Governance Influencers

Lesson 16

KEY CONCEPTS

■ Corporate Governance ■ Governance Influencers ■ Investor Associations ■ Proxy Advisory Firms ■ Retail Investors ■ FIIs ■ Institutional Investors ■ Impact Investing ■ ESG ■ Green Bonds ■ ESG Bonds

Learning Objectives

To understand:

- Governance Influencers
- Investor Associations
- Proxy Advisory Firms
- Institutional Investors
- ESG Investment

Lesson Outline

A. ICSI-Corporate Leader in Corporate Governance

- ICSI's initiatives towards fostering Corporate Governance

B. Investor Associations

- Introduction
- Role in Corporate Governance

C. Proxy Advisory Firms

- Introduction
- Emergence of Proxy Advisory Firms
- Functions of Proxy Advisory Firms
- Role in Corporate Governance
- Issues and Challenges
- Indian Regulatory Regime

D. Institutional Investors

- Meaning of Institutional Investors
- Types of Institutional Investors
- Importance of Institutional Investors
- Role in Corporate Governance
- Issues and Challenges

E. ESG Investment

- Introduction / Meaning of ESG Investment
- Evolution of ESG Investment & Recent Trends
- Benefits and challenges in ESG investment
- ESG Investment as an influencer of good Corporate Governance
- Lesson Round-up
- Glossary
- Test Yourself
- List of Further Readings
- Other References

PART A. ICSI-CORPORATE LEADER IN CORPORATE GOVERNANCE

The Institute of Company Secretaries of India (ICSI) is the apex body and only recognized professional body in India to develop and regulate the profession of Company Secretaries in India. It is a premier national professional body set up under an act of Parliament, the Company Secretaries Act, 1980. ICSI functions under the jurisdiction of the Ministry of Corporate Affairs, Government of India.

ICSI has over the years undertaken numerous efforts to foster the development of corporate governance practices and encouraged their implementation in true letter and spirit.

ICSI has risen as a corporate leader in corporate governance and some of the efforts ICSI towards this end are highlighted below:

ICSI'S MOTTO, VISION AND MISSION STATEMENT

Motto:

Satyma Vada Dharamam Chara - Speak the Truth, Abide by the Law

Vision:

To be a global leader in promoting Good Corporate Governance

Mission:

To develop high calibre professionals facilitating good Corporate Governance.

ICSI - CENTRE FOR CORPORATE GOVERNANCE, RESEARCH AND TRAINING (CCGRT)

ICSI- Centre for Corporate Governance Research and Training (CCGRT) is the National Research and Training Centre of the Institute of Company Secretaries of India, a statutory body incorporated under an Act of Parliament functioning under the administrative jurisdiction of the Ministry of Corporate Affairs. It has been serving the society since May, 1999 through various professional development programmes, research and high- end training with focus on corporate governance. ICSI-CCGRT has contributed remarkably in the past through its various initiatives towards Academics inputs, Corporate Training and Research. The ICSI officials at CCGRT are actively engaged in publishing research related to the profession and inculcating research acumen amongst students and members.

ICSI – PMQ COURSE IN CORPORATE GOVERNANCE

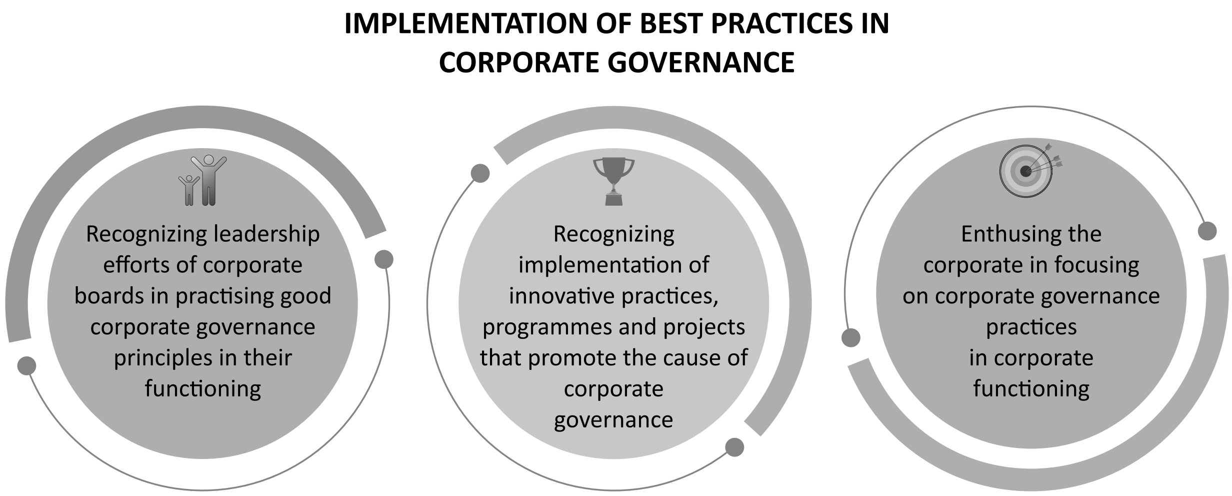
ICSI has introduced many post membership courses as a source of specialization for its members in their chosen field. One such PMQ course is in corporate governance. The PMQ Course is conducted in 4 stages and it provides in-depth understanding of various corporate governance facets.

ICSI'S SECRETARIAL AND AUDITING STANDARDS

ICSI has issued various secretarial standards some of which are mandatory in nature while the others are recommendatory. ICSI has also issued a number of guidelines on various corporate matters to enhance understanding of its members and acts as a guide in implementation of best management practices. ICSI has also recent issued standards on Auditing.

ICSI AWARDS

ICSI is committed to good Corporate Governance and has played a pivotal role in creating awareness on various issues impinging upon corporate governance. One of the important initiatives of the Institute to good Corporate Governance is the ICSI National Awards for Excellence in Corporate Governance which was instituted in the year 2001 to promote good governance practices among the corporate and to recognize those companies worthy of being exemplified.



Source: https://www.icsi.edu/media/webmodules/180825022_AboutTheAwards.jpeg

Besides the above, ICSI has also instituted various other awards which foster the spirit of corporate governance. These include:

- **ICSI CSR Excellence Awards**
- **ICSI Best Secretarial Audit Report Award**
- **ICSI Best PCS Firm Award**
- **ICSI Business Responsibility and Sustainability Awards**

ICSI SEMINARS / CONFERENCES / WORKSHOPS

ICSI, on a continuous basis, organizes in India and abroad various programmes in the form of seminars, webinars, conferences etc. to educate and empower its students, members and other professionals and corporate to understand the various nuances of law to ensure their effective implantation and practice.

PART B. INVESTOR ASSOCIATIONS

Investor Associations as the name recommends are non profit organisations that are formed and function for the benefit of investor community. These associations are formed to educate individual investors about stocks, bonds, mutual funds, and other financial instruments, about investors' rights, remedies and to create awareness amongst investors.

There are many SEBI recognized Investor Associations in India and their list is available on the website of SEBI.

