A conceptual mapping of the logics of institutional investors' corporate governance responsibilities: The case for "custodian" investor stewardship

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Paper presented at EURAM 2019 (European Academy of Management) Conference

Awarded with the Best Special Interest Group (SIG) paper by the SIG Business for Society

Abstract:

Institutional investor activism has received increasing attention for corporate governance scholars and policymakers. The promise of institutional monitoring of corporations has fueled social expectations over institutional investors. In the aftermath of the financial crisis, recent corporate governance rules have attempted to frame and rule institutional investors' corporate governance behavior. We draw upon these rules and legal research to unpack the rationales of these specific expectations. Employing an institutional logics perspective, we map the different logics of responsibility which drive institutional investors' corporate governance behaviors. This help us critically examine the notion of investor stewardship and propose a unified framework for institutional investors' corporate governance responsibilities. First, we argue that the coexistence of contrasted logics creates new sources of conflicts of interests for institutional investors. Second, we remark that corporate governance rules for institutional investors do not meet social welfare concerns. We then propose a custodian logic of responsibility for institutional investors which combines monitoring concerns and a concern for responsible management.

Keywords: Corporate governance - Institutional investors - Responsibility - Engagement - Stewardship

1. Introduction

As management and organizational research has been increasingly concerned with “grand societal challenges” (Ferraro, Etzion, & Gehman, 2015; George, Howard-Grenville, Joshi, & Tihanyi, 2016) and “social welfare” (see Academy of Management Review’s special topic forum on “Management theory and social welfare: contributions and challenges”, 2016), scholars have stressed the importance of corporate governance’s specific ability to frame business structures, and then, contribute or restrain corporate social responsibility (hereafter CSR), (Bosse & Phillips, 2016; du Plessis, Varottil, & Veldman, 2018; Scherer & Voegtlin, 2017). To this respect, scholars have called for stronger focus on corporate governance reforms and laws (Deakin & Hobbs, 2007; Deakin & Whittaker, 2007; Veldman, 2018).

In the recent years, policymakers and lawmakers have shown a strong interest for institutional investors’ role in corporate governance. Institutional investors have become major players in corporate governance (Gillan & Starks, 2003; McCahery, Sautner, & Starks, 2016; McNulty & Nordberg, 2016). Moreover, institutional ownership affects firm performance (Elyasiani & Jia, 2010), dividend policies (Grinstein & Michaely, 2005) but also CEO compensation (David, Kochhar, & Levitas, 1998; Hartzell & Starks, 2003), R&D expenditures (Bushee, 1998) and firm innovation (Kochhar & David, 1996). Although institutional ownership cannot solely account for institutional investors’ influence on corporations (Ryan & Schneider, 2002), they have shown a growing interest for corporate governance through shareholder voting at general meetings (Aggarwal, Saffi, & Sturgess, 2015) and shareholder activism (Goranova & Ryan, 2014). In particular, institutional activism has had successful outcomes (Del Guercio, Seery, & Woidtke, 2008) and has been positively associated with financial performance (Brav, Jiang, Partnoy, & Thomas, 2008; Gillan & Starks, 2000; Klein & Zur, 2009). Corporate governance codes dedicated to institutional investors, such as Stewardship codes, have then spread globally

(Cuomo, Mallin, & Zattoni, 2016). At European Union level, the Directive 2017/828, which promotes long-term shareholder engagement, also proposes guidelines to hold institutional investors accountable for their corporate governance practices (Birkmose, 2014; Johnston & Morrow, 2015). The promise of institutional investors' engagement with corporations as "watchdogs" or "guardians" of corporate governance is not a new topic (Tricker, 1998). However, the notion of "investor stewardship" fuels expectations to renew capitalism (Davis, Lukomnik, & Pitt-Watson, 2009; Heineman & Davis, 2011) and foster "good activism"(Hill, 2017). Shareholder engagement can contribute to the creation, diffusion and adoption of CSR norms and standards by corporations (Sjöström, 2010). Stewardship challenges the engagement behaviors of investors concerned with Environmental, Social and Governance (hereafter ESG) (Ivanova, 2017).

Yet, institutional investors' involvement in corporate governance has also met several criticisms. In the aftermath of the 2007-2008 financial crisis, institutional investors' role in corporate governance failures has been under heightened scrutiny (Commission, 2011). On one hand, institutional investors were condemned for their passivity and their lack of engagement with corporations (Hawley, Kamath, & Williams, 2011). On the other hand, institutional investors', and in particular hedge funds', behaviors have also been condemned for driving corporate short-term strategies (Coffee & Palia, 2015; Dallas, 2011). Institutional investors are heterogeneous shareholders and their diverse strategies (Connelly, Tihanyi, Certo, & Hitt, 2010) affects their engagement practices (Aguilera, Florackis, & Kim, 2016; McNulty & Nordberg, 2016; Ryan & Schneider, 2002; Tilba & McNulty, 2013). Hence, the old question of "who will guard the guardians" (Coffee, 1991; Tricker, 1998) remains. Moreover, promoting and incentivizing institutional investors' involvement in corporate governance does not guarantee in itself responsible corporate governance practices for responsible businesses. Do recent corporate governance rules meet social expectations over investor engagement?

In this article, we draw on these recent corporate governance trends and on legal research to shed light on what underpins - to date - investor stewardship and more broadly responsible institutional investor engagement. To this regard, we map the different logics of responsibility that can drive institutional investors' corporate governance behavior. This leads us to propose a unified framework for institutional investors' corporate governance responsibilities and to point out the absence of a specific logic of responsibility for social welfare concerns.

First, we explain the origins of new corporate governance rules for institutional investors with some historical elements, building on a multidisciplinary review of literature – from the financial, managerial and legal corporate governance streams. We illustrate our analysis with a special focus on the UK Stewardship Code, which has initiated a corporate governance trend (Cuomo et al., 2016).

Secondly, we unravel the rationales behind the novel responsibilities that policymakers and regulatory agents have assigned to institutional investors. For this purpose, we resort to the institutional logics perspective (Thornton, Ocasio, & Lounsbury, 2012) which helped us distinguish between the different, coexisting and contrasted logics of responsibility for institutional investors in corporate governance.

Finally, we critically examine the notion of "investor stewardship". We complete our conceptual mapping arguing for a custodian investor logic with respect to firm and social welfare.

Legal theories and legal concepts have proven to be valuable for research in corporate governance (Lan & Heracleous, 2010) and institutional investment (Sandberg, 2013). The legal developments and corporate governance rules for institutional investors' role in corporate governance offer an unique opportunity to answer queries to unpack the specific requirements and goals of investor engagement (eg. Tricker, 1998; Webb, Beck, & McKinnon, 2003).Our analysis then first contributes to the literature on institutional investor activism (eg. Goranova & Ryan, 2014). A conceptual mapping of logics of responsibility for institutional investors clarifies the multiple rationales that can drive institutional investors' corporate governance behaviors. Second, we contribute to the literature supporting a positive and promising role of institutional investors for corporate governance (eg. Davis et al., 2009; Fenwick & Vermeulen, 2018; McNulty & Nordberg, 2016) thanks to our discussion of investor stewardship's limits and perspective, and to our proposition of a "custodian" stewardship.

2. Corporate governance rules for institutional investors: an historical perspective

2.1. The evolving role of institutional investors in corporate governance

At the beginning of the 20th century, Berle and Means characterized American modern corporations by the separation of ownership from control (Berle & Means, 1932). Shareholders were hence described as dispersed actors which had been deprived from access to control of corporations. From the 1940s to the 1970s, corporations and corporate governance experienced a "managerialist" era (Cheffins, 2015). This era marked the dawn of managers' power but also the surge of managerial misconducts and corporate governance scandals (Cheffins, 2015).

In the late 1970s, economists analyzed the separation of ownership from control as an agency problem (Jensen & Meckling, 1976). Agency theory posits that in an principal-agent relationship, agents, as utility-maximisers, behave opportunistically if their interests are not aligned with their principal's ones (Eisenhardt, 1989). Jensen and Meckling's agency theory of the firm assert that shareholders, as principals, bear the agency costs incurred by managers' behaviors and costs to monitor and incentivize them (Jensen & Meckling, 1976).

Since the beginnings of modern corporations, executive managers and directors have appeared to behave opportunistically. They have conflicted with shareholders' interests (Gordon, 2006). For instance, instead of distributing dividends to shareholders, managers have hoarded cash or invested in supposedly suboptimal projects (Jensen, 1986). Moreover, they were condemned for management (Shleifer & Vishny, 1989) and board (Bebchuk & Cohen, 2005) entrenchment practices, which have been deemed costly for corporations and their shareholders.

In contrast, agency theorists deemed that shareholders held very little power over management in the corporate governance component of modern corporations as described by Berle and Means (Fama & Jensen, 1983). There has been precedents of shareholder activism between the 1930s and the 1970s (Marens, 2002). For example, early shareholder activists contested levels of executive compensations after Wall Street Crash of 1929 (Wells, 2010). Yet, the Securities Exchange Act (SEA) and later the Securities Exchange Commission (SEC) have restricted the usage of their main tools- shareholder proposals at annual general meetings. Shareholder resolutions should only deal with "proper subjects for action by securities holders" (Liebeler, 1984) and not concern "ordinary business matters" (Ryan, 1988).

Moreover, only large shareholders were supposed to have enough incentives to actively monitor corporations (Shleifer & Vishny, 1986). Before the 1980s, institutional investors did not have the incentives to engage. Their share in corporate ownership was relatively modest (Gillan & Starks, 2007) and it seemed that institutional investors preferred "liquidity", and the ability to sell their shares, to “control”(Coffee, 1991). Institutional investors were mostly passive and shareholder activists were individual shareholders, which managers called “gadflies” (Marens, 2002). Rather than shareholder activism, corporate governance scholars hence preferred other mechanism to discipline managers, such as takeovers and the “market for corporate control” (eg. Fama & Jensen, 1983; Jensen & Ruback, 1983; Shleifer & Vishny, 1990).

Nonetheless, this same “market for corporate control” broke institutional investors’ passivity (Cheffins, 2015). During the 1980s and 1990s, the takeover waves threatened managerial power. With the support of courts and antitakeover laws, managers responded to this threat with antitakeover devices, such as poison pills. Antitakeover laws and amendments stirred up the “shareholder rights agenda” (Bratton & Wachter, 2010). Beyond management control, takeovers could benefit institutional investors’ financial interests. Acquirers, and among them hostile acquirers, would make tender offers to shareholders, which institutional investors wanted the ability to accept and receive a premium on their shares (Cheffins, 2015). Institutional investors hence began to engage in shareholder activism. In 1985, an alliance of major institutional investors created the Council for Institutional Investors, the first association in the United States to represent institutional investors’ interests. The same year, the first proxy advisory agency -Institutional Shareholder Services (ISS)- was created (Black, 1990) to advise institutional investors on how to best protect their interests when they vote at general meetings. Davis and Thompson read the progressive union of institutional investors as the emergence of a “social movement” (Davis & Thompson, 1994).

For some legal scholars, this new class of shareholders - more skilled, more professional and with larger means than “gadflies”- could fill the gap left by corporate governance mechanisms deemed inefficient and could properly monitor corporations (Black, 1991, 1992). The “case for shareholder empowerment" gained more advocates (eg. Bebchuk, 2004; Dent, 1989). To this regard, the first cases of institutional activism were promising. CalPERS, a major American pension fund, showed that institutional investors could engage in activism and target poorly performing corporations (Smith, 1996). But institutional investor activism did not convince every legal scholars (Thomas, 2008) and most investors remained passive (Cheffins, 2015).

In the 2000s, the sudden emergence of hedge funds in corporate ownership revived the debate of investors' role in corporate governance. Many hedge funds began to show interest in corporate governance (Partnoy & Thomas, 2006). Unlike "gadflies", they have sufficient means and, unlike classical institutional investors, they have sufficient incentives for shareholder activism (Bratton & Wachter, 2010). Hedge fund activism has been positively correlated to share performance (Brav et al., 2008). Shareholder empowerment advocates have therefore praised their positive influence on corporate governance (Bebchuk, 2013; Illig, 2007), and notably their ability to lead institutional investors, who tend to vote with hedge funds (Gilson & Gordon, 2013).

However, the global financial crisis of 2007-2008 curbed this enthusiasm for institutional investor activism. Regulators have held corporate governance failures accountable, as much as the lack of supervision on financial markets (Commission, 2011). Firstly, empirical studies showed that institutional investors contributed to disseminating the crisis (Manconi, Massa, & Yasuda, 2012). Secondly, they did not assume the promised monitoring role over corporations (Hawley et al., 2011). Thirdly, banks would have engaged in risky strategies because of the increased focus on financial performance and share prices (Bratton & Wachter, 2010), which would have been stimulated by takeover waves and shareholder activism (Dallas, 2001). In particular, hedge funds were said to be short-term investors who foster managerial myopia

(Dallas, 2011; Lipton & Savitt, 2007; Strine Jr, 2010). Moreover, hedge fund activism have served opportunistic strategies (Anabtawi & Stout, 2008). For instance, they have resorted to empty voting (Hu & Black, 2007) and other financial innovations that can distort proxy voting outcomes (Partnoy & Thomas, 2006).

More than hedge funds' aggressive activism, policymakers regretted the lack of involvement of institutional investors in disciplining managers (Birkmose, 2014). The financial crisis thus put investor engagement on the regulatory agenda. The United Kingdom lead the first attempts with the issuance in 2010 of the first version of the UK Stewardship Code.

2.2. Regulating investor's corporate governance responsibilities: the UK experience

After a spate of corporate governance failures, the United Kingdom launched successive reforms of its corporate governance rules. Beginning with Coloroll's collapse in 1990 and Polly Peck's one in 1991, the 1991 Cadbury committee initiated several study groups and reports that resulted in the issuance of the first corporate governance code in 1992. The code focused on the role played by directors in monitoring corporations (Dahya & McConnell, 2007). The first revision of the Cadbury report by the Hampel Committee in 1995 included institutional investors in the discussions. At the beginning of the 1990s, institutional investors voting rates were quite low (Roach, 2011). The corporate governance code of 1998 then insisted on the importance of institutional voting and dialogue between investors and managers (Cheffins, 2010). In 2001, the Myners report on institutional investors regretted the lack of involvement of investors in corporate governance. The report triggered the formation by institutional investors of the Institutional Shareholders Committees (ISC), which gathers the largest associations of institutional investors. The ISC published guidelines for institutional investors, promoting shareholder activism. These guidelines endorsed institutional monitoring over corporations and encouraged institutional investors' accountability on the process and results of institutional monitoring. Consequently, the revision of the Hampel report by the Higgs report advised institutional investors to follow ISC guidance (Cheffins, 2010). At this stage, ISC's corporate governance code for institutional investors still remained an investor-led initiative (Hill, 2017).

ISC's guidance was questioned after the financial crisis of 2007-2008. In particular, policymakers condemned institutional investors' passivity as well as the inefficiency of the ISC guidelines (Roach, 2011). In April 2009, Lord Myners, who authored the Myners Report, called institutional investors "absentee landlords" in a speech as Financial Services Secretary to the Treasury (Cheffins, 2010). Consequently, in November 2009, the ISC issued a Code on Institutional Investors Responsibilities. The code drew institutional investors' attention on long-term stakes and on financial risks. The same year, the Walker report on corporate governance practices in the banking system praised the ISC code and advised institutional investors to follow what he called a "stewardship code". The government hence entrusted the Financial Reporting Council (FRC) with the issuance and the reporting of such a code (Roach, 2011). In 2010, the FRC issued the UK Stewardship Code for institutional investors, which aims at fostering institutional engagement and monitoring of corporations. Since, the UK Stewardship Code has inspired other countries to issue their own Stewardship Codes (Cuomo et al., 2016) and was also used as a basis for discussion at the European Union level to amend the law on shareholder rights and shareholder engagement (Birkmose, 2014).

Recent legal trends in corporate governance are then conveying and defining institutional investors' ideal monitoring role. This role is notably determined by the novel idea of shareholder duties (Birkmose, 2014; Cheffins, 2010) or "stewardship responsibilities" (see UK

Stewardship Code, 2012 : 1). These new expectations for institutional shareholding revise the classical corporate law perspective of corporations, which has been grounded on shareholders' limited liability (Easterbrook & Fischel, 1985). Some legal scholars have indeed argued that the 2010 UK Stewardship Code brought about a change of paradigm in corporate governance, for it shifts the regulatory agenda from shareholder rights to shareholder responsibilities (Birkmose, 2014; Cheffins, 2010; Chiu, 2011). In this respect, the UK Stewardship Code did evolve from an investor-led initiative to a piece of soft law at the government's request (Hill, 2017).

Having presented some historical components to explain the appearance of and the motives for new corporate governance rules on institutional investor engagement, we now propose to unravel the rationales behind the specific responsibilities propelled upon institutional investors.

3. Institutional investors' corporate governance responsibilities: a blend of multiple logics

3.1. Institutional investors and the "good activism" hypothesis

Institutional investors' corporate governance responsibilities, such as "stewardship responsibilities", encompass several monitoring activities of corporations (Hill, 2017). For instance, the revised version of the UK Stewardship Code posits that "stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings" (UK Stewardship Code, 2012 : 6). To this regard, the UK Stewardship Code requires institutional investors to disclose their corporate governance practices as well as it determines what these practices ought to be.

It defines seven principles:

> “So as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should:
>
> 1. publicly disclose their policy on how they will discharge their stewardship responsibilities.
> 2. have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
> 3. monitor their investee companies.
> 4. establish clear guidelines on when and how they will escalate their stewardship activities.
> 5. be willing to act collectively with other investors where appropriate.
> 6. have a clear policy on voting and disclosure of voting activity.
> 7. report periodically on their stewardship and voting activities.”
>
> (UK Stewardship Code, 2012 : 5)

The Code hence rules different dimensions of institutional investors’ involvement in corporate governance from voting, to monitoring and collective engagement. It supports relevant escalation of investor activism and it insists on the precedence of the interests of investors’ beneficiaries and clients while managing conflicts of interests (see UK Stewardship Code, 2012 : 6).

Yet, stewardship responsibilities does not simply revert to fiduciary responsibilities of institutional investors as financial intermediaries (Chiu, 2011). According to Chiu, the UK Stewardship Code wavers between an affirmation of fiduciary duties and a radical shift of corporate governance model, where institutional investors work for the common good (Chiu, 2011). “Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole” (UK Stewardship Code, 2012 : 1). Investor stewardship should then contribute as much to their beneficiaries and clients’ welfare than to corporations’, other investors’ and general welfare. The UK Stewardship Code then assumes that investor stewardship aligns and pursues the interests of these different “stakeholders”. This strong assumption can be tracked back to advocates of “shareholder value maximization” who have argued that shareholder value maximization is an adequate corporate objective since shareholders are residual claimants and that shareholder profits mean that each stakeholder has already been taken care of (eg. Jensen, 2002; Sundaram & Inkpen, 2004). In the United Kingdom, the 2006 Company Act promotes the concept of “enlightened shareholder value” which extend the approach of shareholder value to long-term and extra-financial criteria (Harper Ho, 2010).

Therefore, stewardship codes are not only about making passive investors engage with corporations and care for their beneficiaries and clients. Institutional investors should also prevent financial crisis which would be detrimental to each of their stakeholders. They should “endeavour to identify at an early stage issues that may result in a significant loss in investment value” (UK Stewardship Code, 2012 : 7). Stewardship codes expect investor engagement to help monitoring risk, contribute to value-creation and thus engage in “good” activism (Hill, 2017).

This “good activism” hypothesis is not just a legal utopia. For some management scholars, investor stewardship could provide an opportunity to renew capitalism and the responsible monitoring of corporations (Davis et al., 2009; Heineman Jr & Davis, 2011). The notion of investor stewardship indeed invites to a positive narrative on shareholders' engagement. From a symbolical point of view, stewardship refers to an ethical, and even religious, background (eg. Saltman & Ferroussier-Davis, 2000; Sherkat & Ellison, 2007). In management science and organizational psychology, stewardship theory is a management theory which takes an "other-regarding perspective" (Hernandez, 2012). It challenges agency theory's assumption that human beings are only self-maximising and opportunistic individuals (Davis, Schoorman, & Donaldson, 1997; Donaldson & Davis, 1991). Yet investor stewardship endorses shareholder activism, which has mainly been viewed as a control mechanism consistent with agency theory (Goranova & Ryan, 2014; McNulty & Nordberg, 2016). Contrarily to agency theory, stewardship theory would foster collaborative mechanisms in corporate governance (Sundaramurthy & Lewis, 2003). Investor activism and stewardship theory had then seemed at odd with each other. To fill this gap, McNulty and Nordberg have proposed a framework for collaborative engagement based on "psychological ownership" (McNulty & Nordberg, 2016), a concept imported from Hernandez's propositions on the antecedents of stewardship behaviors (Hernandez, 2012). As psychological owners, steward investors would have an affective relationship to corporations and then assume a pro-social role in corporate governance. Some stewardship codes, such as the South-African one, the Japanese one and the International Corporate Governance Network, have for instance emphasized the role of institutional investors in contributing to environmental, social and governance (ESG) corporate policies (Hill, 2017). Stewardship challenges the engagement behaviors of investors concerned with ESG issues (Ivanova, 2017).

The notion of investor stewardship can then fuel the "good activism" hypothesis. Yet, "good activism" frameworks, such as the one developed by McNulty and Nordberg, rely on a voluntary approach of shareholder activism by investors (McNulty & Nordberg, 2016). It assumes institutional investors have motives to engage in "good activism". In agency theory, investor activism also relies on voluntary action by shareholders that have the most incentives to monitor corporations (Jensen & Meckling, 1976; Shleifer & Vishny, 1986). Professor Birkmose argues therefore that there are no theoretical backgrounds to found investors' responsibilities to monitor and engage with corporations, neither in ownership approaches of the corporations, neither in their critics (Birkmose, 2018).

The positive narrative on institutional investors, which policymakers have adopted, has then been criticized (Hill, 2017). For instance, since the UK Stewardship Code relies on a voluntary "comply or explain" basis, its practical efficiency has appeared doubtful (eg. Cheffins, 2010). According to some legal scholars, policymakers should not endorse institutional investors' empowerment through monitoring (Bruner, 2010). Indeed, investor empowerment would rely on an incorrect image of institutional investors. They are not passive shareholders and have contributed -with impunity- to the financial crisis (Dignam, 2012).

More than the distinction between active and passive shareholder, policymakers draw here an implicit and unclear line between "good" and "bad" activists. Institutional investor engagement in corporate governance is a mechanism that can serve different objectives. Institutional investors' heterogenous demands toward corporations (Connelly et al., 2010) indeed make it difficult to assess institutional investor activism as a coherent and homogeneous phenomenon. Although regulatory initiatives such as stewardship codes aim at unifying institutional investors' behaviors, they fail to explain how and why investor engagement would align and serve social welfare. Not only investor stewardship refers to positive narratives on shareholders, it appears as an ambiguous notion. Pursuing the interest of their beneficiaries and clients can conflict with the corporations' and other investors' interests. Institutional investors seem more concerned with their portfolio's performance than with the performance of a single corporation within this portfolio (Gilson & Gordon, 2013). Moreover, grounding in fiduciary duties investors' concern for long-term, environmental and social issues can be deemed as an abusive interpretation of fiduciary duties (Sandberg, 2013). For instance, mutual funds have adopted a "performance logic" and developed short-term and cost-cutting strategies to attract and keep their customers (Lounsbury, 2007). Investors' social welfare concerns appeal to other logics than alignment with beneficiaries and clients' interests. The literature had already highlighted that expectations for institutional investors would need unpacking (Tricker, 1998; Webb et al., 2003). Recent corporate governance rule in favour of "good activism" do not differ.

3.2. Institutional investors' multiple logics of responsibility

Stewardship responsibilities, such as other regulatory initiatives regarding institutional investors' role in corporate governance, creates new challenges for corporate governance. They "force shareholder engagement" upon institutional investors and upon corporations without clear theoretical grounding (Birkmose, 2018).

In order to unpack the rationales behind institutional investors' corporate governance responsibilities, we resort to an institutional logics perspective (Thornton et al., 2012). Institutional logics have received increased attention in managerial corporate governance studies (Aguilera, Judge, & Terjesen, 2018; Chung & Luo, 2008; Jansson, 2013; Joseph, Ocasio, & McDonnell, 2014; Shipilov, Greve, & Rowley, 2010). Thornton and Ocasio defined institutional logics as "socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality" (Thornton & Ocasio, 1999 : 804). Institutional logics therefore refers to the guiding principles that match symbolic constructions to material practices (Friedland & Alford, 1991; Thornton & Ocasio, 2008). Multiple institutional logics can coexist or compete in a same organizational field (Besharov & Smith, 2014; Greenwood, Díaz, Li, & Lorente, 2010; Thornton, 2002). Some studies have then described the diffusion of corporate governance principles such as shareholder value (Lok, 2010) or board independence (Shipilov et al., 2010) through the institutional logics lenses. Other studies have analyzed diverging national corporate governance models as institutional logics (Aguilera et al., 2018; Chung & Luo, 2008). The institutional logic perspective hence helps to explain organizational practices, and in particular heterogeneous organizational practices, as responses to institutional logics (Greenwood et al., 2010; Pache & Santos, 2013).

In this paper, we analyze institutional investors' corporate governance behaviors as a field subject to different institutional logics. Legal scholars have argued that stewardship codes do not follow precise and consistent theoretical guidelines. Law as a form of institution, has proven to be ambiguous and to allow a wide range of organizational practices (Edelman, 1992; Suchman & Edelman, 1996). We hence break down the new responsibilities enforced on institutional investors through institutional logics lenses. In particular, we contend that regulators rely on two coexisting logics of responsibility which have replaced a primary logic. This analysis provides a first conceptual mapping of institutional investors' corporate governance responsibilities.

[Insert Figure 1 here]

i. Agent logic

A liability regime describes the precise conditions and situations when an individual or an organization is liable for the effects of its actions. Liability regimes seek to prevent specific sets of actions. Similarly normative (and even non-legal) responsibilities assume that there are actions that can be labelled as irresponsible. Therefore, as stewardship codes assign corporate governance responsibilities to institutional investors, they make the implicit assumption that irresponsible investor corporate governance behaviors exist. We have seen that recent legal trends support the "good activism" hypothesis. We explain "bad activism" and then irresponsible behavior in corporate governance by exhibiting a primary institutional logic that applies on institutional investors.

Stewardship codes insist on the importance of managing conflicts of interest and of putting beneficiaries and clients' interests first (Hill, 2017; UK Stewardship Code, 2012). Conflict of interests generally arise when institutional investors have as clients of their investment branches corporations in which they own stock (Ingley & Van Der Walt, 2004). Business ties with parent companies has been an important source of conflict of interests for mutual funds (Davis & Kim, 2007; Palazzo & Rethel, 2008). In particular, mutual funds and hedge funds are usually investment vehicles sponsored by asset management corporations and many pensions funds resort to asset managers who act on their behalf (Lakonishok, Shleifer, Vishny, Hart, & Perry, 1992). Once they have been mandated by a pension fund, asset managers are the ones taking equity investment decisions and voting shares.

Asset management companies are subject to the same corporate governance logics that their investee corporations. The dominant liberal corporate governance logic is a shareholder oriented one (Aguilera et al., 2018), while corporate governance codes are mostly consistent with agency theory (Cuomo et al., 2016). In a principal-agent perspective, the principals of asset management companies are not their beneficiaries nor their clients but of their own shareholders. Asset management companies have duties toward their shareholders as much as toward their investors (Black, 1991).

We then define "agent logic" for institutional monitoring as the logic prevailing on institutional investors whose corporate governance behavior serves the interest of their parent company (if they have one) or prevailing on the money managers who act on behalf of institutional investors and whose corporate governance behavior serve the interests of their own shareholders. This specific logic of institutional monitoring shed light on the normative influences that can lead institutional investors to engage "irresponsibly". Irresponsible engagement can then presents itself through voting with management when it is not in their beneficiaries' or clients' best interests or designing voting policies sufficiently flexible for institutional investors to find slack and compromise with management (Davis & Kim, 2007). Agent logic explains institutional investors and financial intermediaries' conflicts of interests with their clients' interests.

ii. Trustee logic

To prevent the risk of conflict of interests, such as the ones entailed by an agent logic, policymakers have compelled financial intermediaries to comply with fiduciary duties toward their beneficiaries and clients. For instance, the UK Stewardship Code's second principle on conflict of interests implies that "institutional investors should put in place, maintain and publicly disclose a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of their client or beneficiary first" (UK Stewardship Code, 2012 : 6). These fiduciary responsibilities refer to trusteeship (Leslie, 2005).

Beneficiaries and clients entrust their savings or capital with financial intermediaries who then act as trustees for them.

“Trustee logic” has already been identified by Lounsbury as a professional logic for mutual funds investing on behalf of their clients (Lounsbury, 2007). He opposed the “trustee logic” to mutual fund’s “performance logic”. Mutual fund following a “trustee logic” focused on building lasting relationships with their customers- that is to say mutual fund shareholders (Lounsbury, 2007).

We define “trustee logic” for institutional monitoring as the logic prevailing on institutional investors whose corporate governance behavior serves their beneficiaries and clients’ interests. Trustee logic accounts both for investor engagement on behalf of their beneficiaries and clients and investor passivity. Institutional investors who comply with their fiduciary duties might not have incentives to engage. As we have seen, meeting their beneficiaries and clients expectations on portfolio performance can be a barrier to institutional investor activism (Gilson & Gordon, 2013). Therefore, expectations for institutional investors’ role in corporate governance grounded on trustee logic cannot guarantee “good activism”.

iii. Owner logic

Nonetheless, we have seen that stewardship codes have expectations that exceed fiduciary duties, and then trustee logic, for institutional investors. Both the UK Stewardship Code but also the European Directive 2017/828 - which is a case of hard law promoting long-term shareholder engagement- proceed from macroeconomic concerns (Birkmose, 2014, 2018;

Cheffins, 2010). Policymakers are expecting institutional investors to monitor corporations to prevent risk of crisis and enhance value (Hill, 2017).

These expectations evoke a “real owner” logic (Jansson, 2013). Institutional investors are expected to act on behalf of the project and the assets in which they have invested.
In particular, stewardship codes appeal to the common interests of investors and shareholders. While promoting collective engagement of investors, the UK stewardship Code points out that “collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value” (UK Stewardship Code, 2012 : 8). Institutional investors are then assumed to have common financial interest that they should collectively protect.
The common interests of institutional investors supports the idea that shareholders of a corporation are united and then fit to monitor (Dent, 2010). We have seen that Lord Myners called institutional investors during the crisis “absentee landlords” (Cheffins, 2010). The owner logic is close to a political vision of shareholders’ assembly (eg. Strine Jr, 2005). Shareholder democracy or a republic of shareholder appeal to civic rights and duties (Rodrigues, 2006) During the 20th century, this specific image of shareholders, as owners, had grounded claims to control rights (Hill, 2000). Nowadays, it used to ground control responsibilities. When asked to care, as owners or landlords, for a corporation, and not an investment portfolio, Institutional investors are expected to monitor corporations as the separate legal entity that united them to their fellow shareholders.

We then define “owner logic” for institutional monitoring as the logic prevailing on institutional investors whose corporate governance behavior serves the common interests of their co-shareholders. Contrarily to trustee logic, owner logic balances the relationship between investors and investees. Corporations are singled out by owner logic. Institutional investors who follow an owner logic are concerned with the absolute - and not relative - performance of their investee corporations. Institutional investors as owners are also more likely to be concerned with their investees' sustainability. Yet, it does not mean that they have equal concerns for environmental and social issues, or even strategies. Expectations for institutional investors' role in corporate governance grounded on owner logic can foster long-term shareholder engagement but cannot guarantee corporate social responsibility nor sustainable management.

4. Discussion

These three different logics of responsibility for institutional investors' role in corporate governance clarify the multiple rationales and guidelines that recent corporate governance rules are pushing on institutional investors. In particular, investor stewardship can refer as much to trustee stewardship than to owner stewardship.

Our conceptual mapping of institutional investors' different logics of responsibility in corporate governance hence allow us to propose a new line of discussion of the notion of investor stewardship, and more generally of responsible investor engagement,

Challenges to investor stewardship

Since "good" institutional investor corporate governance behaviors can be framed by different logics, they can result in heterogenous practices. Corporate governance rules on investor engagement are then exposed to two types of criticism. First, they can be deemed inefficient since institutional investors can find some slack of interpretation to legitimate their behaviors and even legitimate shareholder passivity. For instance, trustee logic can be opposed to owner logic to justify the lack of incentives to engage. Second, these normative expectations can result in new sorts of risk for institutional investors. Trustee logic could not only conflict with agency logic but also with owner logic. Institutional investors would need to manage conflicts of interests between their beneficiaries and clients on one hand, and the shareholder community on the other hand. Managing rivalry of competing institutional logics imply specific strategies (Reay & Hinings, 2009). Coexisting institutional logics can either compete (eg. Thornton, 2002) or be coupled (Pache & Santos, 2013). Consistent theoretical frameworks for responsible investor engagement strategies hence involve designing pathways to balance tensions between trustee logic and owner logic.

Custodian stewardship, the regulations' missing logic

Our conceptual mapping of institutional investors' logics of responsibility has helped us shed light on the competing rationales within "the case for institutional monitoring", and the unbalances they can create. These unbalances also feed criticism of stewardship codes or of the European Directive 2017/828 over responsible corporate governance mechanisms (eg. Birkmose, 2018; Johnston & Morrow, 2015). Corporate governance rules for institutional investors have strikingly overlooked the issue of management and, in particular, of responsible management. Stewardship codes deal less with sustainability issues and "good" management than with agency problems and control mechanism (on control and incentive mechanisms in stewardship codes see Hill, 2017). Once again law has "forgot about management" (Johnston, Segrestin, & Hatchuel, 2018).

Yet, social welfare concerns within corporations lie within management (Bridoux & Stoelhorst, 2016; Jones et al., 2016). Management science and theories have provided multiple frameworks and analysis showing the importance of stakeholder management (Bridoux &

Stoelhorst, 2016; Freeman, 1984; Freeman & Reed, 1983), corporate social responsibility issues (Garriga & Melé, 2004) and managerial self-determination (Davis et al., 1997; Segrestin & Hatchuel, 2011) for joint value creation and "social welfare". However, bringing about social welfare doesn't only require institutional investors to control for ESG issues, as assumed in some stewardship codes (Hill, 2017).

In managerial stewardship theory, if shareholders do not respect some managerial autonomy and foster management's intrinsic motivation, managers will feel frustrated and could be driven to behave opportunistically (Davis et al., 1997). Stewardship management has organizational but also corporate governance antecedents, among which the ability to self-determinate (Davis et al., 1997; Hernandez, 2012). Adequate managerial discretion is not only a key driver of innovative strategies but also regulates the relation between business and society (Segrestin & Hatchuel, 2011).

Despite intending to foster sustainable value-creating corporations and management, corporate governance rules push logics of responsibility on institutional investors that are not cohesive with responsible self-determining management. Trustee and owner logics do not entail a respectful approach to management and would, on the contrary, drive investors to pressure management to align with the interests that they serve. Therefore, responsible investor engagement aiming at social welfare lacks another logic of responsibility, dedicated to the firm's welfare. Management can achieve the firm's welfare in developing long-term, sustainable and responsible strategies. We propose to call this logic oriented toward the firm's welfare a custodian logic of responsibility for institutional investors. This logic completes our conceptual mapping of institutional investors' logic of responsibility and contributes to designing a unified framework for institutional investors' corporate governance responsibilities.

[Insert Figure 2 here]

In management science, the concept of custodianship has been used to refer to a specific type of guardians which are concerned with preserving a collective good (eg. Balmer, 2012; Capon, Berthon, Hulbert, & Pitt, 2001; Dacin, Dacin, & Kent, 2018). In corporate governance, custodianship illustrates the concern for the firm's welfare, through for instance, its business model (eg. Page & Spira, 2016). We define custodian logic for institutional monitoring as the logic prevailing on institutional investors whose corporate governance behaviors serve social welfare, and more specifically the firm's welfare. Custodian stewardship would both endorse a collaborative engagement approach to management (eg. McNulty & Nordberg, 2016) and adopt a pro-organizational corporate governance behavior. The custodian logic for responsible investor engagement would then appeal to the "Cerberus" image of shareholding (Hill, 2000) and to the pro-social and other-regarding perspectives of stewardship (Davis et al., 1997; Hernandez, 2012). Combining monitoring activities with a concern for the management function and its responsibilities constitutes an original path for responsible investor engagement. Custodian stewardship could help ground a consistent framework for the "good activism" hypothesis in a post-crisis world.

5. Conclusion

In this paper, we tackled the notions of responsible investor engagement and investor stewardship, and their social underpinnings. We drew on recent corporate governance rules and legal literature to unpack the different rationales behind regulations, such as stewardship codes, on investor engagement.

These new rules were meant to prevent risks of new financial crisis and to enhance value-creation. Yet, the notion of investor stewardship has relied on contrasted rationales. Employing an institutional logics perspective, we distinguish between institutional investors' logics of responsibility and exhibit in particular two kinds of investor stewardship: trustee stewardship and owner stewardship. Trustee investors serve the interests of their beneficiaries and clients. Owner investors serve the common interests of their fellow shareholders. These two coexisting logics for investor stewardship can conflict and do not guarantee that investor engagement will meet social expectations.

We have therefore discussed the notion of investor stewardship. Investor stewardship creates new sources of conflicts of interests for institutional investors. Moreover, although social welfare and public policy issues supported the initial motives for corporate governance rules on investor engagement, its translation into soft and hard laws has been lacking a specific rationale aiming at social welfare. We argued that this rationale would go beyond integrating ESG concerns within trustee or owner logic and would take into account the specific role and responsibilities of management. Indeed, management theories show that responsible management also has self-determination antecedents. This has led us to propose a custodian logic of responsibility for institutional investors. Custodian stewardship bridges monitoring concerns with a pro-social and pro-organizational perspective. This logic contributes to mapping of institutional investors' logic of responsibility and completes our unified framework of institutional investors' corporate governance behaviors.

Our contributions are hence twofold.

First, we contribute to the literature on institutional investor activism by unpacking and mapping the different logics that can drive institutional investors' corporate governance behaviors. We not only considered the logics underpinning corporate governance rules laid upon investors but also an agent logic which can explain why institutional investors might not follow these rules. Our approach furthers current research on shareholder activism (for a review see Goranova & Ryan, 2014) but also completes the precedent analyses of institutional investors' heterogenous behaviors (Connelly et al., 2010; Ryan & Schneider, 2002, 2003). While corporate governance rules would aim at unifying institutional investors' corporate governance behaviors, we propose a new classification of these behaviors through the lenses of investors' logics of responsibility.

Second, we contribute to the literature on corporate governance mechanisms by showing and discussing the problems and limits with the "good activism" hypothesis. We not only critically examined the notion of investor stewardship but we proposed a new logic of responsibility for institutional investors – custodian stewardship- which can path the way to substantial institutional investor engagement which could meet social welfare concerns.

Further research would be needed to assess the ways institutional investors manage and balances these multiple logics. This would contribute to build a dedicated framework for managing investor stewardship's conflicts of interests and to help design responsible engagement strategies. Further research could also explore the custodian logic and its implications both for institutional investors and for corporations, through , for example, original cases and original practices.

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Appendices

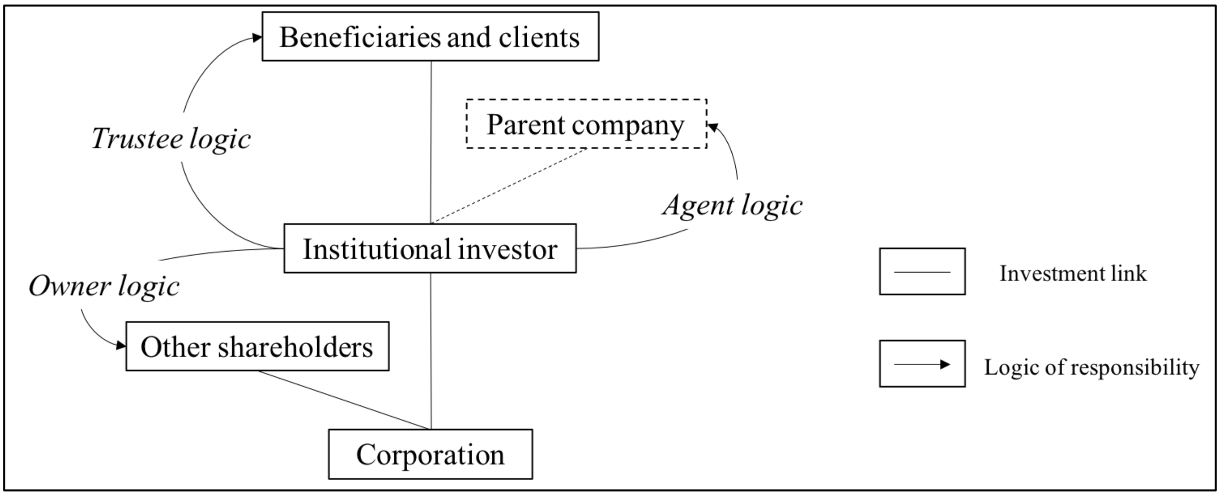

Figure 1: Corporate governance rules and mapping of institutional investors' logics of responsibility

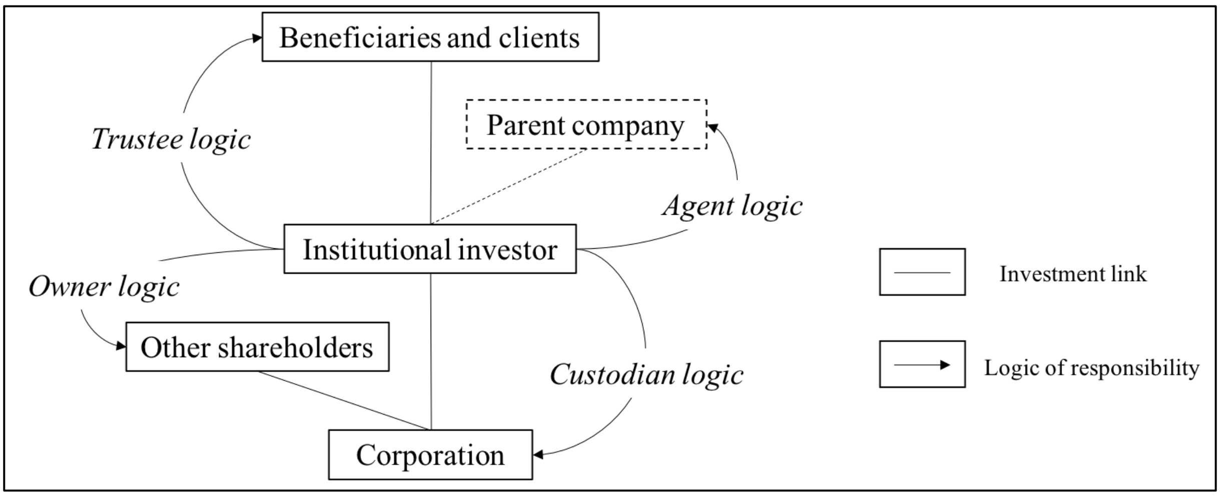

Figure 2: Custodian stewardship: Toward a unified framework for institutional investors' corporate governance responsibilities