Corporate Governance
An International Review

Call for Papers
Corporate Governance: An International Review
Special Issue on
"The Role of Institutional Investors in International Corporate Governance: Contemporary Paradigms and Perspectives"

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BACKGROUND

The massive growth of the global asset management industry in recent decades has led to a large-scale intermediation of equity ownership (Ben-David et al., 2021; Dasgupta, Fos, & Sautner, 2021). As a result, institutional investors are ubiquitous nowadays; virtually every corporation of every size in every country has them in its ownership base. The rise of institutional investors resulted in an increase in ownership concentration in publicly listed corporations and has transformed the corporate governance landscape (Bebchuk, Cohen, & Hirst, 2017). Financial globalization makes it imperative to analyze the growing corporate governance role of institutional investors, including mutual funds, exchange-traded funds (ETFs), public and private pension funds, insurance companies, and hedge funds.

As Döring et al. (2021) document, more than 70% of the equity of U.S. corporations was held by institutional investors at the end of 2015. Institutional ownership outside the U.S. is considerably smaller, but in many countries it exceeds 15% (as a fraction of total market capitalization). Moreover, firms usually have several blockholders with the potential to play an active role in corporate governance. While the small blocks that institutional investors typically hold can impact corporate governance mechanisms, multiple institutional investors may engage in a coordinated manner in target firms. The relatively small individual blocks can collectively play an even more important role in affecting firms' governance outcomes in various ways (Bushee, 1998; Edmans & Manso, 2011; Schnatterly & Johnson, 2014; Gantchev & Jotikasthira, 2018; Glaum, Landsman, & Wyrwa, 2018; Lee, Park, & Folta, 2018; Crane, Koch, & Michenaud, 2019; Cvijanović, Dasgupta, & Zachariadis, 2021). Taking a different perspective, Bebchuk et al. (2017) argue that some institutional investors (e.g., index funds) can increase agency problems because of the separation between investment managers and their beneficial investors. This may prevent full realization of the benefits of concentrated shareholding, which in turn can have adverse effects on corporate governance.

The preponderance of institutional investors in corporate equity ownership raises several important research questions. Although all institutional investors are the same in that they invest other people's money, they form a heterogeneous group. Theory suggests they can exercise governance via "voice" (Shleifer & Vishny, 1986) or "exit" (Admati & Pfleiderer, 2009; Edmans, 2009). Survey evidence confirms that both behind-the-scenes engagements and governance-motivated exits are widespread among institutional investors (McCahery, Sautner, & Starks, 2016). However, the regulatory frameworks, incentives, and organizational structures under which institutional investors operate ultimately determine a particular investor group's level of engagement (Dasgupta & Piacentino, 2015).

A growing literature illustrates substantial heterogeneity among institutional investors in how they shape corporate governance and policies. This heterogeneity arises particularly because of differences in their incentives, investment horizons, preferred governance mechanisms, location and investor origin, and regulatory constraints. Recently, a group of passive institutional investors, whose objective is not to maximize firm value but rather to track an index (Bebchuk & Hirst, 2019), has emerged. These differences provide challenges for further research. Empirical evidence suggests that different groups of institutional investors have different effects on corporate policies in a wider sense, including information efficiency and reporting, payout and capital structure policy, cost of capital, innovation, allocation efficiency (in particular, mergers and acquisitions), and corporate social responsibility. The excellent survey articles by Johnson et al. (2010), Goranova and Ryan (2013), Dasgupta et al. (2021), Franks (2020), and Matos (2020) provide summaries of this literature. Hedge fund activism, one particularly prominent aspect of the role institutional investors play in corporate governance, is surveyed in Brav, Jiang, and Kim (2015) and Ahn and Wiersema (2021).

A shortcoming of this strand of research is that the bulk of empirical studies is based on U.S. data. While there are reliable sources for U.S. data on ownership by institutional investors, data availability and quality in countries outside the U.S. constitute an obstacle for empirical research. Therefore, with only some exceptions (Ferreira & Matos, 2008; Fang, Maffett, & Zhang, 2015; Desender et al., 2016; Sauerwald et al., 2016; Bena et al., 2017; Döring et al., 2021; Shi, Gao, & Aguilera, 2021), empirical evidence on the corporate governance activities of institutional investors outside the solely U.S. perspective remains relatively scarce. In addition, an international setting exacerbates the methodological problems. Both institutional ownership and corporate governance are likely affected by unobservable factors, leading to serious endogeneity issues. To establish causal effects, one would randomly assign firms to institutional owners and compare the corporate governance outcomes across firms. Because it is impossible to implement this experiment, several approaches have been used in a U.S. context to obtain exogenous variations in institutional ownership. Examples include event studies based on activist campaigns, shocks resulting from index inclusions, discontinuity around voting outcomes, and investor distractions that shock the monitoring abilities of institutional investors.

TYPES OF SUBMISSIONS SOLICITED

For this *CGIR* Special Issue, we invite rigorous and relevant theoretical and empirical research from different business disciplines that develops a better understanding of institutional investors, their incentives and objectives, level of activism, and heterogeneous effects on corporate governance and policies in an international framework. Most importantly, we are focused on innovative research that will analyze past trends and events to sharpen our understanding of the evolving role of institutional investors in corporate governance around the world. We support studies that will ultimately generate practical and policy implications, and will contribute to enhancing the practice of corporate governance worldwide. We believe the topic of institutional investors is integral to our understanding of international capital markets and corporate governance, for several reasons: 1) the growth in institutional ownership around the world; 2) shareholder activism, which seems to becoming the new market for corporate control, since it is more commonplace than hostile takeovers and motivated by correcting managerial failures; and 3) the rapid increase in passive ownership by a small number of investors, mostly index funds, which has caused a new phenomenon labelled “common ownership,” whereby the same group of investors holds significant stakes in rival firms (see Schmalz (2021) for a survey).

To this end, and consistent with the journal’s aim and scope, we are interested in high-quality submissions with a variety of disciplinary framings that embrace diverse methodological approaches and theoretical frameworks, employ rich new single- and cross-country datasets covering different industries, and exploit exogenous shocks to investigate the role institutional investors have in international corporate governance and corporate policies more broadly. The following are some select, non-comprehensive examples of possible research questions:

1. Compared to the U.S. stock market with diffuse ownership, are institutional investors in other countries with significant family or corporate ownership equally able to take an active role in corporate governance? Do institutional investors engage in concerted monitoring, or do they suffer from collective action problems? Do institutional investors reduce or increase agency conflicts, and under what conditions?

2. Do home and host country–specific characteristics influence institutional investors’ choice of monitoring mechanisms (governance via “voice” or “exit”)?

3. Does the choice of governance via voice or exit differ for various groups of institutional investors in an international setting, e.g., foreign vs. domestic investors, U.S. vs. non-U.S. investors, indexers vs. active investors, banks vs. mutual funds or hedge funds, and dual holders vs. non-dual holders?

4. Do multiple institutional investors play a governance role? How do constellations of different types of institutional owners affect governance?

5. What are the governance implications in different countries of the sharp increase in index investing and ETFs? What is the role of the “Big Three”? Given their low-

fee business model and lack of credible exit threat, can index investors help induce corporate governance changes? Do the "Big Three" lead to anti-competitive effects, since they are common owners of firms in the same industries?

6. Does the heterogeneity of institutional investors affect corporate performance and policies, such as corporate governance, CEO and director appointments, strategy uniqueness, investment, financing, social responsibility, corporate purpose, disclosure, tax avoidance, and risk-taking?

7. Do institutional investors with different incentives and information engage in collective monitoring? Are investors connected through the network of institutional holdings better positioned to exert monitoring?

8. Are there differences in institutional investors' proxy voting policies in different countries? What is the role of proxy voting advisors in markets outside the U.S.?

9. Does the corporate governance role of institutional investors differ in the financial sector compared to the industrial sector?

10. Are there country-specific exogenous shocks to institutional ownership that could be exploited in a difference-in-differences setting?

TIMELINE AND SUBMISSION PROCESS

The deadline for submissions of full papers to the Special Issue is August 31, 2022. All submissions must be uploaded to the journal's Manuscript Central/Scholar One website (https://mc.manuscriptcentral.com/cgir) and indicate that the manuscript is intended for this Special Issue. All *CGIR* Author Guidelines must be followed. Submissions that do not adhere to the contributor guidelines will be returned to the authors. Papers will be subject to the *CGIR* standard double-blind reviewing process. The expected publication of the Special Issue is early 2024.

Related to this *CGIR* Special Issue, there will be an academic conference on the topic in Hamburg (Germany) on June 27–28, 2022, to be co-organized by the University of Hamburg (Faculty of Business Administration), the University of Alberta (Campus Saint-Jean), and the University of South Carolina (Moore School of Business). The conference will include a keynote speech by Zacharias Sautner (Frankfurt School of Finance).

Conference submissions should be made at: iosiconf@ualberta.ca. The due date to submit conference papers is January 31, 2022. Authors will be notified by March 15, 2022 whether their paper is considered to be presented and discussed at this conference. Acceptance for the conference does not guarantee that the paper will be published in the Special Issue. In addition, submissions to the Special Issue are not restricted to scholars who present their papers at the conference. For information or questions about the conference or Special Issue, please contact the Guest Editors at: iosiconf@ualberta.ca.

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