Financial return or social responsibility? An investigation into the stakeholder focus of institutional investors

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Abstract

Since the financial crisis, regulators have put emphasis on encouraging institutional investors to take their governance responsibilities more seriously. In the UK, the Stewardship Code was introduced to enhance the engagement of institutional investors with shareholdings in UK listed companies. In the literature, institutional investors have been predominantly conceptualised as owners, although a number of authors have rejected this view, arguing that 'traders' would be more appropriate. The UK Stewardship Code adds a third view: the institutional investor as steward. The literature generally considers the stewardship concept to be the ownership role combined with wider stakeholder responsibilities. By focussing primarily on this new stakeholder element, this study examines empirically the new stewardship concept by undertaking a content analysis of the published Stewardship Statements of 81 asset managers. The results find support for both the ownership and stewardship role but also highlight significant variations in practices that point toward different competitive strategies.

Key words: stakeholder focus, institutional investors, UK Stewardship Code, stewardship, content analysis

Introduction

Shareholders play an important part in the governance of corporations. Together with the Board of Directors, shareholders are responsible for monitoring management (Cadbury Report, 1992). However, one of the corporate governance weaknesses identified during the financial crisis of 2008 was the passivity of institutional investors (Walker, 2009). Specifically, institutional investors were blamed for their lack of monitoring and engaging with their investee companies (Walker, 2009).

Since the financial crisis, regulators have placed emphasis on encouraging institutional investors to take their shareholding responsibilities more seriously. In the UK, the Stewardship Code was issued in 2010 (Financial Reporting Council, 2012). Its aim is to enhance the engagement of institutional investors with shareholdings in UK listed companies by suggesting best practice in stewardship behaviour and by requiring signatories to disclose their policies and strategies relating to the stewardship of their investee companies. Almost all large UK-based institutional investors have signed up to the UK Stewardship Code. The UK Financial Conduct Authority, in its Conduct of Business rules, requires all asset managers authorised in the UK to either sign up to the Stewardship Code or publish their alternative investment approach (Financial Conduct Authority, 2021).

In the literature, institutional investors have been predominantly conceptualised as owners, although a number of authors have rejected this view, arguing that 'traders' would be more appropriate (e.g. Hendry et al., 2006; Tilba & McNulty, 2013). A small number of studies consider the trader versus owner debate, but in general, due to the recentness of the UK Stewardship Code, the stewardship conceptualisation has received limited attention. However, within the limited number of studies, there is general agreement that stewardship, in contrast to the ownership role, includes a wider responsibility to stakeholders (see for example, Chiu, 2013; Reisberg, 2011). This paper aims to contribute to the growing body of

literature in the area of stewardship, role of institutional investors, shareholder engagement and stakeholder focus.

Focussing on the new stakeholder element of the stewardship role, this study investigates empirically to what extent institutional investors are showing signs of adopting a stakeholder focus in their investment practices. With regulators (e.g. EU Shareholder Rights Directive II; UK Stewardship Code 2020) placing ever more emphasis on institutional investors' wider responsibilities, an investigation of the present status of stakeholder focus is timely in order to create a benchmark for assessing progress in future. This research draws on a content analysis of the published Stewardship Statements of a sample of asset managers and develops a scoring system to assess the extent of the stakeholder focus of investors (the 'Stakeholder Index'). It also carries out a regression analysis to examine which investor characteristics are associated with greater stakeholder focus. This study contributes to the literature in two ways. First, it is one of the first studies to investigate the stewardship concept empirically by developing and testing a scoring system to assess the stakeholder focus of institutional investors in their stewardship practices. It thus provides important insights into how institutional investors embrace the more stakeholder-oriented stewardship role in practice. Second, the study contributes to the debate concerning the conceptualisation of institutional investors in the literature, by presenting evidence which suggests that the dominant conceptualisation of institutional investors as owners, may no longer be entirely appropriate given the degree of stakeholder focus displayed by some investors.

Results of the empirical analysis show that stakeholder focus varies widely across asset managers. The degree of stakeholder focus is predominantly influenced by existing commitments like being a long-standing signatory to the UN Principles for Responsible Investment. Foreign investors also tend to score more highly on stakeholder focus. Size, type of clients and listing status of the asset managers are not relevant to the degree of stakeholder

focus. Based on the different degrees of stakeholder focus identified in the research, this paper then proposes a classification scheme of stakeholder focus for different investor profiles.

The remainder of this paper is organised as follows. The next section examines the two most common conceptualisations of institutional investors in the literature (owners versus traders) and compares them to the new stewardship conceptualisation. Thereafter the research design of this study is presented, followed by the discussion of the research results and an overall conclusion.

Conceptualisations of institutional investors

Institutional investors are being assigned an ever more important role in the governance process (e.g. in the 2017 European Commission's Shareholder Rights Directive). However, while governance codes, like the UK Stewardship Code, define how institutional investors ought to see their role, there is some disagreement in the literature, both on a theoretical and empirical level on what their actual role is, or ought to be. The predominant conceptualisation in the literature draws on agency theory to depict institutional investors as owners, but other authors argue that a conceptualisation as traders is more appropriate. The introduction of the UK Stewardship Code has suggested a third conceptualisation, the institutional investor as steward.

Institutional investors as owners

A typical characteristic of corporations is the separation of ownership and control, with shareholders representing ownership and managers representing control (Berle and Means, 1967). The conceptualisation of ownership is closely linked to agency theory which

underpins the majority of studies in this area (Goranova & Ryan, 2014). Agency theory sees shareholders as the principals and managers as their appointed agents. This separation of ownership and control leads to an agency problem: managers are assumed to be inherently self-serving and thus require close monitoring by their principals (Jensen & Meckling, 1976).

As principals, shareholders bear the ultimate financial risk of the company as they are the last in line to receive their money in the case of liquidation (Easterbrook & Fischel, 1991). Therefore, shareholders have a vested interest in monitoring management and ensuring decisions are taken in their interest.

The situation becomes more complex when the shares are not owned by the ultimate beneficiary of the investment returns but by an intermediary such as an institutional investor. In this situation, the ultimate beneficiary appoints an agent to manage the funds on his or her behalf and, by this instruction, the institutional investor invests the funds as he or she sees fit within the remit of the investment mandate.

While this changes the dyadic nature of the principal-agent relationship, agency theorists maintain that this does not limit the applicability of agency theory (Ryan and Schneider, 2003). Although there are differing views on how an intermediary arrangement should be incorporated into agency theory, be it as a series of contracts (Jensen & Ruback, 1983), a two-tier structure (Bricker & Chandar, 2000) or a multi-party model (Schneider, 2000), agency theorists generally agree that institutional investors, as the owners of the shares, should assume full ownership responsibility. Therefore, most studies conceptualise institutional investors as owners and assume they will look after their investments with the same diligence as any other owner (Ryan & Schneider, 2003).

A number of authors, however, have criticised some of the assumptions of agency theory with regard to its application to institutional investors. For example, Ryan and Schneider

(2003) point out the importance of considering the power dynamic of the agency relationship, that is to what extent the institutional investor is juggling the interests of conflicting contracts. Klettner (2021) also emphasises the need to consider the additional agency costs inherent in the modern investment chain from fund beneficiary, to asset owner, through asset managers to the investment in a listed company.

Agency theory assumes that institutional investors share the same interests as individual shareholders when it comes to share ownership. However, as Wong (2010) concludes, most fund managers' performance is evaluated on the basis of relative performance measurements, for example in comparison to an index. Therefore, their interests, and thus behaviour, may very well differ from those of individual share owners who would be interested in absolute returns (Gilson & Gordon, 2012; Hendry et al., 2006). The Kay review, furthermore, highlights the risk of diverging interests between ultimate beneficiaries and agents, and misaligned incentive systems in ever more extended investment intermediary chains (Kay, 2012).

Institutional investors as traders

In contrast to the owner perspective, a small number of authors conceptualise institutional investors primarily as traders (e.g. Hendry et al., 2006; Winter, 2011). These authors argue that the role of institutional investors is to invest their clients' money with the objective to generate maximum return. Within the remit set by their clients, institutional investors select the investment vehicles which are likely to provide the highest possible return. Shares, due to their long-term and short-term return potential, form part of most investment portfolios. The fact that share investments come with 'ownership rights' is a rather incidental by-product of

the investment process and consequently, is not the primary characteristic of the trader (Hendry et al., 2006).

Gilson and Kraakman (1990) speak explicitly against institutional investors taking on a traditional ownership role as the costs of monitoring and engaging, normally exceed the benefits, which leads to inefficiencies in the investment process. Winter (2011) also sees the trader conceptualisation as the more realistic, and points out that in well-diversified investment portfolios, the focus of institutional investors is mainly on beating the market, not on improving individual companies or their corporate governance. These views are shared by Bower and Paine (2017) who heavily criticise the strong reliance on agency theory in the literature and public policy, as well as the shareholder-centred governance model.

Empirical evidence on the owner versus trader debate

Evidence from large-scale empirical studies on whether institutional investors display more trading or ownership behaviour is mixed. For example, Hartzell and Starks (2003), in a US study, investigate whether institutional investors fulfil a monitoring role with regard to executive compensation. They provide evidence that firms with greater institutional ownership have more performance-related pay and less excessive salaries than firms with lower institutional ownership. However, Conyon and Sadler (2010) find that less than 10% of institutional investors abstained or voted against boardroom pay in the UK and that there was little evidence that the design and level of executive pay was influenced by shareholder dissent. Similarly, Chung et al. (2002) find clear evidence that US firms with larger block holders demonstrate less opportunistic earnings management than those firms with more dispersed ownership, suggesting that large block holders assume a monitoring role. However,

Renneboog (2000) conducted a similar study in Belgium but found no evidence of institutional investors' monitoring role.

In addition, some studies investigated the relationship between institutional ownership and managers' R&D investment behaviour. As before, the influence of institutional investors remains unclear with one study finding evidence that institutional investors encouraged myopic behaviour (Bushee, 1998); specifically, managers reduced R&D investment to increase short-term performance, whereas another study did not find similar evidence (Wahal and McConnell, 2000).

The different findings between these studies can be explained by different samples and methodologies, on the one hand. On the other hand, this type of study typically assumes that institutional investors are a homogenous group sharing the same objectives and investment strategies. This assumption has been questioned by a number of recent studies that demonstrated significant differences with regard to investment horizons and ownership behaviours, most pronouncedly between different types of investors (for example, pension funds versus hedge funds) but also within the same group of investors (e.g. Boubaker, Chourou, Saadi, & Zhong, 2019; Çelik & Isaksson, 2013; Connelly, Tihanyi, Certo, & Hitt, 2010; Wang, 2014). For example, Hsu and Koh (2005) examined whether the monitoring behaviour of institutional investors differed between long-term and short-term investors, by investigating the earnings management behaviour of investee companies. While they found a tendency for long-term investors to prevent aggressive earnings management, this differed from firm to firm leading the authors to conclude that the relationship between institutional investors and earnings management was complex and context dependent. Similarly, Sakawa et al. (2021) established that foreign institutional investors in Japanese companies increased risk-taking of their investee companies, while domestic institutional investors tended to

reduce risk-taking. However, both types of investors had a positive impact on firm performance (Sakawa & Watanabel, 2020).

Çelik and Isaksson (2013) investigated the level of ownership engagement across different types of institutional investors and found that the level of engagement is influenced by a number of factors including investment purpose, time horizon, strategy, portfolio and fee structure, existence of political/social objectives and the regulatory framework of the investor.

In contrast to the mixed evidence from the large-scale studies, evidence from a number of small-scale, qualitative studies is clear: institutional investors regard themselves more as traders than as owners (Hendry et al., 2006; Tilba & McNulty, 2013). These authors' studies involved both long-term (Tilba & McNulty, 2013) and short-term oriented (Hendry et al., 2006) institutional investors. Both studies concluded that institutional investors view themselves primarily as traders while acknowledging only some notional ownership responsibility. Therefore, the quasi-default conceptualisation of institutional investors as owners needs to be questioned because, as Tilba and McNulty (2013, p. 176) put it, it is often "more assumed than demonstrated".

Institutional investors as stewards

The UK Stewardship Code introduces a third role for institutional investors: the institutional investor as steward. The UK Stewardship Code arose out of the critique of the role of institutional investors during the financial crisis when scholars and commentators alike criticised institutional investors for promoting a narrow and harmful shareholder primacy ideology (e.g. Davis et al., 2009; Walker, 2009). Shareholder primacy has been under

scrutiny for many years and the corporate governance standards in many parts of the world have seen a shift towards a more stakeholder-oriented governance model (Ho, 2010; Lazonick & O'Sullivan, 2000; Stout, 2013). In the UK, the government introduced the enlightened shareholder value concept (UK Companies Act, Section 172) which requires directors to have regard to a range of interests (other than shareholder value) in discharging their duty to promote the success of their company.

Deakins (2005, p. 16) comments that "we are witnessing … a shift in the content of the shareholder value norm, so that it comes to represent the idea that shareholders exercise their powers not as the representatives of the market, but as agents of society as a whole."

This societal focus is not reflected in the traditional ownership role, and certainly not in the trader perspective. Thus, there is a need for a new conceptualisation, one that would still allow institutional investors to create investment returns while stressing their wider responsibility to society. Hardwig (2010) strongly supports a move towards a new theoretic conceptualisation that no longer sees the shareholder as an amoral profit-maximising force as in agency theory, but one that can accommodate a wider range of objectives and responsibilities.

The UK Steward Code attempts to achieve this by providing guidance on how to become a good steward. In the 2012 version of the Code, the FRC only hints at the wider societal responsibilities of the investors by stating that "Effective stewardship benefits companies, investors, **and the economy as a whole"** (FRC, 2012, p. 1). However, in the 2020 revision of the Code it states explicitly that the aim of stewardship is to "create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, **the environment, and society**" (FRC, 2020).

Thus, stewardship can be considered a concept that goes beyond the accountability of institutional investors to their beneficiaries, and aims to promote an investment culture that benefits a wider range of stakeholders (Chiu, 2013). By including parties other than shareholders as the beneficiaries of stewardship, the UK Stewardship Code introduces aspects of stakeholder thinking. Chiu argues that the stewardship concept has the potential to "introduce an ideological shift" away from the existing UK governance model of shareholder primacy (Chiu, 2012, p. 388).

The fundamental idea of stakeholder theory is that companies should not just be managed in the interest of shareholders but to the benefit of all parties who have a stake in the organisation like employees, suppliers, customers, government, and non-governmental organisations (Freeman, 1984). In particular, the influence of stakeholder theory means that the focus should move from short-term maximisation of returns to long-term sustainability. Tomorrow's Company (2011) assert that good stewardship has a wider focus than just the performance of individual firms and contributes to the future sustainability of the world around them by considering Environmental, Social and Governance (ESG) factors. Reisberg (2011, p. 128) agrees that sustainable performance derives "from contributing to human progress and the wellbeing of the environment and society". Therefore, in his opinion, stewardship involves a greater focus on ESG concerns. Similarly, Serafaim (2017) sees a clear link between stewardship and consideration of ESG factors.

Despite Ivanova (2017) pointing out various barriers to institutional investor engagement on ESG issues (most notably misaligned incentive systems and low client demand), empirical studies have demonstrated that institutional investors with long-term focus showed a clear preference for companies with good Corporate Social Responsibility (CSR) record in their stock selection (Cox et al., 2004; Graves & Waddock, 1994; Petersen & Vredenburg, 2009).

Boubaker et al. (2017) investigated what influence an investor's time horizon had on their investee companies' CSR score and found that long-term investors had a positive impact on their investees' CSR score whereas short-term investors were shown to be either negatively or not significantly associated with their investees' CSR scores. This even held true for investors of the same investment type (pension funds), underlining again the heterogenic nature of institutional investor. In addition, Dyck et al. (2017) showed that institutional investors from countries with strong social and environmental (ES) norms (for example, Europe) tended to press their investee companies for higher ES performance globally, thus exporting their ES norms to countries with lower ES norms (like the US). Similarly, Fieseler (2011) demonstrated that ESG issues were increasingly becoming part of mainstream investment analysis globally.

In conclusion, the stewardship concept is theoretically distinct from the ownership concept. While the stewardship concept retains some basic assumptions of agency theory, for example, the need to control management, it adds to this aspects of stakeholder thinking by introducing wider social responsibilities. Therefore, the stewardship concept includes the ownership role and broadens the focus to serve a wider range of stakeholder interests. The Stewardship role can thus be considered an "Ownership Plus" model. Other authors have called it "active ownership" (McNulty & Nordberg, 2016) or "responsible ownership" (Hendry et al., 2007). While it is arguable that the Stewardship concept is a specific type of ownership, this paper argues that shifting the focus away from the interests of individual companies to wider public interest, merits a new concept to allow a clearer distinction from the traditional ownership role.

An initial empirical study by Shiraishi et al. (2019) investigated the impact of the introduction of Stewardship Codes on company values in 13 countries (including the UK) and found that the value of companies with high institutional ownership increased after the

introduction of a Stewardship Code, which they suggest is evidence of enhanced monitoring by institutional investors. Conversely, Lu et al. (2018) examined the monitoring behaviour of UK institutional investors but found no evidence that the introduction of the UK Stewardship Code had any impact on monitoring behaviour in the UK. Shiraishi et al. (2019) did not report their research results on a country-by-country basis, so it is unfortunately not possible to draw a direct comparison between these studies. However, it is likely that the introduction of stewardship codes had a greater impact in countries with historically more passive shareholders (Hill, 2018). A similar conclusion was drawn by Routledge (2020) who extended Lu et al.'s (2018) study to the Japanese context and found, contrary to Lu et al. (2018), that there was a clear association between adoption of the Japanese Stewardship Code and effective monitoring by institutional investors. Clearly, more studies on stewardship and Stewardship Codes are needed to better understand their impact on investor practices.

This present study addresses this gap and focusses specifically on the following two research questions:

i. To what extent are institutional investors demonstrating stakeholder focus in their UK Stewardship Code disclosures (the 'Stakeholder Index'); and
ii. which factors explain the variation in the Stakeholder Index.

Research design

Data and sample

The research in this paper will focus on the Stewardship Statements published by global institutional investors as part of their requirements as signatories to the UK Stewardship

Code. These statements have to be made available on the FRC's website, either as a link or the actual document. The structure of the Stewardship Statements is set out in the UK Stewardship Code along its principles. Therefore, the Stewardship Statements are comparable in structure and layout but can vary greatly in the level of detail provided. For example, the Stewardship Statements in the selected sample ranged from 3 pages to 16 pages.

This research was carried out in 2019, before the latest 2020 version of the Code was published. Although the FRC now expects signatories to submit revised statements aligned with the 2020 version of the Code by the end of March 2021, all available statements at the time were still based on the 2012 version of the Code.

For the purposes of this research study, the use of the 2012 version of the Code has one distinct advantage: unlike the 2020 version, the 2012 version of the Code does not require any disclosures on stakeholder focus or ESG factors. Therefore, there is less incentive for institutional investors to 'tick the box' and refer to stakeholder issues unless this is really part of their stewardship activities.

The FRC recommends that institutional investors have their stewardship policies and statements independently verified by auditors, and 21% of the institutional investors in this sample do so fully and a further 20% partially (voting processes only). Interestingly, investors with greater stakeholder focus are significantly more likely to seek independent verification than investors with lower stakeholder focus. In the current sample, 58% of investors with high stakeholder focus have their statements independently verified, which contrasts with 19% verification rates in investors with low stakeholder focus. This fact suggests that it is less likely that the Stewardship Statements are used as a tool for impression management since the investors who claim to put most effort into their stakeholder activities are also the ones investing most frequently in independent verification to give their accounts

credibility. The Stewardship Statements are therefore considered to be a more reliable basis for analysis than other (unverified) publications by institutional investors like their websites or ESG reports, the main purposes of which might be marketing related.

In total, there were 167 asset managers listed on the FRC website in March 2019, grouped into two tiers according to the quality of their statements as assessed by the FRC with tier 1 signalling higher quality and tier 2 signalling lower quality. 108 institutional investors fell into tier 1, 59 into tier 2. A systematic random sample was selected across the tiers resulting in a sample of N=81 institutional investors (49% of total population).

Content analysis

As the research objective of this paper was to examine the stakeholder focus of stewardship signatories, the first step was to develop the criteria for the content analysis. Content analysis has been used successfully in prior governance studies (e.g. Eng & Mak, 2003) with a recent study analysing the stewardship statements of Japanese companies (Routledge, 2021). From the literature review and the UK Stewardship Code the following factors were developed that would indicate stakeholder focus:

1. Focus on long-term growth and sustainability
2. Consideration of sustainability (ESG) issues in investment decisions
3. Promotion of sustainable practices in companies
4. Collaboration with other institutional investors to promote change towards sustainability
5. Transparency of investor policies and practices

These factors follow the principles and aim of the UK Stewardship Code relating to long-term focus and sustainability; the investment and stewardship policy (Principles 1 and 3),

collaboration with other investors (Principle 5) and the need for appropriate reporting and disclosures (Principles 6 and 7). However, they were adjusted to reflect the characteristics of responsible investing as displayed in the literature (e.g. Renneboog, Ter, & Zhang, 2008; Sievanen, Rita, & Scholtens, 2013). These factors then guided the development of the detailed criteria measuring the extent of stakeholder focus (named the 'Stakeholder Index') portrayed in the Stewardship Statements. The criteria were tested and refined using an initial sample of five Stewardship Statements. The criteria are grouped under three headings - sustainability focus, transparency, and collaboration and wider engagement - which broadly align with the factors outlined above. In total, the research instrument consists of 20 criteria with up to 2 points available per criterion. The maximum achievable score is therefore 40. To standardise this measure, the score is then divided by 40 to calculate the Stakeholder Index which can therefore take on values between 0 and 1 with 1 being the highest possible index score and 0 being the lowest possible score. Appendix 1 shows the full list of criteria and the detailed scoring system.

Then the researcher carefully studied the Stewardship Statements and assigned scores according to the specified criteria.

Tobit regression analysis

After obtaining all the scores of the asset managers in the sample, a statistical analysis was carried out. In the first instance, the statistical analysis involved descriptive statistics of the scoring criteria.

This was then followed by a tobit regression analysis to establish whether certain factors make it more likely that an institutional investor chooses a greater stakeholder focus. Due to the censored nature of the Stakeholder Index (i.e. only values between 0 and 1 achievable, so

any smaller or greater stakeholder focus will not be captured) , a tobit regression model based on maximum likelihood estimation was chosen because this has been shown to be superior to ordinary least square models in the presence of a censored dependent variable (Tobin, 1958).

Factors encouraging stakeholder focus in organisations have been extensively investigated from the investee perspective (e.g. Logsdon & Yuthas, 1997; Berman et al., 1999; Husted & de Sousa-Filho, 2017). Another strand of literature has focussed on institutional investor preferences for stakeholder-oriented companies (e.g. Cox et al. 2004; Graves & Waddock 1994) and their influence on companies' stakeholder focus (Dam & Scholtens, 2013; Neubaum & Zahra, 2006). Furthermore, a study by Crifo and Forget (2013) examined the reasons why French private equity funds focussed more on socially responsible investing and found that this movement was primarily strategically driven by a need for new value creation sources, increased risk management and differentiation.

However, beyond these aspects, the investor side has remained underexplored. To the best of the author's knowledge, no study has yet considered the stakeholder focus of individual asset managers. Therefore, the current study is considered to be of exploratory nature and draws on factors identified in settings different to the present context. As a consequence, this study may not have been able to identify all variables that have an impact on stakeholder focus.

This study considers the impact of six factors on stakeholder focus. The first of these is size. Larger asset managers have more resources available (Crifo & Forget, 2013) and tend to have more substantial holdings in companies, so that they are likely to be in a more powerful position to affect changes in their investee companies, which would mitigate the cost of engagement (Melis & Nijhof, 2018). The size of asset managers is most commonly measured as Assets under Management (categorical variable AuM).

The second factor is the location of the asset manager's headquarters. Research has shown that some countries show greater stakeholder focus than others and that this influences organisation's corporate social performance (Dhaliwal et al., 2012). Therefore, it could be assumed that the location of an asset manager's headquarters also influences their investment approaches. For example, asset managers with headquarters in the EU might adopt a stronger stakeholder focus than UK asset managers. Due to the small number of foreign investors in the sample, the variable in the regression analysis will only distinguish between UK and non-UK investors (dummy variable HQ_UK).

Another potentially influential factor might be whether the asset managers are themselves listed companies or not (Dummy variable Listed). Listed companies generally face more public scrutiny than private companies, so might face greater pressure to adopt a higher level of stakeholder focus (Panwar et al., 2014). Also, the type of clients an asset manager serves, i.e. institutional, retail or both, might result in a different level of stakeholder focus (dummy variable Clients). In the absence of relevant prior studies, it is difficult to predict the direction of this relationship. Furthermore, it is highly likely that an asset manager offering largely SRI funds (dummy variable SRI) will have a greater stakeholder focus than an asset managers with a more general fund portfolio (Crifo & Forget, 2013).

In addition, asset managers with a long-standing commitment to stakeholder focus are likely to achieve a higher Stakeholder Index (Crifo & Forget, 2013). As a measure for this existing commitment, this study includes a dummy variable called PRI that considers whether investors have been signatories to the more demanding UN Principles of Responsible Investing[1] since 2015.

Table 1 summarises the variables used in the tobit regression analysis and shows the predicted relationships between the dependent and the independent variables. The analysis is based on the following regression equation:

$$\text{Stakeholder Index} = \beta_0 + \beta_1 \text{ AuM} + \beta_2 \text{ HQ_UK} + \beta_3 \text{ Listed} + \beta_4 \text{ Clients} + \beta_5 \text{ SRI} + \beta_6 \text{ PRI} + \varepsilon$$

Table 1 This table provides an overview of the variables used in the tobit regression analysis to identify which variables affect stakeholder focus. It presents the variable names and descriptions as well as their measurements and predicted relationships with the dependent variable Stakeholder Index.

Stakeholder Index (SSC) = $\beta_0 + \beta_1$ AuM + β_2 HQ_UK+ β_3 Listed + β_4 Clients + β_5 SRI + β_6 PRI + ε			
Variables	Description	Measurement	Predicted relationship
AuM	Funds size measured in Assets under Management (£bn)	Categorical variable (as per table 2)	Larger funds have higher SSC
HQ_UK	Whether the investor's HQ is located in the UK	Dummy variable (0,1)	Non-UK investors have higher SSC
Listed	Whether the asset manager is a listed or private company	Dummy variable (0,1)	Listed investors have higher SSC
Clients	Whether the asset manager serves retail clients or only institutional clients	Dummy variable (0,1)	No predicted direction
SRI	Whether most of the asset manager's funds on offer are SRI funds	Dummy variable (0,1)	SRI firms have higher SSC
PRI	Whether the company has signed up to the UN Principles of Responsible Investing by 2015	Dummy variable (0,1)	Long-standing signatories have higher SSC

All data relating to the independent variables was hand-collected from UNPRI's and the asset managers' websites.

Results

First the descriptive statistics of the sample characteristics are presented before the results for the Stakeholder Index and the regression analysis are discussed.

Sample characteristics

Table 2 This table provides the break-down of investment firms in the research sample by Assets under Management (AuM) categories. AuM is one of the variables used in the tobit regression analysis.

Category	Frequency	Percent (%)
<£1bn	13	16.0
£1bn - <£10bn	20	24.7
£10bn - <£100bn	22	27.2
£100bn - <£250bn	6	7.4
£250bn - £500bn	9	11.1
>£500bn	9	11.1
Unknown	2	2.5
Total	81	100

As can be seen from Table 2, the sample contains a wide spread of asset managers with a small number of very large investors, but the majority of asset managers are under the £100bn threshold (69.6%). The mean for the sample was £224.9bn (Std dev 487.2).

Table 3 presents an overview of the other variables used in the regression analysis.

Table 3 This table displays the frequencies of the variables (other than AuM) used in the tobit regression analysis.

Variable name	Definition	Frequency	Percent (%)
HQ_UK	Non-UK investors: UK investors:	26 55	67.9 32.1
SRI	Primarily SRI funds: Not SRI funds:	7 74	8.6 91.4
PRI	Signatories since 2015: Not signatories since 2015:	24 57	29.6 70.4
Listed	Publicly listed companies: Private companies:	29 52	35.8 64.2
Clients	Retail and institutional clients: Institutional clients only:	48 33	59.3 40.7

Concerning the location of headquarters, 67.9% of asset managers had their headquarters in the UK, 22.2% in North America (US and Canada), 8.6% were headquartered in Europe (excl. UK) and the remaining 1.2% were headquartered in Africa (frequencies of non-UK

HQs not tabulated). As the Stewardship Code has been issued in the UK and is primarily targeted at UK equity investments, it is not surprising that the majority of signatories have their headquarters in the UK.

The non-UK investors in the sample tended to be larger in size (as measured by AuM) than the UK investors, reflecting the fact that signing up to a foreign stewardship code is most sensible for firms with international offices. In effect, 63% of non-UK investors had AuM of more than £100bn compared to 16% of UK investors (not tabulated).

Only a very small number of institutional investors (8.6%) reported to have primarily SRI funds but 63.0% of the sample were also current signatories to the UN Principles of Responsible Investing with 29.6% having been signatories since at least 2015 (current PRI signatories not tabulated).

Stakeholder Index and item-by-item analysis

The Stakeholder Index varies greatly across institutional investors from a minimum value of 0 to a maximum value of 0.85. Interestingly, 76.5% of institutional investors achieve a score of less than 0.5 and 45.7% score less than 0.25. Only 6% achieve a score of more than 0.75. The mean score across the sample is 0.35 (Median 0.30, standard deviation 0.229). The great variability for this measure suggests that investors take very different approaches to stewardship and stakeholder focus with some investors fulfilling nearly all the criteria and others not meeting any of the criteria.

Figure 1 demonstrates how the Stakeholder Index values were distributed across the sample of 81 institutional investors.

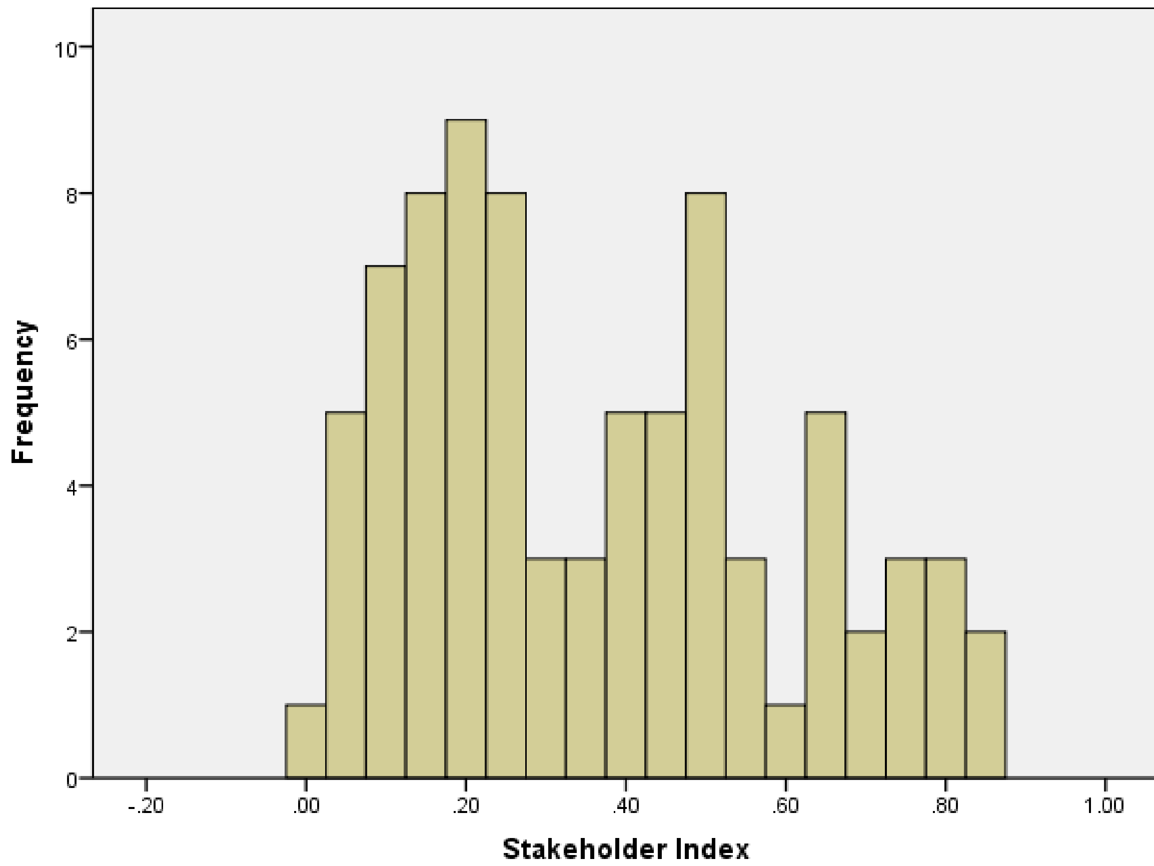

Figure 1 This figure shows the distribution of Stakeholder Index values across the sample indicating that most asset managers are situated at the lower end of the index scale.

Table 4 shows the item-by-item analysis of the scoring criteria including frequencies.

Table 4 This table displays the 20 stakeholder criteria used in the content analysis to construct the Stakeholder Index. It also provides the frequencies for the scores allocated to these criteria. The detailed scoring system is provided in appendix 1.

Criteria		Frequencies (N=81)		
		2	1	0
	Sustainable investing			
C1	Reference to sustainability?	15 (18.5%)	18 (22.2%)	48 (59.3%)
C2	Reference to responsible investing?	15 (18.5%)	17 (21.0%)	49 (60.5%)
C3	Reference to long-term focus?	46 (56.8%)	20 (24.7%)	15 (18.5%)
C4	Promotion of sustainable business practices?	16 (19.8%)	-	65 (80.2%)
C5	Responsible investment given prominent role?	20 (24.7%)	18 (22.2%)	43 (53.1%)
C6	Integration of ESG into investment decisions?	34 (42.0%)	19 (23.5%)	28 (34.6%)
C7	Examples of ESG engagement provided?	8 (9.9%)	-	73 (90.1%)
C8	Stakeholders explicitly mentioned?	8 (9.9%)	8 (9.9%)	65 (80.2%)
C9	Procure special ESG info?	30 (37.0%)	-	51 (63.0%)
C10	Stewardship Code principles applied to all equity investments?	56 (69.1%)	13 (16.0%)	12 (14.8%)
C11	Stewardship Code principles applied to other asset classes?	11 (13.6%)	7 (8.6%)	63 (77.8%)
	Transparency			
C12	Separate public sustainability report available?	14 (17.3%)	-	67 (82.7%)
C13	Stewardship Code reporting externally verified?	16 (19.8%)	17 (21.0%)	48 (59.3%)
C14	Specific ESG reporting to clients?	11 (13.6%)	-	70 (86.4%)
C15	Voting records public?	39 (48.1%)	-	42 (51.9%)
C16	Specific point of contact mentioned?	43 (53.1%)	-	38 (46.9%)
	Collaboration and wider engagement			
C17	Signatory to international Stewardship Code equivalents?	13 (16.0%)	-	68 (84.0%)
C18	Signatory to UN PRI?	51 (63.0%)	-	30 (37.0%)
C19	Aim to influence policy on ESG issues?	7 (8.6%)	6 (7.4%)	68 (84.0%)
C20	Engages collectively on ESG issues?	25 (30.9%)	32 (39.5%)	24 (29.6%)

The results in this table will be discussed under the thematic headings of the criteria.

Sustainable investing

This category considers a range of issues related to the signatories' investment practices and policies.

The highest scoring item in this category is C10, assessing whether the UK Stewardship Code principles are applied to all equity investments. The UK Stewardship Code itself only requires application of the principles to UK equities but expresses the aspiration that

investors apply it more widely. In the sample, 69% of companies are already applying the principles to all equity investments and a further 13% are working on it. This suggests that typically, investors apply the same stewardship approach across all their equity investments. Obviously, this might simply be more practical than having to distinguish between different approaches for different types of share investments.

In contrast, only a minority (22%) apply the UK Stewardship Code principles to other asset classes or are planning to do so (C11). This is not surprising as the UK Stewardship Code is targeted at equity investments and offers little guidance on other asset classes. The fact that the more stakeholder-oriented investors are still trying to apply it more widely suggests that the UK Stewardship Code could be more ambitious in its scope and include guidance on other asset classes. Indeed, the 2020 version of the Code recommends wider application of the principles and offers some (albeit still limited) guidance on other asset classes.

The second highest scoring item is 'reference to long-term focus' (C3) with 82% of signatories referring to it at least occasionally. It is not unexpected that this item scores very highly as the UK Stewardship Code requires explicitly that signatories have to adopt a long-term focus in their investment policies; so, it is actually quite surprising that 18% of signatories do not clearly express this commitment.

The only other item that is applied by the majority of signatories relates to the integration of ESG factors in investment decisions (C6) with 42% claiming to do so fully and 23% partially, suggesting that ESG issues are increasingly seen as important by a wide range of investors (or investors may at least increasingly feel the need to tick this box).

Other more highly scoring items (but applied by less than 50%) concern general references to sustainable and responsible investment (C1, C2) suggesting a wider awareness of these issues.

However, when it comes to the more ambitious items, like providing details about their ESG focus or their stakeholder engagement, the numbers drop considerably. Only 10% provide any concrete examples of ESG engagement (C7), making it the lowest ranking item, not just in this category but overall. Similarly, the number of investors actively promoting sustainable business practices in their investee companies (C4) is ranking quite low with only 20% of signatories claiming to do so.

Transparency

This category considers criteria linked to reporting and disclosure practices of the signatories.

The highest scoring item in this category is C16, whether a specific point of contact has been provided. This is explicitly stipulated by the UK Stewardship Code, so the high degree of non-compliance (47%) is surprising. The next highest scoring item, with just under 50% of investors doing so, is C15, whether voting records are made public. Investors not making their voting records public, typically claim confidentiality reasons for their decision.

The more stakeholder-focussed items C12 (public sustainability report) and C14 (ESG reporting to clients) score far lower with less than 20% of investors offering such reports.

Overall, transparency is clearly an area for improvement.

Collaboration and wider engagement

This category considers signatories' practices regarding collaboration with other investors and engagement with other stakeholder focussed initiatives.

The highest scoring item in this category is C18, whether investors have also signed up to the UN Principles for Responsible Investing. Sixty-three percent of investors are also UN PRI signatories demonstrating that, despite the more stringent criteria this scheme imposes, it has also become part of mainstream investing. The second highest scoring item is C20, the willingness of investors to engage collectively with other investors on ESG issues. Seventy percent of investors have expressed a willingness to collaborate in principle but only 31% of investors do so regularly and provide further information to back up this claim. Collaboration tends to happen via national and international initiatives and associations like UK and Overseas Investor Fora.

Very few investors (16%) state that they aim to influence policy on ESG issues (C19) and only a small minority (9%) provide information supportive of this claim.

A similarly low scoring item in this category is C17, whether signatories have signed up to other international Stewardship Codes. Given that the international codes are largely based on the UK one, it could be assumed that more investors would take advantage of the fact that having signed up to the UK Stewardship Code, there was limited extra work involved to sign up to other codes. However, a closer investigation shows that the decision to become a signatory to other codes is statistically significantly correlated to the number of locations a firm operates from and the geographic location of headquarters, indicating that not the general level of stakeholder focus triggers the decision to sign up to further codes, but rather the country of origin and the main markets an investor firm operates in.

Regression analysis

The purpose of the regression analysis was to investigate which factors are associated with greater stakeholder focus. The results of the tobit regression analysis are displayed in Table 5. The correlation matrix for the explanatory variables is shown in Table 6.

Table 5 This table shows the results of the tobit regression analysis (Stakeholder Index = $\beta_0 + \beta_1$ AuM + β_2 HQ+ β_3 SRI + β_4 PRI + β_5 Listed + β_6 Clients + ε). The final column displays the marginal effects for each regression variable to identify the impact a unit change in the independent variable has on the dependent variable.

Model	Definition and predicted direction	Coefficients	Std. Error	Significance	Marginal effects
(Constant)		0.2190	0.0362	0.000*	
AUM	Size (AuM) +	-0.0158	0.0171	0.357	0.3536
HQ_UK	Location of HQ (Non-UK/UK) +	0.1260	0.0482	0.011*	0.1417
Listed	Listed vs privately owned +	0.0006	0.0451	0.990	-0.0280
Clients	Retail vs institutional clients **?**	0.0677	0.0409	0.138	0.0627
SRI	Primarily SRI funds in portfolio +	0.1788	0.0786	0.026*	0.1591
PRI	PRI signatories since 2015 +	0.2282	0.0501	0.000*	0.2747

Notes: *significant at p=0.05; cases with missing values were excluded (N=79)

Table 6 This table displays the correlation matrix of all explanatory variables used in the tobit regression analysis

	AuM	Clients	SRI	Listed	HQ_UK	PRI
AuM	1	0.379**	-0.211	0.371**	0.487**	0.377**
Clients	0.379**	1	0.166	0.305**	0.301**	0.153
SRI	-0.211	0.166	1	0.045	-0.023	0.282*
Listed	0.371**	0.305**	0.045	1	0.369**	0.305**
HQ_UK	0.487**	0.301**	-0.023	0.369**	1	0.249*
PRI	0.377**	0.153	0.282*	0.305**	0.249*	1

Notes: N=81; * significant at p=0.05 (two-tailed); ** significant at p=0.01 (two-tailed)

In line with predictions, prior existing commitments are significantly associated with greater stakeholder focus. Thus, institutional investors with a strong SRI focus in their fund portfolio have statistically significantly higher Stakeholder Index scores than other institutional investors. Similarly, institutional investors who have been long-standing UN PRI signatories tend to achieve higher Stakeholder Index scores than other institutional investors. These two variables also have the greatest influence of all statistically significant variables on the Stakeholder Index score as demonstrated by the marginal effects (displayed in table 5).

As expected, the location of Headquarters has a statistically significant impact on stakeholder focus suggesting that non-UK firms tend to score more highly on stakeholder focus. This finding has to be interpreted with caution as it is very likely that non-UK investors who have made the effort to sign up to a foreign stewardship code have different characteristics from their UK counterparts, so generalisations have to be avoided.

Interestingly, the prediction that size (as measured by AuM) would have a positive impact on stakeholder focus has to be rejected; small asset managers are just as likely to adopt a strong stakeholder focus as large investors. An explanation for this could be that smaller asset managers use the stakeholder focus as a strategy to differentiate themselves from their larger competitors.

Against the predictions, listed status and client type have no statistically significant impact on stakeholder focus.

Discussion

The results from the analysis have shown that asset managers in the UK adopt a wide range of stakeholder foci with the calculated Stakeholder Index scores ranging from 0 to 0.85. However, considering that only 23.5% of investors achieve values of more than 0.5 but almost half of all sample companies score lower than 0.25, the most immediate conclusion is that stakeholder focus is not that wide-spread. Nonetheless, there are clearly a number of investors who place great importance on stakeholder focus. While the previous section focussed on an item-by-item analysis, this section will examine different investor profiles and propose a classification of stakeholder focus in institutional investors.

In the first step, this paper compares the typical profile of investors in the top third of highest scoring investors (score ≥ 0.48)[2] against investors scoring in the bottom third (score ≤ 0.2). In the bottom group there is hardly any mentioning of ESG factors or sustainability considerations, and the investors have little to no influence on investment decisions. Some of the bottom scorers even fail to acknowledge the long-term focus of their investments, a clear expectation of the UK Stewardship Code. Since they do not place much importance on ESG factors in their investment decisions, it is unsurprising that these investors do not commission ESG information from external providers.

The top group, on the other hand, places great importance on ESG factors and sustainability and they play a prominent role in their investment decisions. This commitment goes beyond integrating ESG factors into investment decisions and involves promoting sustainable practices. For example, Candriam state in their Stewardship Statement:

"We strongly believe that, by taking into account ESG criteria, additional factors that affect a company's long-term value and competitiveness, and which traditional financial analysis sometimes fails to highlight, come to light. (p. 1) Candriam's sustainability analysts engage directly with companies and other stakeholders in order to raise ESG awareness, improve

practice and transparency, and solicit their reflection and accountability on sustainability-related themes".

The more detailed reports in this group provide examples of their engagement activities ranging from carbon reporting, climate change, sustainable palm oil to health and safety practices in Bangladesh.

Nearly all of the investors in this group purchase specialist ESG information from external providers like ISS Ethix, MSCI ESG research, Governance Metrics International and Sustainalytics while some of the larger investors rely on in-house research and expertise.

The top scorers offer more disclosures in the forms of ESG and sustainability reports both to their clients and the wider public. Voting records are generally made public for top scorers but rarely for investors in the bottom group, who typically claim confidentiality as a reason for their decision. Also, top-scoring investors are much more likely to have their stewardship processes externally verified than low scoring investors who tend to state simply that they do not see a need for external verification or do not refer to this requirement altogether.

In addition, the top-scoring investors are typically involved in a range of national and international initiatives and associations like UK and Overseas Investor Fora, the UK Sustainable Investment and Finance Association, UN PRI, the International Corporate Governance Network and the National Association of Pension Funds, and routinely engage collectively with other investors via these networks. A significant proportion of these investors actively try to influence policy on ESG issues. For example, Aviva Investors state in their Stewardship Statement:

"We advocate policy measures that support longer term, more sustainable capital markets. We aim to correct market failures such as a lack of disclosure on ESG risks and climate change – at a national, EU, OECD and N level – to improve long-term policy outcomes".

Virtually none of the investors in the bottom group express such a commitment in their Stewardship Statements.

All investors in the top group are signatories to the UN Principles of Responsible Investing. In contrast, only 6% of the bottom group have signed up to these more demanding principles.

Based on the above profiles and the different conceptualisations presented in the literature review, the following classification of stakeholder focus is proposed (see figure 2).

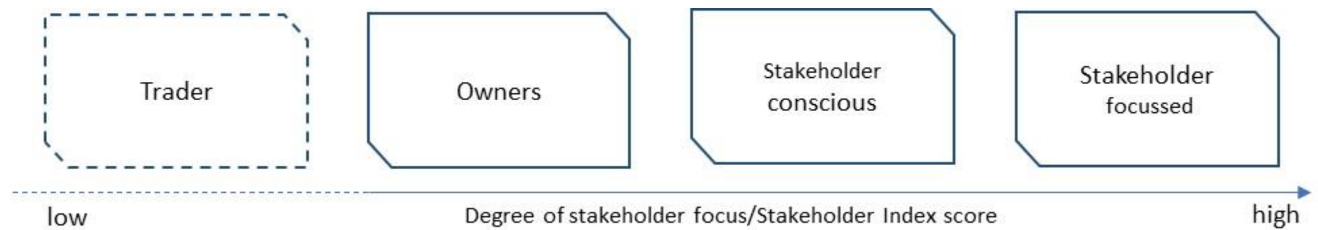

Figure 2 This figure shows the proposed continuum of stakeholder focus with the trader conceptualisation sitting at the low end and the stakeholder focussed group located at the high end.

Stakeholder focus can be regarded as a continuum with the trader conceptualisation situated at the very low end, the top scoring investors at the high end and the other two groups sitting in between. The trader box is shown in a dotted line as the current study only examined signatories to the UK Stewardship Code, meaning investors who have pledged to fulfil at least a basic stewardship role, which would go beyond a pure trader role. Therefore, this aspect sits outside the scope of this study. Of course, it could be argued that some of the extreme low scorers in the bottom group with a Stakeholder Index value of less than 0.05 (7.4% of investors) really sit more in the trader category than owner category as their statements often fail to confirm even the long-term nature of their investment objectives. However, as the focus of this study is on the stakeholder focus, the trader role will not be considered further in this context.

Owners

The group sitting on the low-scoring end of the continuum is called ‘owners’, because their stewardship behaviour is well aligned with the ownership conceptualisation discussed in the literature review. The stated purpose of their stewardship activities is purely to protect the investment and maximise financial return.

In their Stewardship Statements they emphasise the long-term nature of their investments and interests. They regularly refer to the relevance of governance factors in their investment decisions and often consider these a focus of engagement. This is typical of the ownership conceptualisation, as high corporate governance standards help to protect the investment (Chou et al., 2011), so there is an immediate benefit from this aspect of engagement. However, there is virtually no reference to environmental or social factors and there is clearly less willingness to engage on that basis. In the few cases where ES factors are being referred to, this is done in the context of material risk factors. Again, this is aligned with the ownership conceptualisation, as the link between engagement on ES issues and enhancement of investment value is less immediate than on the governance side. So overall, in this group ES is only integrated to a very limited extent into investment decisions.

In their statements there is no acknowledgement of a wider responsibility of investors, as would be demonstrated, for example, through attempts to influence policy on ESG issues or promote sustainable business practices. Similarly, this group is rarely willing to engage collectively with other investors on ESG issues and none of them publish special ESG reports. Again, this is in line with the ownership conceptualisation, as such efforts would be costly but would lead to no immediate tangible financial return.

Theoretically, this group is best described through the classic agency theory with the institutional investors representing the principals who are monitoring their agents, the managers of the investee companies (Jensen & Meckling, 1976).

Stakeholder conscious

The group, called the stakeholder conscious, occupies the middle ground on the continuum. These investors demonstrate a clear awareness of the relevance of ESG factors but do not see sustainability as an objective in itself. In their Stewardship Statements there is a strong focus on financial return, similar to the owners. However, in contrast to the owners, the relevance of ESG factors is clearly acknowledged but generally only in the context of significant risk factors.

ESG factors are integrated into investment decisions to some extent, but not as prominent as for the stakeholder focussed group. The most pronounced difference to the stakeholder focussed group, is the much lower extent at which they acknowledge a wider responsibility. There is significantly less willingness to promote sustainable business practices, influence policy and engage collectively on ESG issues. