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# CORPORATE GOVERNANCE AND SHAREHOLDER ACTIVISM: AN INSTITUTIONAL APPROACH

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## Abstract

The existing research seeks to investigate the effectiveness of institutional investors as internal corporate governance mechanism and measures the distinctiveness of institutional investors as stockholders instead of number of shareholdings via inductive process. Given the interpretivist philosophical paradigm, the current research used qualitative research design along-with thematic analysis of interviews. The findings reveal institutional investor's activism through ownership engagement at moderate level. Moreover, it has been observed that ownership engagement is the influential mean to affect the governance issues of investee. However, the strict action which compels the management to work for the best interests of stockholders was not identified. With reference to these findings, the researches implies that institutional investors are capable to use their institutional powers, however, they are not willing to take active role to involve the investee corporations in the context of Pakistan. The study can improve the consideration of stakeholders specifically government, policy makers, Securities and Exchange Commission of Pakistan and investee companies in Pakistan.

**Key Words:** Corporate Governance, Shareholder Activism, Institutional Investors,

Ownership Engagement

## Introduction

All corporations can transpire to be a "Petri Plate" for deceitful activities and these activities have been silently spread and trickle into the corporate system. Inside the corporate system, these happenings have spread gradually and deep rooted in the system that no one has having an idea about their emergence. Initially these shocks appeared in terms of financial losses. However, the ongoing overwhelming consequences may range from defamation of board members, detaining of executives, and ruining the brand of corporation.

The spread of ownership rights around various global domains has been rooted to the development and supremacy of public sector companies in 20$^{th}$ century. The supremacy of these companies conveyed the powers of capitalism in a wider spectrum, the owners have transferred the decision making task to professional managers instead of doing it at organizational level letting them to regulate the organizations in the interest of owners (Berle & Means, 1991). This structure has given authority to qualified people known as managers to play a prominent role in the decision making process, resultantly, owners' role is just confined to make investments by relying on the yields of manager's decision.

Currently, the termendous development of institutional investors has captured the social attention. The significant contribution of these investors to various domains of economy symbolizes them to study with the major objective to capture their influence. Institutional investors may have an impact on the corporate governance (CG) of Investee Corporation, monitor the management, exchange assets with the considerable influences on the stock value leading the long-lasting effect on the entire economy (Schmidt & Fahlenbrach, 2017; Thijssen, 2019). For the betterment of beneficiaries, institutional investors have a pivotal role to make investment yielding the escalated returns. The current study has targeted the internal mechanism with which institutional investors as stockholders make an active role to promote corporate governance of Investee Companies.

Corporate governance has remained an interesting area to be explored. The worldwide researches on corporate governance have captured the attention of Pakistani researchers to work out on this concept. The existing study is valuable in terms of significant development in the wealth and asset management market by means of growing amount of investable assets (Buller & Braun, 2021; Demirag, 2018). With referenced to Pakistan, the growth in assets and wealth management industry is considerable. The latest reports of this sector issued by JCR-VIS in 2020 demonstrated that total assets under management touched the figure of Rs. 680 billion at the end of 2019, showing the growth rate of 16.8% (Tabish & Alvi , 2020). The facts and figures have exhibited the influential and rising trend of institutional investors directing that it is the right time to examine their role and character for the stimulation of corporate governance. However, it is shocking to observe that there are dual aspects, i.e. ownership structure is diverting from individual to institutional investors while the regulatory bodies monitoring the corporate sector in Pakistan and the authentic leaflets are unable to even present the definition of institutional investors. This scenario has boosted the researcher to probe into this phenomenon. Accordingly, the existing research seeks to investigate the distinctiveness of institutional investors as stockholders and examines institutional activism for the promotion of corporate governance.

The study has two main objectives:

- To shed light on the main issues in the implementation of corporate governance best practices in an emerging market like Pakistan.
- To explore the effectiveness of institutional shareholders as internal corporate governance mechanism in the context of Pakistan.

The aim of this study is to get significant insights into the effectiveness of institutional investors as stockholders specifically to promote CG. It begins with theoretical understanding and moves on to development of model on the basis of empirical findings, targeting both theory and practice. The study has contributed to the literature in various ways. First, it adds to the literature of CG which is an unexplored aspect especially from the view point of institutional investors. The deductive approach has captured the extensive research on the area of CG and "publish or perish[1]" ailment (Nix & Chen, 2013). Nix (2012) discovered that agency theory has dominated 68% of research and above 50% was carried out in developed states like USA and UK. The predominant areas in such repeatedly published work were measures like compensation (Florin et al., 2010), audit committees (Al-Ahdal & Hashim, 2022; Boubakri et al., 2004), board compositions, board independence (Dalton et al., 1998;

[1] "Publish or perish" refers to the poor research in academics based on easily available material.

Khan, Zahid, Saleem, & Sagi, 2021; (Pfeffer, 1972), CEO duality (Alves, 2021, Yu, 2022), and just seven percent academic articles have used interviews and surveys as methodology and "investor" as an entity (Fatima et al., 2018). The present research bridges this literature gap by investigating role of institutional investors in CG via inductive process.

Secondly, the research aim to give due consideration to discover the distinctiveness of investors as a vital aspect rather than just focusing on the amount of investor's claim as considered by the previous researchers. The difference between amount of stockholder claims and stockholders has been established by Freeman and Reed (2010) whether these stockholders are employee, family, individual, director or even financial institution. Limited researches have just restricted to the matter of investor's entity (Afza & Nazir, 2015; Davis & Steil, 2001; Freeman & Reed, 2010; Nix & Chen, 2013; Shabbir, 2012) with inconclusive results. Such vagueness has developed the base for this study to explore it comprehensively.

Finally, this study has taken the inspiration of institutional theory to develop conceptual framework and the empirical examination has directed to the findings of this research in terms of institutional investor's effectiveness model. The literature of corporate governance has recently taken the use of institutional theory (Guerreiro, Rodrigues, & Craig, 2021), and limited studies have used this theory. Hence, the present study contributes to the available literature by modifying the fundamental assumptions of the institutional theory in the arena of CG.

## Review of Literature

The current section focuses on the available literature and regulatory frameworks which provide significant comprehensions for the underpinning theoretical concepts and findings on corporate governance mechanism and rules followed by institutional investors for the sake of influencing the investee institutions.

The institutional investors have gained considerable attention after the significant shifting in the domain of ownership structure of companies from individual investors to institutional investors. The prevalence of institutional investors in terms of owners and stockholders of corporations have paved way for the academicians to explore their impact on financial performance of investee organizations and their activism. Significant research has been conducted on the shareholder-activism (Afza & Nazir, 2015; Buller & Braun 2021; McNulty & Nordberg, 2016). Some researchers have studied its consequences and antecedents (Shabbir, 2012; William & O'Sullivan, 2000). Yet the arguments on the involvement of investors as owners is still indecisive (Buller & Braun, 2021). The following section intends to comprehensively review the literature with the aim to put forward some arguments presented by opponents and proponents of institutional investor's activism in corporate governance.

### Proponents

The proponents have supported the institutional investors monitoring in quite simple and understandable way. Its roots are linked to agency theory explaining that the companies having a separate ownership and control require specific monitoring for lining-up the interests of stockholders and managers (Jensen & Meckling, 1976). Proponents have presented another considerable argument deals with the proficiency and professionalism of institutional investors, letting the investors for sophisticated participation in the market (Illig, 2008). The institutional investors can actively and devotedly manage the investment portfolios. As per the research of Bebchuk (2003), directors' election and voting mechanism are under the full control of management, protecting them from outside compressions. Undoubtedly, several supporters of institutional investor activism have put forward a shared plan that a variety of professional institutions can bring revolutions and improvements in governance system (Buller & Braun, 2021; Çelik & Isaksson, 2014; Fernando, 2012; McNulty & Nordberg, 2016). Accordingly, institutional investors have gained significant importance as they are capable to attain equitable resources in order to place challenges for the management and to effect corporate strategy in an effective way.

**Opponents**

Skeptics argue that the governance of investee by institutional investors is sometimes inaccurately regulated due to a number of barriers. All institutional investors are not equally compensated and they possess different abilities as outside authoritarians. Some investors have limited potential to bring the change and they have to face inside governance issues. One of the leading and sound assessments is based on agency cost. It has been noticed that institutional investors encounter with the same agency issues as faced by the companies (Gul et al., 2012). The agency problems between the investor and investee corporations is not fully resolved by the activism of institutional investors rather it can just divert the issue from one domain to the other one (Bebchuk, Alma & Scott , 2017). Another siginifcant issue is information asymtery between mangers and institutional investors, directing investors to posses limited information than managers causing the investors least effiicient in perforimng their matters (Funnell & Robertson, 2014). The promotion of good corporate governance on the part of institutional investors is significantly influenced by regulatory environment. In this context, governing authorities can play a substantial role by putting forward some limitations on ownership stakes in one firm and by restricting organizing activities among group of investors. The major factors limiting the institutional investors as owners range from inequality of interests, deficiency in investors experience and vagueness regarding governance problems, conflict of interest, client inactivity and diversified portfolios having limited resources (Ivanova, 2017). Conflict of interest is caused by business related associations of institutional investors with the Investee corporations rather than having the investment role. Such existing or prospect business associations obstruct stockholders involvement and lead institutional investors to play a limited role in actively managing the decisions. The detailed analysis exposes the opportunities to empirically and theoretically improve the efficiencies of institutional investors. The existing study will fill this gap in more thoughtful way by discovering the efficiencies of institutional investors and with the aim to shed some light on the significant problems in the execution of best corporate governance practices in Pakistan.

**Developing the Conceptual Framework**

The current section deals with corporate governance mechanism of institutional investors by means of effective actions to promote corporate governance of Investee corporations. The conceptual framework consists of corporate governance mechanism in terms of actions as Higher-order construct. These actions significantly influence the ownership engagement of institutional investors and their efficiency to promote corporate governance of Investee corporations. Finally, the institutional theory has been employed to construct the effectiveness model of institutional investors.

Institutional theory provides a robust base for stockholders activism, specifically where stockholders serve as institutions and the role of institutional investors at international level is swiftly increases. The world-wide competition among different economies leads to imitative, coercive and normative isomorphism in order to enhance the competence of institutional investors and to legitimate the local institutions in international financial markets. The assumptions of bounded rationality provide grounds for the Institutional theory. It refers that the capacity of individuals to take the rational decisions is bounded by the realistic normative and regulative situations. Other than isomorphism, institutional theory is observed to be the most auspicious as it provides social grounds for the organizations and encourages entities to apply shared standards, guidelines and principles at the operational level so as to attain legitimacy.

**Corporate Governance Mechanism**

Literature has highlighted some effective mechanism by means of institutional investors' actions which are explained below.

**Use of Voting Rights**

Stockholders can use voting rights to expel directors, halt transactions, and can compel administrators to take decisions for the well-being of stockholders (Thompson & Edelman, 2009; William & O'Sullivan, 2000). Institutional investors possess necessary skills to attain and evaluate information, incorporate investigative measures and take informed judgments. Gordon and Pound (1993) explained that institutional investors are extensively using stockholders proposals to modify corporate governance guidelines. It has also been noticed that, stockholders proposals is the leading approach to topple anti-takeover devices (Listokin, 2010).

**Propose Resolution to AGM Agenda**

A study conducted by Ferri and Sandion (2009) was consisted of 150 proposals highlighted the increased power of stockholders with the regular response of management. Likewise, Ertimur et al. (2010) carried out a research with 620 stockholders proposals and observed that voting results and influence of proponents was connected to the implementation of non-binding proposals. The capability of institutional investor's to affect administrators or board of Investee corporation is based on the level that they can use voting rights and can take informed decisions. Resultantly, the use of voting rights of institutional investors is the constraint to explain the extent of ownership engagement which ultimately influences the matter of investee governance. Hence, the researcher has taken decision to add this construct in the conceptual framework.

**Exercise Institutional Power**

Hirschman (2004) presented the idea of institutional power by identifying three mechanisms for institutional investors. There are three different ways by which institutional investors can exercise their power. The first one is the voice which refers to the execution of voting rights to affect the Investee corporation. The second is the exit which deals with the "voting with their feet". The last is loyalty which relates to do nothing (Hirschman, 2004). In case, the performance of Investee corporations is not satisfactory for institutional investors, the execution of exit option seems to be quite difficult. The absence of exit option lead to the voice option (Monks & Minow, 2011). Investors can exercise their voice in annual general meeting by filling resolutions, inquiring questions, and can carefully use their voting powers. Moreover, they can execute informal meetings (Ivanova, 2017). The exit option specifies that management is not capable to present the benefits offered by the competing organizations. Loyalty option may convert to the exit one (Jahnke, 2019). The exercise of institutional power in terms of selling a stock or raising a voice is recommended as the significant factor to engage Investee corporations and to modify their governance. Resultantly, it has been taken as a part of corporate governance actions of institutional investors in conceptual framework.

**Monitor Investee Company**

The literature of corporate governance has frequently discussed the monitoring of Investee corporation (Agrawal & Mandelker, 1990; Carniglia, 2013a; Chen et al., 2007; McCahery et al., 2016). The institutional investors are in a position to identify problems at the initial phase to avoid any loss in the stockholder's wealth, directing them to regulate the activities of Investee company (Chen et al., 2007).. It has taken into loop the active negotiation with the management of board of Investee corporation. Given the regulation of Investee corporation as a pre-requisite for corporate governance change in Investee corporation, the conceptual framework discusses this dimension for CG actions.

**Approach Regulatory Authorities**

Institutional investors can approach regulators in order to realize the explicit corporate governance objectives. It has been identified in the literature that regulators can play a vital role to frame the entire corporate mechanism of corresponding jurisdictions (Buller & Braun, 2021). The literature has backed this construct to be added in the conceptual framework and investigated by inquiring investors whether they can assess SECP as regulatory authority in Pakistan to force the Investee company.

**Co-Ordinate with other Institutional Investors**

Literature has presented diverse view point for co-ordination with other institutional investors as an aspect to influence the ownership engagement with Investee company. Few considers the collaboration as a solution to the free rider problem, which is the significant weakness of stockholder activism and perceives co-ordination among institutional investors as a major aspect to bring change (Jahnke, 2019; William & O'Sullivan, 2000). Other considers stockholder activism as a sole matter of individual and do not coordinate as they do not want to disclose information to the peers due to some boundaries imposed by company laws (Bebchuk, Alma, & Scott, 2017; Buller & Braun, 2021). The detailed review of literature directs that co-ordination with other institutional investors regarding some common matters improves their capability to keep in line with the management and develop corporate governance of Investee company.

**Tried to Go into Litigation**

Institutional investors can resolve clashes by focusing on "go into litigation". In a state where fragmented regulatory environment is based on proceedings, the institutional investors are backed by the fragmented regulatory environment (Buller & Braun, 2021).Institutional investors have sufficient resources and expertise to play the odds, the expertise to compensate the guidelines, and the expertise to play for the guidelines (Carniglia, 2013).The literature reveals that the participation of institutional investor's in litigation can compensate for financial losses and brings corporate governance improvements.

**Level of Commitment towards Activism**

Another conception is the level of commitment of institutional investors towards activism in the framework. It is also used as a Higher-order construct that measures the quantity of resources that are being utilized for making activism effective. The below paradigms are used to measure the commitment level on the way to activism.

**Proxy Voting Policy**

Usually shareholders mostly have one vote against one share apart from those shareholders that have additional voting rights. The most important way of exerting influence in authority and governance of the Investee company is the voting right. For instance, if the shareholders are inept to participate in the annual general meeting, 'proxy voting' enables the stockholders to vote on equities. This voting mechanism is very effective through which they can express their opinion in any business activity irrespective of the fact that they were unable to attend the meeting physically. Release of proxy voting procedures displays their commitment and seriousness towards shareholder's activism (Bethel & Gillan, 2002).

**Number of Contacts**

The pre-requisite for the engagement with the investee company is communication. Number of contacts reveals the intensity of institutional investor's concern in order to enhance corporate governance of their Investee company. Their frequency of contacts with the investee company shows their dedication towards activism thus, it is the part of the paradigm.

### 3.2.3 Spending on Corporate Governance Activities

Institutional investors should have resources for implicitly opposing the management about any issues related to corporate governance, (Carniglia, 2013). In order to increase the CG of Investee company one should require the assurance of resources not only in monetary terms but also in terms of time. Thus, the degree of an investor spending on the activities of corporate governance depicts their extent of commitment towards activism. It is incorporated in the conceptual framework for assuring the effectiveness of institutional investors in endorsing better corporate governance.

**Institutional Investor's Effectiveness Model**

The mechanism of corporate governance in the manner of actions is the method through which the investee company is involved by the institutional investors. Such actions consists of: monitoring the Investee company, the use of voting rights, coordinating with other institutional investors, approaching regulatory authorities, exercising institutional power, and trying to go into litigation. The other paradigm in the model is the commitment level towards activism that consists of number of contacts, revelation of proxy-voting policy, and the level of spending on CG matters. The subsequent figure depicts the model.

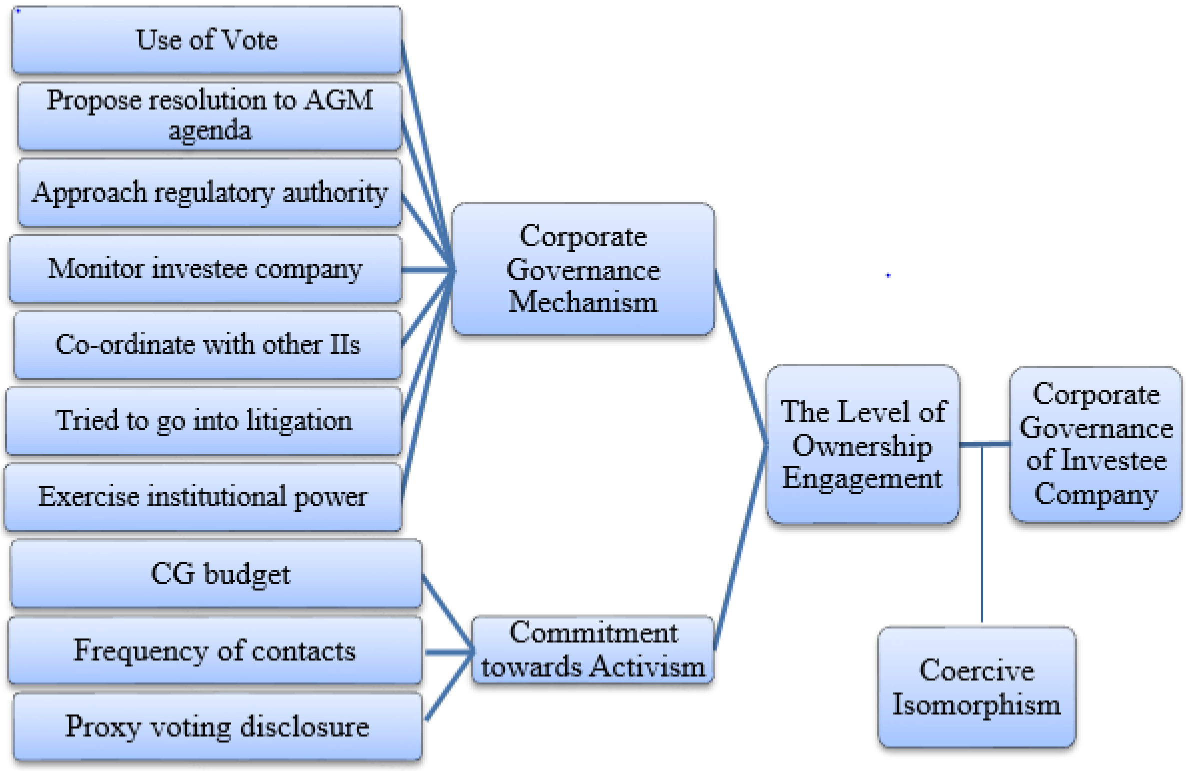

*Figure 1*: Institutional Investor's Effectiveness Model

**Methodology**

Semi-structured interviews and open-ended interviews have been utilized in this study as the primary data collection method. Focus was on senior managers and fund managers connected with institutional investments. The interviews comprised of open-ended and closed-ended questions. The population of this study includes 19 Pension Funds, 212 Mutual Funds, 11 Investment Banks, and 50 Insurance Companies functioning in Pakistan[2]. These funds are administered by 23 Asset Management Companies. The best people to handle this study's specific research problem are senior managers in asset management companies, such as investment managers and other fund managers. Most of the times, these people are difficult to reach because mostly they are busy, and meeting settlement with them takes a lot of effort and time. In this situation, snowball sampling helps in data collection for the study's researchers. Saturation rule were chosen by the researchers and they kept collecting data up until it revealed construct correlations and features. In this study there were 28 interviews conducted in all.

