporate Law, and has over nine years of teaching experience. She has done her LL.B. from the Faculty of Law, University of Delhi. She is currently pursuing Ph.D. in the area of Forensics and Law. Prior to joining the teaching profession, she has worked as Research Assistant for projects funded by different agencies of Govt. of India. She has developed various audio-video teaching modules under UGC e-PG Pathshala programme in the area of Criminology, under the aegis of an MHRD Project. Her areas of interest are Criminal Law, Law of Evidence, Interpretation of Statutes, and Clinical Legal Education.

Dr. Navtika Singh Nautiyal

Dr. Navtika Singh Nautiyal presently working as an Assistant Professor in School of law, Forensic Justice and Policy studies at National Forensic Sciences University, Gandhinagar, Gujarat. She has 9 years of Teaching and Research Experience. She has completed her Philosophy of Doctorate in ‘Intercountry adoption laws from Uttranchal University, Dehradun’ and LLM from Indian Law Institute, New Delhi.

Dr. Rinu Saraswat

Associate Professor at School of Law, Apex University, Jaipur, M.A, LL.M, Ph.D,

Dr. Rinu have 5 yrs of teaching experience in renowned institutions like Jagannath University and Apex University. Participated in more than 20 national and international seminars and conferences and 5 workshops and training programmes.

Dr. Nitesh Saraswat

E.MBA, LL.M, Ph.D, PGDSAPM
Currently working as Assistant Professor at Law Centre II, Faculty of Law, University of Delhi. Dr. Nitesh have 14 years of Teaching, Administrative and research experience in Renowned Institutions like Amity University, Tata Institute of Social Sciences, Jai Narain Vyas University Jodhpur, Jagannath University and Nirma University.
More than 25 Publications in renowned National and International Journals and has authored a Text book on Cr.P.C and Juvenile Delinquency law.

Subhrajit Chanda

BBA. LL.B. (Hons.) (Amity University, Rajasthan); LL. M. (UPES, Dehradun) (Nottingham Trent University, UK); Ph.D. Candidate (G.D. Goenka University)

Subhrajit did his LL.M. in Sports Law, from Nottingham Trent University of United Kingdoms, with international scholarship provided by university; he has also completed another LL.M. in Energy Law from University of Petroleum and Energy Studies, India. He did his B.B.A.LL.B. (Hons.) focussing on International Trade Law.

ABOUT US

WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

THE ROLE OF INSTITUTIONAL INVESTORS IN ENHANCING CORPORATE GOVERNANCE: AN ANALYSIS OF SHAREHOLDER STEWARDSHIP IN INDIA

AUTHORED BY: NAYEISHA PURI

Affiliation: Army Institute of Law, Mohali.

Date: 3 May 2024

Abstract

The research paper examines the role of institutional investors in encouraging shareholder stewardship in the Indian corporate governance process. This study highlights important practices, benefits, and challenges of stewardship through a comprehensive examination of regulatory frameworks and empirical evidence. Shareholder stewardship, in a sense, marks a watershed point in corporate governance, emphasizing institutional investors' developing fiduciary obligations in their interaction with investee companies to create long-term value. The study conceptualizes shareholder stewardship, its growth, importance, and impact on corporate governance through a discussion of global experiences and references to India. It explores the advantages and disadvantages of stewardship practices. It examines the regulatory systems that support these behaviours, both globally and in India. The findings suggest that institutional investors play an important role in advancing corporate governance policies that promote greater transparency and long-term wealth generation.

Keywords

Shareholder stewardship, institutional investors, corporate governance, ESG, India, mutual funds, regulatory framework

Background:

Shareholder stewardship implies the proactive involvement of institutional investors in the governance of investee companies to encourage long-term value creation. The concept has acquired significance because of the high holding of equity by institutional investors in listed companies across the globe. In India, even regulating bodies like SEBI, IRDAI, and PFRDA have developed stewardship codes to guide institutional investors.

Shareholder stewardship means the fiduciary duty of an institutional investor to take active management and exercise oversight over the capital they invest to yield sustainable long-term growth. Going beyond the short-term accumulation of financial returns, the role extends to other broader goals like sustainable economic growth, environmental conservation, and social welfare. Institutional investors, including mutual funds, pension funds, insurance companies, banks, and the like, predominantly hold public shares, making them very active stakeholders in the pattern and process of corporate governance in any country. This paper will seek to understand these large investors' role in greater detail and its impact and execution in India.

With the essence of shareholder stewardship, responsible oversight of capital embodies long-term value creation for clients and beneficiaries in the economic, environmental, and social dimensions. Institutional investors are made up of mutual funds, alternative investment funds, public financial institutions, banks, and insurance companies, being large participants in this ecosystem. However, it is essential to realize that these are not the final owners of the funds managed; they are management organizations acting on behalf of a much larger class of diversified investors.[1]

Significance:

Analysing the relevance and importance of the institutional investor base in corporate governance is imperative to ensure greater transparency, accountability, and long-term value in the capital market. Against the backdrop of an ever-changing scene of corporate governance and capital markets, the concept of shareholder stewardship has arisen as the critical ingredient for responsible allocation and management of capital.[2]

According to the OECD Working Paper on 'Institutional Investors and Stewardship' (2022), advanced markets like the UK, the US, and Japan witnessed a surge in institutional ownership,

[1] John C. Coffee, Liquidity Versus Control: The Institutional Investor as Corporate Monitor, 91 COLUM. L. REV. 1277 (1991).
[2] Andrei Shleifer & Robert W. Vishny, A Survey of Corporate Governance, 52 J. FIN. 737 (1997).

eclipsing direct household ownership.[3] Institutional investors now command a staggering 43% of the global market capitalization, wielding influence worth a whopping USD 44 trillion. In India, the narrative echoes a similar tune, with institutional investors steadily amplifying their sway over the capital markets.[4] From 21% in 2001 to a formidable 34% in 2018, institutional ownership paints a picture of evolving dynamics, where banks and mutual funds emerge as formidable players in the investment landscape.[5]

The focus on stewardship has intensified since the expansion of corporations has exploded so that today, they have more power not only economically but also socially and environmentally.[6] This environment marked the beginning of the era of ESG considerations and responsible investing, as institutional investors transitioned from passive observance.[7] They must now actively accept their obligations to guarantee that their investment is carried out in accordance with ESG principles. With growing ESG considerations and concepts such as responsible investing, institutional investors have little scope to lose sight of these arguments. The Cambridge Institute for Sustainability Leadership believes responsible investment to be "the investment approach that explicitly acknowledges the relevance to the investor of environmental, social, and governance factors, and of the long-term health and stability of the market as a whole."[8]

Shareholder stewardship, which stems from the concept of caring for the rights of those for whom one works, requires institutional investors to feel a strong sense of duty. This is especially true in India, where diverse interests eventually come together inside the framework of a corporate organization. For institutional investors, stewardship is inextricably tied to long-term value creation and societal well-being.

---

[3] OECD, Institutional Investors and Stewardship, OECD WORKING PAPERS, 19-20 (2022).
[4] Ruth V. Aguilera & Gregory Jackson, The Cross-National Diversity of Corporate Governance: Dimensions and Determinants, 28 ACAD. MGMT. REV. 447 (2003).
[5] OECD, Ownership Structure of Listed Companies in India, OECD PUBLICATIONS (2020).
[6] Reena Aggarwal, Isil Erel, Miguel Ferreira & Pedro Matos, Does Governance Travel Around the World? Evidence from Institutional Investors, 100 J. FIN. ECON. 154 (2011).
[7] The Cambridge Institute for Sustainability Leadership, Responsible Investment, https://www.cisl.cam.ac.uk/business-action/sustainable-finance/investment-leaders-group/what-is-responsible-investment#:~:text=Responsible%20investment%20is%20an%20approach,the%20market%20as%20a%20whole.
[8] Ibid.

Theoretical Framework

As posited by the UK Stewardship Code (2020), the journey of stewardship carries us beyond the old paradigms of profit at any cost. It is about proper use of capital, strategic engagement, and commitment to sustainable benefits for the economy, the environment, and society. The UK Stewardship Code (2020) defines stewardship as "the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment, and society." This holistic approach underscores the need for active engagement with investee companies to foster sustainable growth and mitigate risks. Post the Global Financial Crisis (GFC), regulators worldwide have been exercising more vigilance toward the stewardship duties of institutional investors, a manifestation of which is found in the Indian markets. Few large wielders of economic, societal, and environmental influence are companies. The financial crisis that followed the GFC underscored the importance of governance in maintaining financial stability. As the activities of companies increase in influencing various stakeholders, institutional investors are increasingly called upon to encourage responsible corporate behaviour by stewarding.

The excerpt was drawn from the authors' words in the following quote: "The notion of 'stewardship' about institutional shareholders, may be defined as "the process through which institutional shareholders, directors, and others seek to influence companies in the direction of long-term, sustainable performance that derives from contributing to human progress and the well-being of the environment and society."[9]

Institutional investors not only consider financial performance but are also concerned with a variety of non-financial factors, such as environmental considerations, social responsibility, and a company's corporate governance. Therefore, the collective engagement of institutional investors is believed to drive change and create excellent value for all stakeholders in the long term.

[9] Arad Reisberg, The Notion of Stewardship from a Company Law Perspective: Re-Defined and Re-Assessed in Light of the Recent Financial Crisis?, 18 J. FIN. CRIME 126 (2011).

Analysis:

1. Examining the Regulatory Framework for Shareholder Stewardship in India

India's journey toward codification of stewardship principles began with statements on regulations that were issued in 2010 and 2014 for mutual funds. However, only comprehensive guidelines were laid down for stewardship post-GFC. The Insurance Regulatory and Development Authority of India (IRDAI) followed suit. Subsequently, the Pension Fund Regulatory and Development Authority (PFRDA) and the Securities and Exchange Board of India (SEBI) have issued frameworks outlining expectations of stewardship for institutional investors.

The rationale for such regulation was the acknowledgment of massive conflicts of interest and passive behaviour of shareholders, mainly through financial institutions. Regulators were thus looking for ways to enable the large, active, and global institutional investors to play an impactful stewardship role. Institutional investors can raise their voices on corporate decisions, encourage transparency, and hold the companies in which they invest to account by engaging with them.

In simple terms, the essence of shareholder stewardship in India, therefore, would be exercising due care in the conduct of business by the investee companies, engaging in constructive dialogue with the management, and voting at the shareholder meetings.

The regulatory framework governing shareholder stewardship in India has been significantly strengthened in recent years. This development aims to formalize and enhance the responsibilities of institutional investors towards their investee companies, ensuring greater accountability, transparency, and long-term value creation. The framework comprises several key components issued by major regulatory bodies, including the Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI), and the Pension Fund Regulatory and Development Authority (PFRDA).

SEBI's Stewardship Code (2020)

SEBI, being the principal regulator of capital markets in India, has issued detailed regulations for the promotion of stewardship by shareholders. In 2020, SEBI issued a landmark circular that laid down the stewardship responsibilities of mutual funds and AIFs. The circular forms the basis of the regulatory regime wherein institutional investors are required to formulate and publicly disclose their stewardship policies. The implication here is that the two entities should clarify how or through what process they monitor and engage the investee company. The code also contains periodic reporting on the stewardship activities to ensure that the investors are transparent and accountable for their activities. This is SEBI trying to instil a proactive ownership culture in mutual funds and AIFs for responsible investments.[10]

IRDAI Guidelines (2017)

IRDAI was among the early regulators in India to adopt the principles of stewardship. In 2017, IRDAI had come out with detailed guidelines for insurers, which had made it mandatory for them to adopt a formal stewardship code. Under these guidelines, overseeing the activities of the investee companies by the insurers and diligently engaging with them are well-recognized as critical roles of the insurers. The IRDAI guidelines focus on managing, in particular, the conflicts of interest, making it a significant area given the fiduciary responsibilities of the insurers. These guidelines are, therefore, expected to push the bar higher through active engagement and robust conflict management regarding governance standards for the investee companies to assure that insurers act in the best interests of the policyholders.[11]

PFRDA Stewardship Code (2018)

In 2018, the PFRDA mandated that pension funds adopt stewardship principles. The guidelines focus on voting policies, conflict of interest management, and periodic reporting of stewardship activities to ensure high levels of transparency and accountability. The stewardship code of the PFRDA, currently in force since 2018, applies to pension funds, drawing attention to the need for an intensive monitoring and engagement process with investee companies. The importance of exercising the voting right by the pension funds in a responsible manner has thus been underscored, considering the significant influence in corporate governance linked with this considerable shareholding. The code put forward by the PFRDA encourages pension funds to

[10] SEBI, Circular on Stewardship Code for Mutual Funds and all Categories of Alternative Investment Funds, SEC. & EXCH. BD. OF INDIA (2020), https://www.sebi.gov.in/legal/circulars/feb-2020/circular-on-stewardship-code-for-all-mutual-funds-and-all-categories-of-aifs-in-relation-to-their-investment-in-listed-equities_46048.html.

[11] IRDAI, Guidelines on Stewardship Code for Insurers in India, INS. REG. & DEV. AUTH. OF INDIA (2017), https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo3316&flag=1.

engage constructively with company management to enhance governance practices and foster long-term value. In this way, the code asserts pension fund beneficiaries' interests with the broader goals of sustainable and ethical corporate conduct.[12]

Together, these regulatory initiatives cumulatively form an all-encompassing framework that buttresses the stewardship responsibilities of institutional investors in India. It ensures that mutual funds, insurers, and pension funds are actively engaged in corporate governance and lead towards transparency, accountability, and long-termism in the Indian capital markets. This regulatory framework is not just focused on protecting the interests of the investors but also seeks to establish a culture of responsible investment in line with global best practices in corporate governance.

Impact of the Regulatory Framework on Shareholder Stewardship in India

India's regulatory framework for stewardship of the shareholder has been developed during the last decade as a need for strengthening corporate governance concerned about improving investor protection. Some of the more critical regulators are the Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI), and the Pension Fund Regulatory and Development Authority (PFRDA). Other positive developments from the regulatory regime for shareholder stewardship in different jurisdictions, mainly the UK, address issues related to transparency and accountability among institutional investors. These things have impacted corporate governance and investor engagement in the Indian capital markets. Corporate governance practices are generally promoted by institutional investors, such as mutual funds, insurance companies, and pension funds, mainly through active engagement with the company, proxy voting, and direct dialog with the management. The SEBI has, through the recent stewardship code that it put together in this year 2020, mandated the disclosure of stewardship policies of institutional investors and their activities in assuring much more transparency in action on their part.

Increased Transparency

The mandate for institutional investors to develop and publicly disclose their stewardship policies

---

[12] PFRDA, Circular on Stewardship Code for Pension Funds, PENSION FUND REG. & DEV. AUTH. (2018), https://www.pfrda.org.in/index1.cshtml?lsid=1473.

has brought much transparency to the area of stewardship of shareholders. The regulatory regime necessitates the disclosure of exact approaches toward monitoring and engagement of investee companies for mutual funds, insurance companies, and pension funds. This public disclosure of nature and process ensures that important information about the stewardship policies of institutional investors is made available to key stakeholders: the beneficiaries, the regulators, and the public at large.[13]

Transparency provides a basis for trust and confidence building in financial markets. It allows beneficiaries and other stakeholders to scrutinize the alignment of the stewardship activities of institutional investors with their interests and values. Further, it allows for informed decisions, enabling the scrutiny and comparison of differences in the approaches to the stewardship of institutional investors.[14] Consequently, the mandatory disclosure of stewardship policies acts as a catalyst for improving the overall standards of corporate governance and promoting more responsible and sustainable investment practices.

Enhanced Accountability

Another critical element of regulatory arrangement is the regular reporting requirements, which hugely increase the accountability of the institutional investor. Such obligations put much pressure on institutional investors to report extensively on their actions as stewards, including actions such as their engagements with the investee companies and the results it. The regulatory framework, therefore, ensures that institutional investors document their stewardship activities and subsequently disclose them, which acts in light of a culture of active and responsible ownership.

Enhanced accountability through regular reporting has several critical functions. First, it alerts institutional investors to remain vigilant and proactive in their stewardship responsibilities, for their actions will be under scrutiny by regulators and stakeholders. Second, it acts as a channel for continuous improvement since now institutional investors will be able to review their stewardship activities, pinpoint where to improve, and adopt best practices. Lastly, periodic reporting gives

[13]Kee H. Chung, Michael Firth & Jeong-Bon Kim, Earnings Management, Surplus Free Cash Flow, and External Monitoring, 58 J. BUS. RES. 766 (2005).
[14] Joseph A. McCahery, Zacharias Sautner & Laura T. Starks, Behind the Scenes: The Corporate Governance Preferences of Institutional Investors, 71 J. FIN. 2905 (2016).

institutional investors a sense of responsibility in which they are seen to work in the interest of the beneficiaries in the long term and at a level higher than themselves—that is, for corporate sustainability and ethical behavior. A study[15] conducted in 2009 demonstrated that shareholder activism by institutional investors led to significant enhancements in governance practices and financial performance among corporations. This empirical evidence underscores the positive impact of institutional investor stewardship on corporate governance outcomes.

Gillan and Starks (2003)[16] highlighted the correlation between institutional investor involvement in corporate governance and the alignment of management actions with shareholder interests. Their research findings provide further support for the instrumental role played by institutional investors in shaping governance practices within corporations.

The growing emphasis of the regulatory framework on transparency and accountability now augments the efficacy of shareholder stewardship toward achieving broader objectives of market integrity and investor protection. It is within this context that mandates of public disclosure and regular reporting under the framework make institutional investors not only a steward of capital but also stewards of good governance, which positively impacts the corporate sector for the sustainable development of the economy.

Identifying Challenges and Opportunities in Implementing Effective Stewardship Practices

Many works have considerably evolved the practice and increased awareness of the need for shareholder stewardship. However, the practical application of stewardship practices introduces several obstacles, and recognition of the inherent opportunities is essential as a driver for continual improvement in corporate governance.

---

[15]Marco Becht, Julian Franks, Colin Mayer & Stefano Rossi, Returns to Shareholder Activism: Evidence from a Clinical Study of the Hermes UK Focus Fund, 22 REV. FIN. STUD. 3093 (2009), https://academic.oup.com/rfs/article/22/8/3093/1584773.

[16] Stuart L. Gillan & Laura T. Starks, Corporate Governance, Corporate Ownership, and the Role of Institutional Investors: A Global Perspective, 13 J. APPLIED FIN. 4 (2003).

Challenges:

1. **Conflict of Interest**: Institutional investors frequently encounter conflicts of interest between their fiduciary duties to their clients and their own business interests.[17] These conflicts can undermine their stewardship activities, as decisions made in the interest of clients might conflict with the institutional investor's profit motives. For instance, an institutional investor may be reluctant to engage in activism against a company if the investor also seeks business relations with that company.
2. **Resource Constraints**: The effective execution of stewardship activities requires substantial resources dedicated to monitoring, engagement, and voting. Smaller institutional investors, unlike their larger counterparts, may lack the necessary capacity and resources to engage comprehensively with investee companies. This disparity can result in uneven stewardship practices across the market, with smaller investors potentially being less effective in their governance roles.
3. **Cultural Barriers:** Cultural attitudes towards shareholder activism and corporate governance can significantly impede the implementation of effective stewardship. In certain markets, there is a cultural reluctance towards activism and a preference for passive investment strategies. This cultural context can hinder institutional investors from engaging robustly with companies and advocating for better governance practices.
4. **Diverse Regulatory Requirements:** Institutional investors operating globally may face challenges in adhering to diverse regulatory requirements across different jurisdictions. This complexity can make it difficult to implement a cohesive stewardship strategy.
5. **Measuring Impact:** Quantifying the impact of stewardship activities can be challenging. While qualitative improvements in corporate governance are evident, measuring the direct financial benefits of stewardship efforts can be complex.
6. **Balancing Short-Term and Long-Term Goals:** Institutional investors often face pressure to deliver short-term financial performance, which can conflict with the long-term goals of stewardship. Balancing these competing interests requires careful consideration and strategic planning.

[17] Lucian A. Bebchuk, Alma Cohen & Scott Hirst, The Agency Problems of Institutional Investors, 31 J. ECON. PERSP. 89 (2017).

7. **Regulatory Compliance:** Adhering to various stewardship codes and regulations can be complex and challenging. Different jurisdictions may have different requirements, making it difficult for global investors to comply with all applicable regulations.

Opportunities:

1. **Technological Advancements**: The advent of big data and artificial intelligence (AI) presents significant opportunities for enhancing institutional investor stewardship. These technologies can improve the capacity of investors to monitor corporate performance and engage effectively with investee companies. AI can analyse vast amounts of data to identify governance issues and predict future performance trends, while big data can provide deeper insights into corporate practices and stakeholder impacts.[18]
2. **Collaborative Engagement:** Institutional investors can achieve greater impact through collaborative engagement. By joining networks and alliances, they can pool their resources and expertise to exert more significant influence on corporate governance practices.[19] Collaborative efforts can amplify the voices of smaller investors, enabling them to participate in stewardship activities that they might not be able to undertake independently.[20]
3. **Regulatory Support:** Ongoing regulatory developments offer robust support for more rigorous and impactful stewardship activities. Enhanced stewardship codes and the implementation of Environmental, Social, and Governance (ESG) reporting requirements are pivotal in promoting transparency and accountability. Regulatory support can also provide clear guidelines and frameworks for institutional investors, helping to standardize practices and elevate overall stewardship quality.[21]

While the path to effective stewardship is fraught with challenges such as conflicts of interest, resource constraints, and cultural barriers, there are also substantial opportunities to enhance stewardship practices. Technological advancements, collaborative engagement, and supportive regulatory frameworks are crucial in overcoming these challenges and fostering a more active and

[18] Min Chen, Shiwen Mao & Yunhao Liu, Big Data: A Survey, 19 MOBILE NETWORKS & APPLICATIONS 171 (2014), https://link.springer.com/article/10.1007/s11036-013-0489-0.
[19] Bernard S. Black, Agents Watching Agents: The Promise of Institutional Investor Voice, 39 UCLA L. REV. 811 (1992).
[20] Terry McNulty & Donald Nordberg, Ownership, Activism and Engagement: Institutional Investors as Active Owners, 24 CORP. GOVERNANCE: AN INT'L REV. 346 (2016), https://onlinelibrary.wiley.com/doi/abs/10.1111/corg.12143.
[21] See note 4.

responsible stewardship culture. By leveraging these opportunities, institutional investors can significantly contribute to improved corporate governance, ultimately leading to more sustainable and ethical business practices.

Impacts:

Institutional investor stewardship plays a pivotal role in shaping corporate governance practices, exerting a profound influence on transparency, accountability, and strategic oversight within companies. Empirical research indicates that active engagement by institutional investors contributes to the enhancement of governance standards and the overall performance of corporations.

1. **Board Composition and Independence:** Institutional investors advocate for a higher representation of independent directors on corporate boards. This advocacy ensures that decision-making processes are subject to rigorous scrutiny and are aligned with the interests of shareholders. By promoting board independence, institutional investors foster a governance structure that prioritizes accountability and oversight.[22]
2. **Executive Compensation:** Active stewardship by institutional investors influences executive compensation policies within corporations. Such stewardship efforts aim to align executive remuneration structures with long-term performance objectives rather than short-term financial gains. By advocating for performance-based compensation metrics, institutional investors incentivize executives to pursue strategies that create sustainable value for shareholders.[23]
3. **Risk Management:** Institutional investors play a pivotal role in advocating for robust risk management frameworks within corporations. Through active engagement, they encourage companies to identify, assess, and mitigate potential risks effectively. By prioritizing risk management practices, institutional investors contribute to the preservation of shareholder value and the long-term sustainability of corporations.[24]
4. **Improved Corporate Governance:** By actively engaging with investee companies, institutional investors can drive improvements in corporate governance practices. This leads

[22] Marina Goranova & Lori V. Ryan, Shareholder Activism: A Multidisciplinary Review, 40 J. MGMT. 1230 (2014).
[23] Albert O. Hirschman, Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States (1970).
[24] See note 19.

to greater transparency, accountability, and better decision-making within companies, ultimately enhancing shareholder value.[25]

5. **Long-Term Value Creation:** Focusing on long-term value creation rather than short-term gains aligns the interests of institutional investors with those of their clients and beneficiaries. Companies that adopt sustainable and responsible practices are more likely to deliver consistent and enduring returns.[26]
6. **Positive Societal Impact:** Institutional investors can influence companies to adopt practices that benefit society and the environment. This includes promoting responsible business practices, environmental sustainability, and social equity, contributing to broader societal goals.[27]
7. **Enhanced Investor Confidence:** Effective stewardship practices can boost investor confidence in the market. When investors see that institutional investors are actively monitoring and engaging with companies, they are more likely to trust that their investments are being managed responsibly.[28]

Institutional investor stewardship serves as a catalyst for driving improvements in corporate governance, thereby enhancing transparency, accountability, and strategic oversight within companies. The advocacy efforts of institutional investors regarding board composition, executive compensation, and risk management contribute to the creation of sustainable long-term value for shareholders. Empirical research findings underscore the significance of institutional investor engagement in promoting effective governance practices and ultimately enhancing corporate performance.

Conclusion

The evolution of shareholder stewardship reflects an increasing understanding of the interdependence between financial performance, corporate governance, and larger societal implications. As institutional investors maintain enormous influence over global financial markets, their role as stewards is expected to grow and adapt.

---

[25] See note 16.
[26] See note 15.
[27] See note 22.
[28] Brian J. Bushee, The Influence of Institutional Investors on Myopic R&D Investment Behavior, 73 ACCT. REV. 305 (1998).

Shareholder stewardship has become an essential component of modern corporate governance, driven by the need for responsible investing strategies that generate long-term value. Institutional investors play an important part in this process, using their large shareholdings to influence business behaviour and decision-making. In the Indian context, regulatory frameworks have been built to oversee stewardship initiatives, with an emphasis on openness, accountability, and the incorporation of ESG factors.

Although substantial progress has been made, there are still obstacles and research gaps that must be addressed.

Thorough academic study aimed at filling in these gaps can improve our knowledge of stewardship practices and their effects, which will ultimately result in more sustainable and successful investment plans. Institutional investors must manage the complexities of various regulatory frameworks, resource limitations, and the requirement to balance short-term and long-term goals as the landscape of shareholder stewardship continues to change. They can help create a financial system that is more sustainable, fair, and stable by doing this.