As per SEBI's conditions of Operation of Investors' Associations:

1. **Formation**
   a. A society registered under the Societies Registration Act, or formed as trusts or incorporated companies are eligible for recognition as an investor association.
   b. The society / trust/ company shall be in existence for a minimum period of at least two years.
      i. provided that SEBI shall grant exemptions in exceptional cases.

ii. The primary objective establishment shall be -offering bona fide protection of interests of the investors / consumers and other allied services.

2. Membership

a. The Association shall have a minimum of 100 members.

b. The eligible members of the Association shall be

i. individual shareholders

ii. non profit organizations

iii. Provided that the Association shall discontinue the membership granted to any body corporate or institution within three months of obtaining recognition.

1. Management & Governance

a. The Association shall have rules, regulations and /or bye-laws for the governance and management of the Association.

b. The rules, regulations and or bye-laws of the Association shall be in conformity with the conditions for recognition.

c. The Association shall be managed by a Governing Board/Management Committee with not less than 7 members, directors in case of incorporation as a company.

d. The election of members of the Governing Board / Management Committee shall be held at least once in 3 years.

e. In case of a company, the provisions of the Companies Act relating to appointment / election of Directors shall apply.

f. None of the members of the Governing Board / Management Committee / Board of Directors or any other office bearer shall be a person registered as an intermediary with SEBI or shall be a director (other than independent professional director) on the Board of any body corporate whose shares are listed on a recognized Stock Exchange(s).

ROLE OF INVESTOR ASSOCIATIONS IN CORPORATE GOVERNANCE

Individual investors including small investors generally come to know about investment opportunities in corporate securities from write ups in business newspapers and financial journals. They may subscribe to initial public offers of debt equity on the basis of newspaper reports or on the advice of brokers, commission agents, and invest in existing shares on the basis of market trends, their track record, dividend payment, etc. These investors need to be protected against losses that they are likely to suffer on account of lack information and various lacunae, lapses, and malpractices in the securities market and corporate functioning.

Investor Associations exist to establish strength and unity in working toward the common goal of their members. They are non-profit organizations formed to promote the economic well being of their members.

Investor Associations act as representative of their members and voice their concerns to appropriate authorities. They work towards creating awareness among their members about best investment practices and act as a link between investee companies and their member investors. They create solutions to meet the emerging needs of the investors and provide a collective voice and representation on behalf of the investor's community to the highest levels in financial institutions, regulatory bodies government authorities in India and globally.

Individual investor may not have resources to understand the various nuances of financial markets, functioning of companies, modalities of making investments etc. These associations not only impact knowledge and education but also serve as representatives of their members to redress their grievances.

These associations act as the platform to address needs and grievances of Investors and take their voice to the respective forums or regulatory bodies. They also work to facilitate growth by improving the general conditions of operating investments to facilitate access and investment opportunities within and beyond local boundaries to ensure the availability of human and financial resources. Their function includes providing assistance and know-how to investors to address their grievance and bring justice to them.

Due to their collective strength, they are in position to exert influence over companies and steer them in the right path of corporate governance and protection of investor rights.

They monitor the decisions of the Board and help in building effective corporate governance practices in the investee companies.

PART C. PROXY ADVISORY FIRMS

INTRODUCTION

Proxy advisory firms are independent entities that conduct research and provide voting recommendations to their clients. Proxy advisory firms are relatively new institutions in the corporate landscape but they play an imperative role and have gained popularity among institutional investors.

As per Regulation 2(1)(p) of the SEBI (Research Analysts) Regulations, 2014, ***"proxy advisor' refers to any individual or any organization that prepares recommendations and gives advice for the institutional investors or shareholders so as to aid them in the casting of their vote in respect of any policy issues or a public offer."***

Generally, only the directors decide upon the everyday issues of the company but as shareholders are the real owners of the company, they vote on the crucial matters of the company. Some shareholders are mainly concerned about the profits (dividends, interests, etc) and thus are not well-acquainted about the issues, policies, and notices of the company and thus need an independent analyst to evaluate the decision taken by the company and here the proxy advisory firms act as a helping hand and provide recommendations to shareholders according to which they can cast their vote on issues such as executive compensation, corporate governance, etc.

Shareholder activism in India is still in a nascent stage, however, today's shareholders are very much active in the governance related decision of the company and they cast their vote in a wise manner. For this they need to be well informed about the policies and performance of the company.

Proxy advisory firms analyse important corporate issues such as: a) Mergers and Acquisitions b) Important Leadership Appointments c) CEO pay d) Shareholders who should vote in Annual General Meetings (AGMs), Extraordinary General Meetings (EGMs) and court convened meetings. The recommendations provided by proxy advisory firms also concern the corporate governance related matter like the election of the board of directors, approval of equity-based compensation programs, advisory approval of management compensation, acceptance of deposits and other management-and shareholder-sponsored initiatives regarding board structure, compensation design, and other governance policies and procedures which are brought before investor at shareholder meetings.

India has home-grown proxy advisory firms such as Institutional Investor Advisory Services (IiAS), In Govern and Stakeholder Empowerment Services (SES) that provide these services.

EMERGENCE OF PROXY ADVISORY FIRMS

The concept of proxy advisory firms emerged along with the rise in investment by institutional and foreign investors. This mechanism of voting evolved according to the needs of society and the proxy advisory firms came into the picture that acted as third-party consultants and provided expert advice and recommendations on whether to vote ‘for’ or against’ a motion. The main aim of these firms is to provide counseling to the shareholders but they can also be given the right to vote if they are expressly authorized by the stockholders.

The system was prevalent in the USA’s financial market from the 1980s but in India the concept came much later. The proxy advisory industry has grown over the past thirty years as a result of various market and regulatory developments. In 1988, the U.S. Department of Labour took the position that the voting of proxies of shares of stock owned by a pension plan was part of the plan’s fiduciary duty to manage employee benefit plan assets. This development prompted managers of employee retirement plan assets to seek help from the proxy advisory industry to satisfy their fiduciary responsibilities to vote proxies in the best interests of their clients.

In the Indian context, due to the mishaps that took place in the year 2009 including the Satyam’s matter, SEBI incorporated several steps to prevent such malpractices and one such measure was the passing of the Securities and Exchange Board Of India (Mutual Funds) (Amendment) Regulations, 2010 in July 2010. This regulation demanded more transparency in the voting and disclosure of the norms followed to determine the voting right of the shareholders.

The first proxy advisory firm to come up in India was ‘InGovern Research Services’ started by Mr. Shriram Subramanian in June 2010. Since then several firms like the Institutional Investors Advisory Services (IIAS), Stakeholders Empowerment Services (SES), etc have been incepted and enormous growth of these firms has been recorded. However the growth of proxy advisory Industry in India may not be similar to that of USA as ownership pattern of listed entities in India are different from that of USA.

FUNCTIONS OF PROXY ADVISORY FIRMS

Proxy Advisory Firms are independent research outfits that weigh all the pros and cons of any decision and thus provide research and voting recommendations for their clients. Many institutional investors across the globe are voting based on the recommendations of proxy advisory firms. The decisions on whether to vote for or against various resolutions by shareholders at the annual general meetings is increasingly being driven by what the proxy advisor recommends. Also, voting is largely done by the custodians on behalf of the institutional investors, based on recommendations of the proxy advisors. Institutional investors who are the shareholders of various companies cannot keep track of the policies and performance of all companies. This has created the demand of proxy advisory firm’s services.

If shareholders themselves attend all meetings and cast their votes based on their own understanding of the long-term financial beliefs, proxy advisory firms would not be necessary. However, practically things are different. Not all shareholders are interested in voting and many don’t have the time, resources and understanding to attend every corporate meeting and vote thereon.

This led to creation of independent, knowledge based entities that have the time and resources to analyse and offer advice to investors on decisions to be taken by a company. This is where proxy advisory firms fit in.

Proxy advisory firms put out detailed reports that advise shareholders on how they can safeguard their interests. They also provide independent voting recommendations. In return, they charge fees from institutional investors for their services.

As an investor, there can be many questions for which answer may not be evident. For example, should the CEO get a pay hike of 25% this year, or is it a good decision for the company to merge with its competitor? A proxy advisory firm does all the legwork and evaluates the pros and cons of such important corporate matters.

Some of the functions of proxy advisory firms are given below:

- The major task is proxy advisory i.e. advising on the intricate matters of the company.

- They aid shareholders in exercising their voting rights in the company in significant decisions like the appointment of the directors, changes in the policies of the company, etc.
- They provide a report that is basically a scorecard or rating on the corporate governance of the entity.
- They also conduct the Environmental, Social, and Governance (ESG) analysis. ESG analysis is done to study all the factors (environmental, social, and governance) of the company to calculate all the prospective growth opportunities and threats. It helps the company and shareholders to prepare accordingly.
- They monitor risks and protect the interests of the investors.
- They ensure participation of investors in corporate decision making.

ROLE OF PROXY ADVISORY FIRMS IN CORPORATE GOVERNANCE

The implementation of the Companies Act, 2013 and enhanced corporate governance standards under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, has made the role of proxy advisors very significant in the corporate governance landscape.

These proxy advisory firms act as the shaping tool that helps in complying with the stringent corporate governance norms. Investors are drivers of corporate governance and they are assisted by these proxy firms to understand the agendas of the company, to provide them with analysis of different proposals and voting decisions for the company. Basically, they can guide them in every decision that is to be taken by the investors regarding the company. Corporate bodies also need to adhere to these recommendations otherwise it could negatively impact their reputation and adversely affect the confidence of the investors which may lead to a decline in share price, fewer funds, etc.

There are several instances where the proxy advisors' recommendations helped in the administration of better governance policies in the companies. For example -

1. Global Funds advised against the appointment of Mr. Deepak Parekh as the non-executive chairman of HDFC as he was already on board of 8 companies as they were of the view that he would not be able to handle all positions judiciously at the same time.
2. InGovern advised against the appointment of Mr. B.C. Prabhakar as independent Director in Wipro, against Mr. Shardul Shroff in IDFC, and against mr. S.H. Khan as Independent Director of IDBI stating that they are in the same position for several years and remarked that their relationship is like, 'if they are married to the company'.

Another reason for such negative recommendations was the introduction of clause 49 in the Equity Listing Agreement between SEBI and listed companies.

Thus, proxy advisors through their recommendations ensure the efficient functioning of a company and foster good corporate governance.

Their reports help the companies to build their reputation and trust among the shareholders. If the report showcases a positive report of the company regarding their decisions and legal compliance, then this would attract investor's confidence in the company. This helps in more investments in the company. Thus, companies tend to follow good governance policies so that the recommendations drafted by the proxy advisors favor them. Generally, it is seen that shareholders like to invest in the companies that fall under the jurisdiction of these advisory firms because they could access insider information and the status of the company which would otherwise not have been available for the investors.

Proxy Advisory Firms keep a check on companies whether they are adhering to the rules and regulations and working in the interest of shareholders. Earlier investors only acted as passive members in the companies and as such they were not able to analyze the pros and cons of the changes made in the organization and this affected them adversely. But this whole situation has been transformed by these advisors as now any matter that is against the interests of the shareholders can be called out by them and the same has to be considered by the company. For example in the case of Lavasa, where Mr. Ajit Gulabchand was receiving the salary much more than what was allowed by the Central government without any express sanction of the shareholders, this scenario was analyzed by the proxy advisory firms and finally, he was ordered to refund all the excessive amounts that had been received by him over the years.

ISSUES AND CHALLENGES FACED BY PROXY ADVISORY FIRMS

Despite the important role played by proxy advisory firms and there being huge potential in this industry to boom, there are still some hindrances before them. There are concerns regarding the policies followed by the proxy advisory firms while conducting their research and issuing recommendations. Further, excessive level of standardisation practiced by the advisory firm in their approach is also deemed counterproductive. Taking the earlier examples where InGovern suggested voting against Wipro's BC Prabhakar as the Independent director, against Shardul Shroff as Independent director of IDFC and against SH Khan as the Independent Director. The firm's opinion on the matter was that the candidates who were contesting for the position of Independent directors were in a long association with the company and hence not advisable. On the contrary Companies Act, 2013 and SEBI (LODR) say an Independent Directors can serve for not more than two terms of five years each on the Board of the Company subject to the maximum tenure of ten years.

Another issue related to proxy advisory is the related party transaction. The law on related party transactions requires a 'majority of the minority' voting in approving material transactions wherein the promoters are deprived of voting rights on that decision. Under the new laws, minority shareholders have become extremely powerful, following the introduction of legal provisions, which took away the rights of controlling shareholders to influence RPTs. The situation becomes worse when the majority shareholding is in the hand of foreign portfolio investors. A group of shareholders, accounting for 3.77% of the company's equity, voted to embarrass the $104 billion Tata Group by making sure the related-party proposals worth 1,170 crore were rejected.

Proxy Advisory companies give their recommendation based on their research, however in rendering their services they become prone to litigation. ITC had slapped Rs. 1,000-

crore defamation suit against proxy firm Institutional Investors Advisory Services (IIAS), for allegedly making defamatory comments against one of its directors in a note to investors. IIAS had questioned ITC's remuneration proposal for its non-executive chairperson Mr. Yogesh Deveshwar.

Unawareness among the shareholders about the good corporate governance and the services provided by the proxy advisor is another challenge faced by proxy Industry in India.

Some of the other hurdles faced by the proxy industries are as follows:-

- **Passive attitude of shareholders -** The shareholders, most of the time, are unaware and indifferent about the norms of corporate governance and importance of their voting right. Awareness is required to be created so that shareholder's activism can get a boost which will in turn help in the rise of the proxy advisory industry. Many bodies like the Institute of Chartered Accountants of India, the Institute of Company Secretaries of India, and even SEBI have come forward to create awareness about them.
- **Lack of trust –** These firms started facing resistance from the corporate entities before they could even win the confidence of the investors. Many allegations of having personal interest, not following proper research practices, lack of concern towards companies, and misleading investors through unreliable recommendations became very common. These allegations hampered their growth at the nascent stage itself.

- **High competition / limited scope -** The limited scope of the firms is another drawback. In the USA also, the advisory industry mostly remained as a monopoly or duopoly only for the practical working of the market. Thus, where the space is limited there exists cut-throat competition in the market to establish themselves.
- **Lack of Expertise -** There was no specialized programs curated for the employees of such firms to cater to the needs of this industry. The companies were hiring engineers based on their logical reasoning and then training them to induct them. Thus, it is a huge issue because there is a lack of desired human resources with expertise in this field.

INDIAN REGULATORY REGIME

SEBI (Research Analysts) Regulations 2014 (the 'RA Regulations') were the first laws that explicitly brought proxy advisers under the legal radar.

Proxy advisory firms were defined under regulation 2(i)(p) of these regulations as below:

"Proxy adviser" means any person who provide advice, through any means, to institutional investor or shareholder of a company, in relation to exercise of their rights in the company including recommendations on public offer or voting recommendation on agenda items.

Although the regulations were elementary, they mandated:

- registration with SEBI to undertake the proxy advisory business in India;
- disclosures in the recommendations made by proxy advisers;
- formation of internal policies and procedures for functioning; and
- Maintenance of records of the recommendations made.

RA Regulations talk about the eligibility norms, Capital adequacy, registrations, and management of conflict of interest and disclosure requirements apart from other aspects relating to functioning of Proxy Advisory firms in India. Regulation 23 deals with the specific disclosures to be made by the proxy advisory firms.

In November 2018, SEBI formed a working group to provide inputs and insights into the 'issues related to proxy advisers'. The working group was required to review the provisions of the RA Regulations and functional areas of proxy advisers, including rights and obligations. The working group was also expected to reflect on other matters pertaining to proxy advisers.

In May 2019, the working group issued its report. In 4th August, 2020, SEBI issued Procedural Guidelines for Proxy Advisors and on same day issued a circular for Grievance Resolution between listed entities and proxy advisers.

The said SEBI circular is rescinded by SEBI through its Master Circular dated May 21, 2024.

The Procedural Guidelines were developed for regularizing the powers of proxy firms and came into force on January 01, 2021. The salient features of these guidelines are:

1. Proxy advisory firms have to disclose policies on the recommendation of voting and these are to be reviewed every year.
2. The report should be shared simultaneously with the company and investors and if there are any clarifications or comments that the company wants to suggest, the same could be sent by the company to proxy advisors within the timeline decided beforehand and the needful changes can be made in the report .
3. If the opinion of the company varies from that of the proxy advisor's report and it could not be justified by minor amendments then the needful changes can be done by issuing additional reports or adding an addendum depending on the issue.

4. Proxy Advisors shall alert clients, within 24 hours of receipt of information, about any factual errors and any impending material revisions to their reports. Further, any such material revisions to their reports shall be communicated to the clients within 72 hours of receipt of the information, while ensuring that adequate time is available for clients to make an informed decision.

5. The methodologies, procedures, and sources that were being referred to or followed, to formulate the report should also be disclosed to the clients.

6. An explicit framework is to be set up to handle and resolve any conflict of interest that arises during the course of ancillary services; like if the firm provides consultancy service in addition to the advisory services which could lead to a biased point of view the same should be disclosed to the clients also.

7. Firms need to clarify the situations in which the firm will not provide voting recommendations in its voting recommendation policy.

8. They also need to mention adequate reasons if they are suggesting any higher standard in their recommendations than generally stipulated by law.

9. The stated communication process between clients and the listed company should be developed so as to interact and inform the clients regarding recommendations and to get reviews on the same.

Apart from these disclosure measures for the proxy advisors, a mechanism has been set up by SEBI which will redress the issues faced by listed companies and provide relief for the same. Under this, the aggrieved company that has a contrary opinion than that of the recommendations provided by proxy firms can report to SEBI about their grievance. The SEBI will act as an arbitrator between the two and after examination of the issue, will discharge the case accordingly. This system is based on natural justice as this provides the company with the right of being heard in case they are being exploited by the policies and recommendations formed by the proxy advisors.

The Indian stock market is growing day by day and investors have become more engrossed in the intricacies of the matter than before. This surely has created an apt situation for the growth of the proxy industry in India. The proxy advisory firms have revolutionized the concept of corporate governance as they play a vital role in the working of the company. Now the annual meetings are not dictated by a few people only, instead, the directors of the company have to tune themselves and work according to the suggestions by proxy advisors because they are the guiders of the institutional investors. The firms ensure the system of transparency, check, and balances for the investors in the companies as the minute happenings in the company are notified to them which in some cases could go unattended. This could help in the better understanding of the situation and in turn aids in the formulation of the decisions by the shareholders. No doubt still the role of the proxy industry in India is very small as compared to the USA because India is the hub of family-owned businesses and the shareholders are in minority because of which the authority cannot be challenged easily. But this role of proxy advisors will likely change over the next decade because of an increase in startups that would have diversified shareholding and the firms could benefit from that and they will play a pivotal role in giving vent to investor concerns by engaging positively with the companies.

PART D. INSTITUTIONAL INVESTORS

MEANING OF INSTITUTIONAL INVESTOR

An Institutional Investor is a legal organization that pools funds of a large number of individual investors or other legal entities, and invests in different financial instruments such as stocks, bonds, commodities or any other investment options. In other words, an institutional investor is an organization that invests on behalf of its members.

Institutional Investors are large institutions that trade securities in the market in large quantities on behalf of their investors. Since the number of investors in such an entity is large, the size of the trades is automatically large and are they able to enjoy preferential treatment and lower commissions in the market as compared to the retail investors.

An entity pools money from various investors and individuals making the sum a high amount which is further provided to investment managers who invest such huge amounts in various portfolio of assets, shares, and securities, which is known as institutional investors and it includes entities like insurance companies, banks, NBFC, financial institutions, mutual funds, etc. having competitively higher creditworthiness and solvency.

Institutional Investors invest on behalf of their clients as they are considered highly sophisticated investors who possess extensive investment knowledge and experience. Institutional investors are less likely to make poor investment decisions, as they are capable of in-depth analysis, including risk and returns forecasts and are able to develop sophisticated financial models as compared to individual investors. Their approach and strategies to the financial markets are very different from the individual investors.

Institutional Investors usually have their own teams looking at each aspect of the markets that they trade in. They enjoy less regulatory protection because they have enough knowledge to understand the risk of the markets. However, the market regulator ensures that the powers are not exploited and keeps them in check in order to have a fair and transparent market for all participants.

TYPES OF INSTITUTIONAL INVESTORS

The characteristics of institutional investors can be understood as follows:

- It is a legal entity, and it is important to understand that an institutional investor is an enterprise managing a fund (e.g., a mutual fund), but not the mutual fund itself.
- The basis of an institutional investor's activity is professional, and it manages assets based on the interests and goals of its clients.
- An institutional investor always manages a significant number of funds.

Institutional investors are broadly divided into Foreign Portfolio Investors [FPI] and Domestic Institutional Investors [DII] depending on whether the investments are from domestic or foreign institutions in the Indian financial markets. Domestic institutional investors form a major part of the market's movement and the volume of trades.

There are several different types of institutional investors in the market depending upon their specialization in specific asset classes and the investment strategies they follow. Few are listed as below:

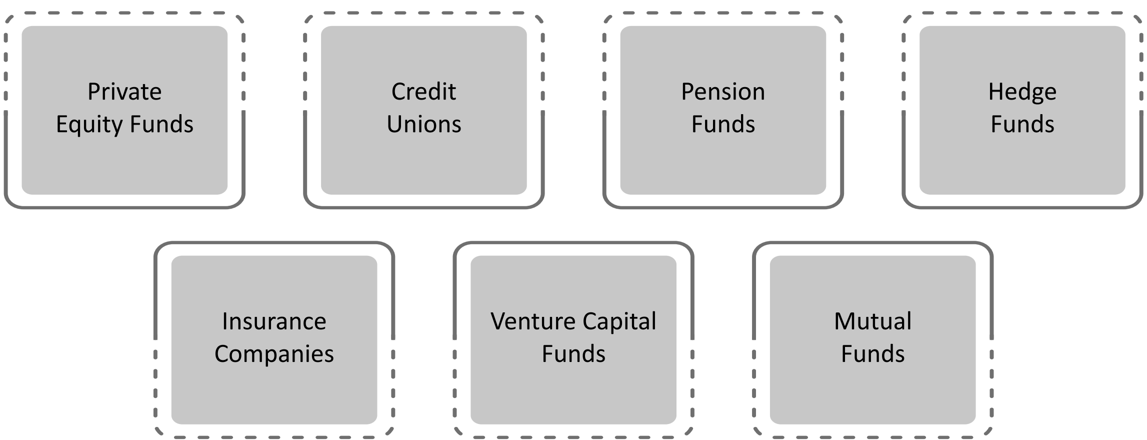


FIG. 1 – TYPES OF INSTITUTIONAL INVESTORS

1. **Hedge Funds:**

   Hedge funds are one of the most well-known types of institutional investors in the financial world. Hedge fund investors are locked into the investment for a longer period of time without the freedom to cash out and exit. In addition, hedge funds typically use a concentrated investment strategy, where funds are directed to a few assets in larger proportions, making it more susceptible to larger gains and losses. Hedge funds are hence considered to be a more aggressive and riskier asset class.

2. **Mutual Funds:**

   Mutual funds are a well-diversified form of investment across different industries and sectors available in the market. They are designed to mitigate the risk of capital losses for their investors through diversification. Mutual funds typically do not have entry requirements for investors and are open to individual or retail investors even with a small investment size. Mutual Funds are considered as one of the most attractive and less riskier options for beginner investors.

3. **Insurance Companies:**

   Insurance companies are one of the high impact institutional investors. The premium these insurance companies receive from investors is very well managed and invested in securities, returns of which are used to repay the investors. Due to the considerable amount of premium received and invested they become one of the important institutional investors directing the markets.

4. **Endowment Funds:**

   Endowment funds are generally established by universities, hospitals, charitable foundations, or other non-profit organizations to manage their money. The income generated from investment activities is typically required to be used to finance the beneficiaries' activities, such as to provide scholarships etc.

5. **Pension Funds:**

   Pension funds are funds established using monetary contributions from pension plans. Both employee and employer can contribute to the pension plans. The accumulated capital is typically allocated to income generating and stable investments, fulfilling the whole purpose of pensions, i.e. generating stable and regular income.

6. **P/E Funds:**

   Private Equity funds are pooled investment vehicles with a structure of a Limited Partnership and a fixed term of usually ten years. These funds provide equity financing to private entities that are unable to raise capital from the public. These investments are illiquid in nature. P/E funds carry a high risk, and therefore investors expect a high return on their investment. The high risk is associated with the non-public nature and small size of the investee companies.

6\. **Venture Capital Funds:**

   Venture Capitals (VC) mostly invest in small private companies with a very high growth potential and failure rate. The suppliers of VC usually take part in the management of the company the shares of they purchased.

Individual Investors vs. Institutional Investors

Retail Investor is an individual who deals in securities via brokerage firms or other facilitators, whereas Institutional Investors invest on behalf of retail investors.

Institutional Investors have access to securities and markets of all kinds even to few private investment options, which is typically not open for the retail investors, such as institutional real estate, or private stock placements.

Retail investors invest on behalf of themselves hence the investment amount tends to be much lower in size compared to the investment amount made by institutional investors.

Institutional Investors heavily impact the demand and supply of securities, directly affecting the price movements of the securities as compared to retail investors due to the obvious difference in the investment size.

Retail investors are more susceptible to emotional biases compared to institutional investors.

An individual can invest in any assets that are available to them on the exchange. An institutional investor can also buy assets but is oriented more on long-term investing.

Institutional investors also access large operational activities due to corporate opportunities. With substantial capital and licensing, large institutions secure access to many assets that are not available to private individuals.

They include foreign securities, government business loans, changed banking policies, interest rates, and more. If individuals work as retail investors, institutional investors are more likely to conduct wholesale purchases.

IMPORTANCE OF INSTITUTIONAL INVESTORS

Domestic and foreign institutional investors are pivotal sources of capital and also provide the volume of trades for the markets to thrive.

Institutional investors often provide not only money but also advice, networking, and other assistance (smart money) to the companies raising funds. Besides, they allow retail investors to invest in capital markets — thus getting better returns than the bank deposit would grant them — without need to gain expertise in financial markets and with reduced risk exposure. This means not only better opportunities to save money but also much higher chances of the income since the money managed by fund experts is working better.

Let us further understand their importance through the points below:

- **Important Sources of Capital** – Institutional Investors are a very important source of capital in the economy. They provide large chunks of capital to companies that fulfill their requirements without having to depend on a large number of small investors. Often before an IPO, investment banks ask institutional investors to buy the shares in order to ensure that the IPO is well subscribed. It reduces their dependency on retail investors.
- **Benefits to Individual Investors –** Institutional Investors have just pooled investment vehicles wherein a number of investors pool their money to form a large size entity that can invest on their behalf. Since not all investors are able to take positions in securities that require large capital commitments, they can enjoy those benefits through institutional investors. Also, they have their own teams of highly qualified personnel that study the securities and track the markets. They have professional management at every level. Individual Investors who lack all these skills get the benefit of highly knowledgeable expert management of their money.
- **Preferential Treatment –** Since Institutional Investors can influence the market because of their large size of investments, they get preferential treatment in terms of lower transaction costs, fast execution of their orders, etc. This saves time and money and ultimately benefits the investors who are a part of the investment pool.

ROLE IN CORPORATE GOVERNANCE

There is a mutual relationship between institutional investors and the corporate governance of a company. The corporate governance practices followed by a company are very important to determine the number of institutional investors who would like to invest in it and the extent to which they would like to invest. This acts as a great motivator for companies to follow good corporate governance practices.

According to a survey conducted by McKinsey, it was found out that institutional investors were willing to pay higher premium for good governance because they felt that these practices would lead to superior performance of the company and consequently higher returns.

The survey conducted by McKinsey in 1996 concluded that institutional investors were willing to pay an average of 11% more for well governed companies. A subsequent survey, in 1999-2000, revealed a relative premium between 20- 27% in the selected Asian countries; 18-22% in Europe and the US and 21-28% in Latin America. Vice versa, if there is a strong institutional investor base in a company it would lead to better monitoring consequently leading to better corporate governance of the company.

Institutions with corporate governance mechanisms in place are better to invest in as this would mean decreased monitoring costs. Most governance sensitive institutional investors would like to invest in firms which already have their governance mechanisms in place. The institutional investors would not have to play a proactive role in monitoring the practices followed by the company.

At the heart of the issue about institutional investors and corporate governance is the fact that there is something called an agency problem that creeps up with professionally managed organizations. What this agency problem indicates is that managers have conflicting responsibilities to themselves and the organization and in most cases; they seek to promote their interests at the expense of the organization's interest.

Managers by nature seek to maximize their benefits in relation to the profits and hence there is a need for counterbalancing this with other forces. These forces or the countervailing balance is brought about by the institutional investors who have an interest in promoting the longer term health of the company. By actively pursuing the boards of organizations to follow effective corporate governance, institutional investors would ensure that the corporates put the longer term interests of the organization as well as ensure that organizations put shareholder interest over the interests of the managers.

The agency dilemma is important from an ethical, practical, and economic standpoint. It is one of the most important aspects of corporate governance. Asymmetric knowledge occurs because investors are unable to routinely supervise every decision performed by firm management, resulting in ethical hazards and a lack of agreement. It adheres to the principles of agency cost theory. The duties of institutional investors become critical when it comes to maintaining strong corporate governance and ensuring that agency conflicts can be controlled.

Grossman and Hart state that it is cost ineffective for smaller shareholders to monitor the company since they do not have any incentive to do the same. But, larger investors, such as institutional investors, can address agency problems in the company because they have

(1) an incentive to monitor firm management due to the size of their holdings, and

(2) have the ability to effect change because of their voting blocks.

Investor activism seeks to influence corporate policy and practises by leveraging an investor's ownership position. The strategy is advantageous, and it is one of the most important corporate governance techniques for bridging the gap between management and investors. Previous study has demonstrated that institutional investors' activism has a major influence on the companies in which they invest since it may create excellent governance, exert good behaviour, and increase business value.

Institutional investors have a substantial presence and rising impact in the world's financial markets. Because of the growing size of their worldwide assets, they may exert some influence over the actions of the companies in which they have invested by monitoring those activities. In general, institutional investors who are unsatisfied with the performance or management of a company may either sell their shares ("exit") or interact with the companies in which they have invested ("voice"). Yet, since the "exit" option is costly, significant institutional investors often collaborate with their investee businesses to remedy unfavourable governance systems and poor performance. Institutional investors' participation with their investee businesses, known colloquially as "investor activism," may take several forms, including consultations, voting, shareholder resolutions and recommendations, priority lists, and governance rating systems.

Institutional investors often represent large chunks of shareholders and hence they can be an effective check to the tendency of the managerial class to put their own interests first. The other aspect relates to the way in which they can monitor the health of the organization because they have the necessary expertise and knowledge in running organizations since they sit on the boards of other companies as well.

Another aspect of institutional investors is that they are more effective than minority shareholders or small shareholders. In most annual general meetings, we can see small investors raise questions related to corporate governance. In some cases, these concerns are addressed whereas in most cases, the small shareholders despite voicing objections are overruled because they do not have the numbers. This is where institutional investors come into the picture since they represent big number of shareholders and hence have the bargaining power needed to make a difference. Of course, the flipside to this is that institutional investors do not usually pursue radical changes and instead focus on maintaining the financial and operational efficiencies of the organization and promoting good corporate governance.

Institutional investors can be a rock of stability in turbulent times as was evident during the recent crisis over Coal India. This case where the PSU was trying to override many objections of the shareholders was thwarted in its attempts because of the activism of the institutional investors. Further, in the case of Vedanta, institutional investors made sure that the company followed social and environmental norms and did not ride roughshod over its obligations to society and the government.

Often called market makers, institutional investors exert a large influence on the price dynamics of different financial instruments. The presence of large financial groups in the market creates a positive effect on overall economic conditions. The institutional investors' activism as shareholders is thought to improve corporate governance because the monitoring of financial markets benefits all shareholders. In addition, institutional investors can access and they know how to explore a variety of investment instruments not available for private investors.

Institutional investors are crucial to financial markets as they provide capital to businesses along with providing liquidity to the financial securities they trade in the market. They carry significant power in the financial market (due to the considerable size of money involved), hence are able to exert large influence over the price dynamics of traded securities. Due to large monetary commitments, institutional investors develop expertise in tracking and monitoring the investments, playing an active role in improving corporate governance practices.

ISSUES AND CHALLENGES

Institutional investors have an undue advantage over the market and sometime they can be at a position where an advantage can be taken. Let us understand the criticisms or issues with such investors through the explanation below:

- **High Dependency** – As we mentioned before, Institutional Investors provide large chunks of capital to companies that reduce their dependency on retail investors. But at the same time, it increases their dependency on Institutional Investors. If they decide to exit a position, it may severely impact the price of that security since the market might perceive that as a warning sign.
- **Influence in Market** – Institutional Investors hold a huge amount of influence in the market since they can manipulate the prices of security by entering or exiting a position in that security. They can sometimes use this influence to move the market or the price of a particular security in their favor.
- **Loss of control -** It is much harder to gain the trust of Institutional Investors as bigger funds are at stake. Companies need to demonstrate a satisfactory risk/returns profile to get their attention. Besides, most

of the organizations participate in the company management as they have shares of this business. That's why another challenge is reducing the amount of control over the company or the equity stake given away to them.

PART E. ESG INVESTMENT

INTRODUCTION

ESG is short for environmental, social and governance. ESG investing is a term used to describe investment strategies that focus on these factors. This type of investing entails buying the debt and/or equity of companies that embrace sustainable practices and exhibit ethical behavior across the ESG spectrum. At a high level, these companies are characterized as follows.

ESG Investing, also known as "socially responsible investing," "impact investing," and "sustainable investing", refers to investing which prioritizes optimal environmental, social, and governance (ESG) factors or outcomes. ESG investing is widely seen as a way of investing "sustainably"—where investments are made with consideration of the environment and human wellbeing, as well as the economy. It is based upon the growing assumption that the financial performance of organizations is increasingly affected by environmental and social factors.

ESG Investing can be understood as the consideration of environmental, social and governance factors alongside financial factors in the investment decision-making process.

It is a blanket term for investments made in firms that adopt ethical practices to make profits. ESG investors don't invest in stocks of companies that do not meet some of the environmental, social, or corporate governance standards. For instance, chemical companies causing heavy pollution or companies that have poor labor practices. ESG investing has slowly started gaining popularity around the world, as many investment funds have started adopting this model in recent years.

There are few (if any) areas of business operations where ESG is not relevant. However, not all ESG issues are given equal weight when it comes to investing. Just as every investor in the market has different values and motivations, it is unlikely that an organization will prioritize all ESG issues in their business strategy. Those that are prioritized by investors and organizations are determined by the environmental, social, and economic circumstances of the time, and what is deemed more important and material to a company, given their industry, geography, and specific circumstances. Some prominent ESG issues influencing investors include:

- Organizations' efforts to mitigate climate change and other environmental disasters such as biodiversity loss. For example, have they achieved or are they on the way to achieving net-zero emissions?
- Human rights issues within an organization's supply chain. For example, have they published a Modern Slavery Statement or disclosed supply chain details within annual reports?
- Workplace diversity and equal opportunities. For example, what proportion of the organization's employees identify as underrepresented groups? How diverse is management? Is there equal representation at the executive and C-suite levels?

Characteristics of ESG Investing

- Environmentally inclined companies that work to conserve the natural world and avoid activities that harm it.
- Socially inclined companies that make a concerted effort to treat all people (internal and external stakeholders) with decency and respect while maintaining policies that foster inclusivity and diversity.
- Governance focused companies that maintain a highly organized and responsive system to manage their operations in an ethical, legally compliant and risk-minded fashion.

EVOLUTION OF ESG INVESTMENT AND RECENT TRENDS

The principles of ESG investing are nothing new. Hundreds of years ago, religious and ethical beliefs influenced investment decisions. Muslims established investments that complied with Sharia law, which included prohibitions on weapons. The first ethical unit trusts in the US and UK were developed by Quakers and Methodists. Thereafter, the growing prominence of corporate social responsibility (CSR) and social sustainability led to increased investor awareness about ethical participation in the market.

ESG investing is growing exponentially as more investors and issuers utilize ESG and climate data and tools to support their investment decision-making. The practice of ESG investing began in the 1960s as socially responsible investing, with investors excluding stocks or entire industries from their portfolios based on business activities such as tobacco production or involvement in the South African apartheid regime.

ESG investing may have officially entered mainstream investing discourse following the release of the Principles for Responsible Investments (PRI) in 2006 – a set of United Nations guidelines for the incorporation of ESG factors into business policy and strategy. The PRI have over 2,000 signatories and are widely considered the official point of reference for all things ESG investing.

Recent years have seen a significant expansion of ESG investing around the globe as organizations and individuals increasingly recognize the interdependencies between social, environmental, and economic issues.

The COVID-19 pandemic encouraged this trend notably. Market disruption and uncertainty caused by the pandemic in 2020 led many investors to turn to ESG funds for increased resiliency. The first three months of 2020 saw $45.6 billion USD flow into these funds globally. $30.7 trillion currently sits in sustainable investment funds worldwide, and it is predicted this could rise to around $50 trillion in the next two decades. More investors are looking to fund organizations and products that support and promote sustainability, and comply with emerging regulations such as climate change regulations. This demand has been met with increased action on ESG issues in the business world, as well as progressively higher returns on investment for ESG funds due to their resilience against conventional market disruptions. Portfolios incorporating ESG and sustainability also frequently perform better in the long-term than those that don't. For example, US financial services firm Morningstar found that over a period of 10 years, 80% of blend equity funds investing sustainably outperform traditional funds. They also found that 77% of ESG funds that existed 10 years ago have survived, compared with 46% of traditional funds.

Today, ethical considerations and alignment with values remain common motivations of many ESG investors but the field has expanded to consider financial materiality as well. Many investors now look to incorporate ESG factors into the investment process alongside traditional financial analysis.

Although ESG investing is a nascent concept for Indian investors, there are nearly 3,000 ESG schemes available for investment globally. Many sustainability challenges have been observed for a few years, such as flood risk, the rise of sea levels, privacy threats, data security issues, demographic shifts, regulatory changes, etc. These, in turn, bring in new risk factors for investors. As companies started facing rising complexities on a global scale, investors started reevaluating traditional investment approaches and this gave rise to ESG investing.

BENEFITS OF ESG INVESTMENT

There can be many approaches to ESG investing for retail and institutional investors where investors can look for specific investments that meet their sustainability criteria or exclude companies that may be in the high-risk grade. One of the approaches can be negative screening where investors do not invest in companies that do not meet the ESG parameters. Another approach to ESG investing can be actively scouting for companies specifically or funds that are centered on doing the research and including the prime candidates that meet the ESG parameters.

Some of the prime reasons for investing in ESG funds are highlighted hereunder:

Reduced risk - Companies with strong ESG practices may be better positioned to manage risks related to environmental and social issues. This could reduce their exposure to potential regulatory, legal, or reputational risks.

Long-term returns potential - Some ESG funds have shown strong long-term performance which indicates that companies with strong ESG practices may be better positioned to weather risks and take advantage of opportunities.

Increasing demand - The demand for ESG investments is growing across the globe and in India as well. This could drive up the value of these funds in the future as more investors seek to align their investments with their personal values.

Alignment with personal values - Investing in ESG funds allows the investors to have an alignment of the investments with their personal values and beliefs enabling them to support companies with positive environmental and social impacts.

Improved corporate behavior - By investing in ESG funds, corporates can sense the pulse of the investors that their environmental and social performance matters to investors, which could encourage better corporate behavior over time.

CHALLENGES FACED BY ESG INVESTMENTS

There are many challenges that ESG investments currently face in India. Some of them are as listed below:

Absence of quality data: Concrete data about a company's social, environmental, or governance performance is often procured through an analyst or a fund manager. An organization's sustainability report can also provide details on such information. Other documents where additional data on ESG can be found in annual reports, news articles, media releases, etc. For investors, finding concrete data on ESG of any company can be tedious and often inaccurate. Thus, the credibility of available information continues to be a hindrance in the growth of ESG investments in India.

Absence of measurement standards: The Indian market currently lacks standardisation around ESG investing. Investors often use different names such as impact investing, sustainable investing, socially responsible investing, and also responsible investing. For further growth of this form of investing, there is a need for standardization in data collection, measurement standards, and methodology used while reporting.

Traditional mindset: Many investors and fund managers find ESG to be an additional expense that is not essential. This aspect too curbs the growth of ESG investing in India.

Limited track record of ESG funds: In India, ESG funds have started emerging in the past 2-3 years. Hence, there is also a lack of track record of ESG funds which may put off many investors from exploring this investing option.

Lack of awareness: ESG investing is slowly gaining popularity among investors, but there's not much awareness among many about this aspect. More and more investors need to be made aware of the benefits of ESG investing to broaden the market horizon of the same.

ESG INVESTMENT AS AN INFLUENCER OF GOOD CORPORATE GOVERNANCE

In today's conscious investing, investors are constantly looking for companies that are built on sustainability. They yearn to understand the different aspects that contribute to the stability and continuity of the companies that they invest in. There is greater demand for businesses that survive severe impacts of any crisis and constantly incorporate Environment, Social, and Governance factors within their daily functioning.

ESG investing is being accepted fast by investors and is especially seeing an accelerated demand since COVID-19 crisis. This can be seen with the influx of ESG thematic funds in recent years such as AXIS AMC, ICICI Prudential & Quantum India AMC coming up with their ESG Funds. SBI Mutual Fund has also reclassified its equity fund as an ESG Fund.

Companies that follow good practices are believed to eventually generate higher profits through brand building and continued customer patronage. One of the examples of responsible companies in India is the Tata Group. It set an example through an initiative to provide accommodation at Taj Hotel to healthcare staff members and other frontline workers during the initial days of the Covid-19 pandemic. In the long run, such actions by companies can cause better profits and increased brand loyalty.

A company that follows ESG in the long term can emerge as a sustainable establishment. This is the major reason why ESG investing is also called sustainable investing.

Companies with better ESG performance have a better track record on issues such as human rights, climate change, environmental sustainability, social responsibility, ethics, and transparency, and hence are more resilient against future risks. It has become absolutely essential for companies to have comprehensive ESG policies in place.

ESG is no longer an emerging risk for organisations – it is a fundamental, front-line issue for boards in the current climate. ESG plays a major role in the governance framework of an organisation, and it is integral that directors are aware of their duties in terms of addressing ESG issues facing their companies.

ESG investing is used to screen investments based on corporate policies and to encourage companies to act responsibly. Investors have, in recent years, shown interest in putting their money where their values are.

ESG investing focuses on companies that follow positive environmental, social, and governance principles. Today, investors are increasingly eager to align their portfolios with ESG-related companies and fund providers, making it an exciting area of growth that also has positive effects on society and the environment.

Socially conscious investors and other stakeholders including employees, customers, regulators, suppliers and distributors want to know about a company's stance on socioeconomic factors, its sustainability efforts and its corporate governance processes. While passing the investor and stakeholder test and setting up a successful ESG plan may seem challenging for any business, a well-conceived ESG strategy can help lead to various business benefits.

Companies that adhere to ESG principles can attract and retain more customers by being transparent and effectively communicating their ESG efforts to customers. Companies investing in ESG initiatives can sustain and adapt to an ever-changing landscape. For example, businesses that properly integrate ESG principles into their core operations are better able to identify cost-saving opportunities and enjoy lower energy consumption, reduced resource waste and an overall reduction in operational costs.

The economy, businesses, and nature are all linked in an intricate way. Nature provides an important part of the global economic output, contributing around $44 trillion in economic value mainly from sectors like construction, agriculture, and forestry. Investors can reduce their investment risks by understanding the risks of biodiversity and nature loss and its effect on the economy and investments.

Investing in companies that practice ESG (environmental, social, and governance) principles can help reduce overall investment risks, since these companies have better governance practices and more ethical business practices. The UN's Principles for Responsible Investment (UNPRI) seeks to incorporate ESG factors into investment decisions, while stock exchanges like Security Exchange Board of India (SEBI), Hong Kong (HKEX) and Singapore (SGX) require listed companies to file annual ESG reports.

The ultimate value of ESG investing will depend on whether they encourage companies to drive real change for the common good, or merely check boxes and publish reports. That, in turn, will depend on whether the investment flows follow ESG tenets that are realistic, measurable, and actionable.

ESG in today's world applies to all businesses and companies are increasingly realising its contribution. With more and more investors, shareholders, employees, clients, regulators clamoring for greater transparency in the system, ESG investing is becoming indispensable. Especially in the new normal, ESG investing will undoubtedly play a more significant role and change the way businesses are conducted in India and across the world. This would eventually help the business community and everyone else.

LESSON ROUND-UP

- Governance is a system that provides a framework for managing organisations. It identifies who can make decisions, who has the authority to act on behalf of the organisation and who is accountable for how an organisation and its people behave and perform.
- An influencer is a person or group that has the ability to influence the behaviour or opinions of others.
- This chapter highlights the role of some of the major institutions / associations that act as influencers of governance.
- ICSI has over the year with its tremendous and unyielding efforts has risen as the corporate leader in corporate governance.
- Investor Associations are group of investors that represent investors before various bodies and work towards investor rights and awareness.
- Proxy advisory firms grew along with the concept of institutional investing and professional acumen in corporate decision making. The concept is still evolving, especially in the Indian context.
- Institutional Investors such as Mutual Funds, Banks, Hedge Funds etc. also act as influencers of governance due to their size and impact on the financial markets.

GLOSSARY

Governance: Governance is the process of making and enforcing decisions within an organization or society.

Corporate Governance: Corporate governance is the system by which companies are directed and controlled. (Cadburry Report, 1992).

Influencer: One who exerts influence : a person who inspires or guides the actions of others.

Association - a group of people or organizations who work together for a particular purpose.

Investor - a person or organization that puts money into financial schemes, property, etc. with the expectation of achieving a profit.

Proxy - A proxy is an individual, legally allowed to act on behalf of another party or a format that would allow a participant to vote without being physically present at the meeting.

Proxy Advisory firms - A proxy firm provides services to shareholders to vote their shares at shareholder meetings of, usually, listed companies.

Institutional Investors - An institutional investor is an entity that makes investments on behalf of someone else. Examples include pension funds, mutual funds, insurance companies, university endowments, and sovereign wealth funds.

Foreign Institutional Investor - A foreign institutional investor is an investor in a financial market outside its official home country.

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)

1. Do you think corporate governance practices can be influenced by external parties? If yes, give some reasons in support of your understanding.
2. List out few initiatives undertaken by ICSI towards corporate governance?
3. What do you understand by Proxy Advisory Firms? Write a note on their role as a Governance Influencer.
4. Institutional Investors influence corporate governance practices of organisations. Do you agree? Give reasons in support of your answer.
5. What is ESG investment? How does it benefit the cause of corporate governance?

LIST OF FURTHER READINGS

- Institutional Investors - By E. Philip Davis and Benn Steil
- Corporate Governance: Principles, Policies And Practices, Third Edition by A.C. Fernando, K.P. Muraleedharan and E.K. Satheesh, Publisher: Pearson
- Governance: Issues And Challenges by Abhay Prasad Singh and Krishna Murari, Publisher: Pearson India
- ESG Matters: How to Save the Planet, Empower People, and Outperform the Competition by Debra Brown and David Brown
- Rethinking Good Governance: Holding to Account India's Public Institutions by Vinod Rai

OTHER REFERENCES

- file:///C:/Users/USER/Downloads/TheInfluencersbyCarloSantagiustina.pdf
- https://onlinelibrary.wiley.com/doi/full/10.1002/poi3.340
- https://www.sciencedirect.com/science/article/pii/S0019850122002097
- https://www.business-standard.com/article/current-affairs/what-are-influencers-and-how-do-companies-use-them-for-marketing-123012300490_1.html