The Participants included were three chief investment officers, seven portfolio managers, five senior managers of investment companies, and thirteen fund managers. These participants were the representatives of five categories of institutional investors that consist of pension funds, mutual fund, investment companies, insurance companies, and the portfolios of discretionary and non-discretionary kinds. Hence, all categories of institutional investors were covered in this study operating in Pakistan.

**Data Analysis**

Keeping in mind the qualitative nature of this study alongside the grounded theory, "Thematic Analysis" was used as the preferred data analysis procedure. Using the thematic analysis aids in generating the unforeseen insights and condenses the data by apprehending similarities and differences in a research (Braun & Clarke, 2006).

In the thematic analysis the first step entails of getting familiar with the data and writing down the interviews. After transcribing the data for the researcher the next phase was to highlight the most noticeable features of data that are meaningful in terms of the construct. The researchers highlighted the codes that tentatively explain the ownership engagement of institutional investors with their impact on the CG of investee companies in the second step. In the third step collection of initial codes and probing for themes were performed. In this research data analysis was performed using the NVivo 12. Labeling and identifying the underlying themes was the final step of the data analysis. The structures of the model were based on these areas.

**Reliability and Validity of Data**

The researchers have ensured the reliability of data while comparing the transliterated data with the audio recordings of the interviews. Furthermore, the accuracy of data was patterned by asking an assistant for listening the recording and ensuring that records are accurately reported in a compete manner. As far as the validity is concerned in qualitative research, it is concerned the truthfulness and precision of data. The truthfulness and precision of data guarantees that data revealed the reality practiced by subjects of the study. Among the most frequently used methods, to check validity of qualitative data is "Member checking approach" (King & Horrock, 2010; Creswell, 2009). In this study, member checking procedure is used by the researcher in order to check the validity. For this insight, the transcripts were emailed to the interviewees in which brief description and memos were given and they were asked about their comments. The Response and feedback by five

[2] Data is taken from SECP Sector Summary January 2020.

interviewees foster the validity of the data derived from interviews and analysis. Furthermore, on expert evaluation, a quality checking process was performed on the basis of a code-confirming approach.

**Results of the Study**

This section depicts the study's findings by following the order of concepts as presented in conceptual framework that elucidates institutional investors' involvement and the impact over Investee companies, with this, it also shows the corporate governance challenges highlighted by those investors have The concerns raised by responders are given in the table underneath in the order in which they were mentioned by investors with a number of references and sources.

With board structure (57%) being the most frequently reported CG issue, all the respondents brought up 19 different issues. Other problems involved Board Competence (17%), CEO-Chair Duality (21%), Board Independence (17%), Insider Trading (14%), Worthiness of Auditors (17%), Mergers, Acquisitions & Dispositions (10%), Default Issues (10%), Internal Control System (7%), Director Turnover (7%), Turnover (7%), and Board Accountability and Diversity (7%). While, turnover and default problems are unconnected to CG but these are counted in the findings because the respondents highlighted them. Wholly board-related problems can be characterized under one caption.

**Table 1: Corporate Governance Issues**

| CG Issues | Sources | References | Percentage |
|---|---|---|---|
| Board structure | 16 | 16 | 57.14 |
| Credibility | 10 | 10 | 35.71 |
| Performance | 10 | 10 | 35.71 |
| Compliance | 9 | 9 | 32.14 |
| Shareholder's Rights | 8 | 8 | 28.57 |
| Profitability | 7 | 7 | 25.00 |
| Remuneration Policy | 7 | 7 | 25.00 |
| CEO-Chair Duality | 6 | 6 | 21.43 |
| Board Competence | 5 | 5 | 17.86 |
| Board Independence | 5 | 5 | 17.86 |
| Worthiness of Auditors | 5 | 5 | 17.86 |
| Insider Trading | 4 | 4 | 14.29 |
| Default Issues | 3 | 3 | 10.71 |
| Mergers, Acquisitions & Dispositions | 3 | 3 | 10.71 |
| Board Accountability | 2 | 2 | 7.14 |
| Board Diversity | 2 | 2 | 7.14 |
| Director Turnover | 2 | 2 | 7.14 |
| Internal Control System | 2 | 2 | 7.14 |
| Turnover | 2 | 2 | 7.14 |

The following Figure 2 shows each of corporate governance issues categories along with the percentage of respondents stating that matter.

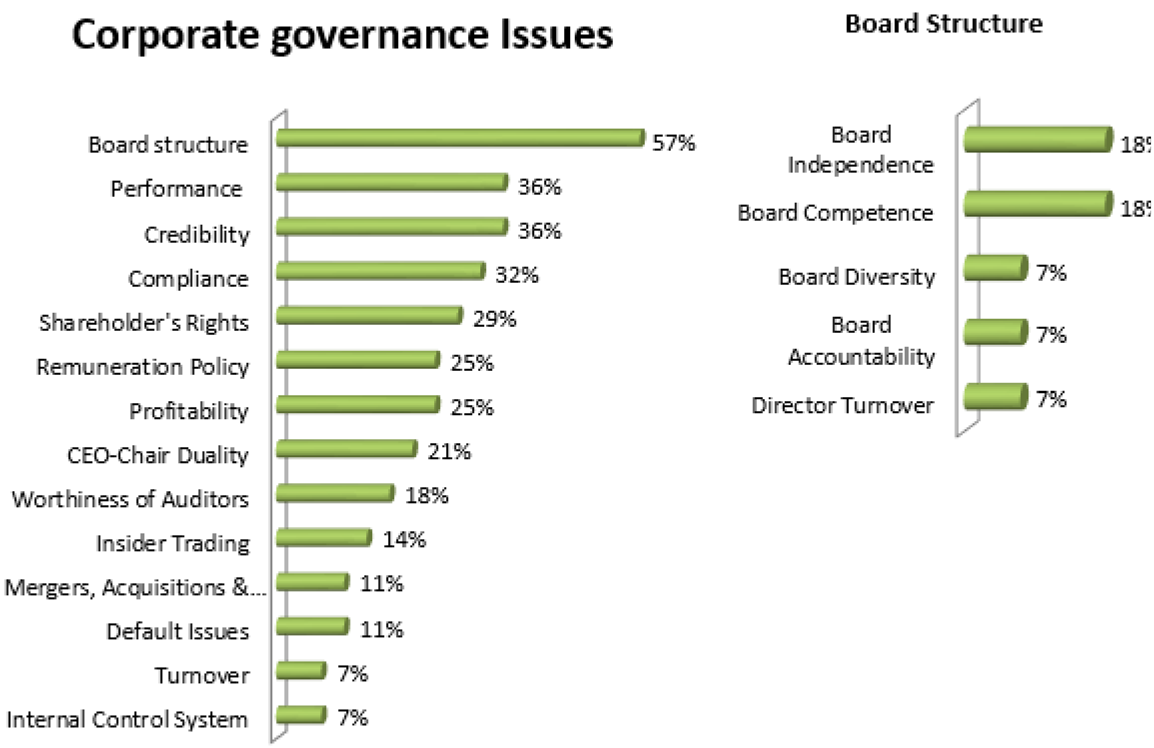


*Figure 2*: Corporate Governance Issues

The board structure is the CG concern according to 57% of respondents that is most commonly explained. Its categorization can be done into five groups: board diversity (7%), director turnover (7%), board independence (18%), board accountability (7%), and the most commonly determined issues in this board category relates to board independence and competence.

Firstly, the investors were asked to rate their organizational corporate governance initiatives while using a numerical rating system ranging from 1 to 10, in which 10 denotes the greatest activism, after possessing a good consideration of the institutional investors' concerns. With 5 serving as the median the response from 1 to 8, depicts a moderate level of involvement. On the other hand, the investors were interrogated about their actions as a CG mechanism for improving corporate governance in Investee companies with ownership engagement in a sequence of open-ended questions.

The analysis of the data displayed that institutional investors frequently attend AGMs and exercise their voting rights in Pakistan. Seventeen interviewees (61%) highlighted that AGMs of the investee firms were frequently attended and recurrently voted in the favor or against any proposals that they thought were suitable. The rest eleven respondents identified that they do not take part in AGM voting, because they usually not invest in stocks or because of the cost that outweighs the benefits. Few investors are examined to be active in utilizing their shareholder rights, in answering to the query of intending resolution to AGM.

Six out of the twenty-eight respondents (21%) identified that they used to eagerly attend the AGM. If necessary they used to present a resolution or augment a topic to the agenda. They apprehend it as a chance to speak out for their benefits and have an influence on business strategy and the issues of ESG[3]. However, (79%) the majority of responders argued that they do not. The participants were questioned about this in order to attain a

[3] ESG issues means Environmental, Social and Governance Issues.

deeper understanding of the situation, given that the large number of respondents were not using their right to offer a resolution in the AGM. Respondents cited the various causes for their inactivity that includes not having a significant stake (18 respondents specified this), includes regulatory restrictions (5 respondents), not being a direct investor (7 respondents). While, there is an agreement among respondents about the importance and role of SECP in regulating the corporate sector, none of them contacted SECP to pursue corporate governance objectives. When respondents were questioned about their efforts to influence the Investee company, the importance of having a substantial share was highlighted repeatedly.

In this research, 24 participants showed that they have little motivation to influence the investee company on governance-related matters. Additionally, just four of the participants said that their actions significantly influence the Investee company's corporate governance. 4 participants specified that they put some pressure on the management of the Investee business in order to follow sound corporate governance principles when they realize that their rights are being restricted.

The majority of respondents (78%) realized that monitoring Investee companies is a significant feature of their career. They articulated their severe interest and worry about the corporate strategy, company's performance, and significant changes to the top management and board. The Interviewees were questioned about their efforts to harmonize with other institutional investors to achieve their objectives for better understanding and the coordination activity among institutional investors. The analysis showed that, while most participants realize the value of coordination but they did not keenly collaborate with other investors in practice. Only one of the respondents argued that they completely coordinate with MUFAP[4].

When negotiation is not fulfilling the purpose, litigation is another approach to accomplish a particular purpose. In this study different responses were given by the interviewees. Most of the participants expressed the concern about the price of litigation (40%) and biased delays in the process (35%), and the potential for bad press (10%). conclusively, they supposed that using litigation for achieving corporate governance objectives is futile. The analysis depicts categorically that institutional investors apply the litigation technique not to avoid losses but merely to recover them, with the upgrading in investee corporate governance that occurs only incidentally.

Large number of respondents (65%) argued that they implement the exit option when it comes to profitability, performance and governance issues in answering the question about how institutional power is utilized. One respondent (Res 15) highlighted about a company's political leanings as one of the main reasons not to purchase its stock. Other (35%) respondents play an active role in raising their voices and networking with management to resolve any issues that might occur. The examination showed that the Investee company and the level of ownership engagement are considerably impacted by the use of institutional power that may be in the form of exit or raising the voice.

The subsequent higher order construct is institutional investors' financial and time commitment to activism. The report shows that there is no particular budgetary allocation for corporate governance, though they spend more or less money on organizing events, planning meetings with investee firms, going to conferences and seminars, and traveling to the AGM to participate actively. The respondents were questioned about the number of contacts they

[4] MUFAP is Mutual Funds Association of Pakistan

had in a fiscal year and whether or not this frequency was satisfactory for a meaningful interaction with the investee company. Participants' responses were assembled into four categories. The (39%), most of the participants specified that they communicate with Investee management once every three months. Other (36%) said that they speak with the investee company 5 to 6 times every quarter depending on the situation. Moreover, these investors expressed that, in terms of portfolio composition, keeping communication with management varies from company to company. Only 10% of respondents expressed that they communicate on monthly basis with the management of their investee company, while 15% argued that they did so twice every quarter.

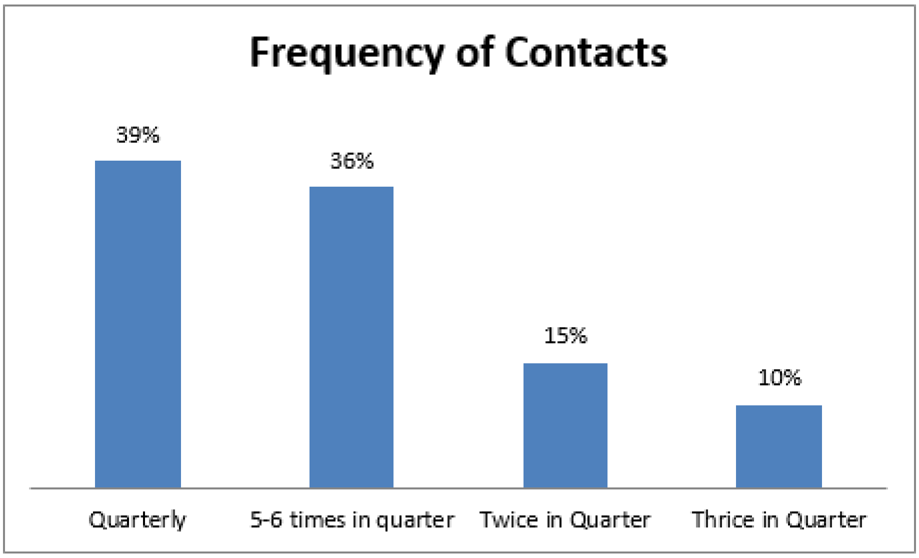


*Figure 3*: Frequency of Contacts

All the responses were analyzed, and the outcomes showed that engagement activity rely on particular situations and circumstances. For example, if the portfolio has a big number of companies, it will be tough to communicate with them all so often. In fact, some respondents stated that it is not always needed to get in touch with all the top-listed companies. Though, the number of contacts increases with a significant change, such as a merger, acquisition, and dispositions.

Concerning the construct of proxy voting disclosure, all the respondents agreed on organizational proxy voting policy that is publicized on its website. It also complies with the demands of the corporate sector's corporate governance code that SECP released. The code of SECP commands that all institutional investors must reveal their proxy voting practices and all respondents stand by the word and spirit of this law. It proved their dedication toward shareholder activism and aided as a first step toward optimistic interaction with the investee firm.

**Modification of the Conceptual Model**

According to the thematic analysis of the sample interviews that have been presented in this study revealed that majority of the constructs based on literature are also present actually in reality among institutional investors in Pakistan. The examination also exposed several constructs that institutional investors have found to be more influential and some other overlapping constructs with the same provenance. After comprehensive investigation of the constructs that covers CG mechanisms in the form of acts like proxy voting, using votes, attending AGMs, presenting resolutions, or adding items of their concern to the agenda of AGMs are found overlapping themes in the conceptual framework. According to analysis, these constructs share a significant part of their data code with another paradigm called usage of voting rights. The constructs therefore associated to the same theoretical field. As a consequence, in the final model, use of voting rights integrates this construct.

The investigator was able to segregate two novel constructs through exploratory qualitative analysis of interview data. The results depicted that respondents thought that board seat and other investor's behavior are important influencers on ownership engagement in order to improve the governance of the investee business. The purpose of the thematic analysis was to recognize the relevance of the constructs driven from the literature and, to discover any new emerging or overlapping constructs if applicable. Following model is the visual representation of the analysis.

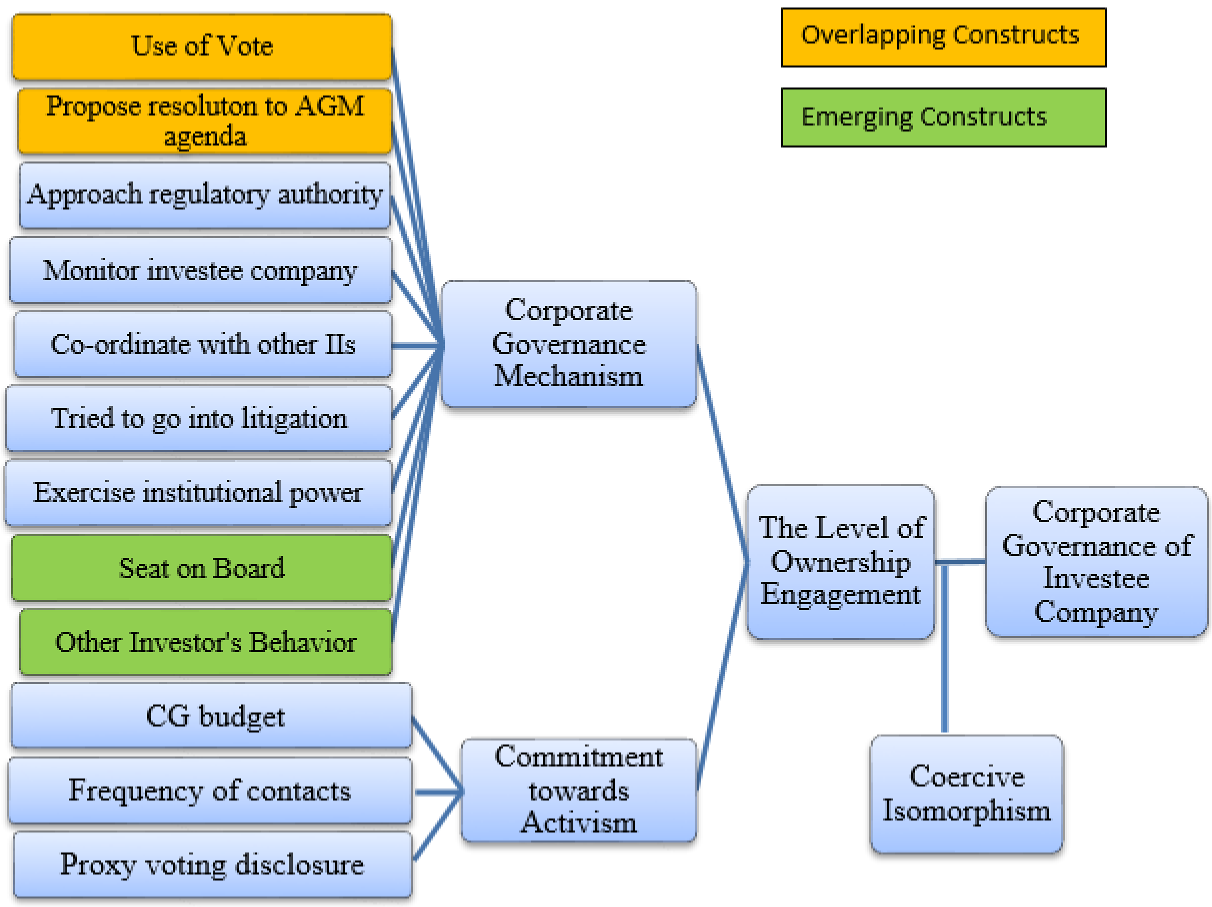


*Figure 4*: Modified Institutional Investor's Effectiveness Model

## Conclusion

The intension behind this study is to look upon the main problems with CG best practices implementation and to investigate the usefulness of institutional investors as a CG internal mechanism in Pakistan. In order to accomplish these goals, the researcher looked for significant CG apprehensions that are noteworthy for institutional investors and their CG mechanism in terms of activities in order to enhance CG through the ownership engagement. This research was divided into two portions: a detailed review of the literature with thorough theoretical investigation in order to create a conceptual framework and an exploratory qualitative phase to fortify the conceptual model while determining the usability of the preexisting constructs and the occurrence of new constructs. In the first stage, a review of the literature is presented in order to pinpoint the various traits and actions that fall under the corporate governance mechanism and commitment towards activism and it is clearly discussed that how well they work to measure ownership engagement. The philosophical perspective of the researcher was interpretivist or non-positivist amongst other research paradigms and the most appropriate research methodology for this research was qualitative research with an inductive reasoning. Data was gathered through Semi-structured interviews and NVivo was used to perform thematic analysis.

In order to strengthen the conceptual framework formed in the first part of the study, the second part of the research was comprised of exploratory qualitative analysis. The implication of each component in the conceptual framework was analyzed in the context of this study based on thematic analysis of interviews and necessary adjustments were made to bring out the institutional investor's effectiveness model. In this study the conceptual model was accustomed in the paper and then a modified institutional investor's efficacy model was presented.

Conclusively, this study presented a thorough picture of how effective institutional investors are as a form of internal corporate governance mechanism in the corporate sector of Pakistan. In the idea of the researcher, this is the first study of its kind that has comprehensively investigated institutional investors' role mainly in promoting better corporate governance and specifically in the Pakistani context.

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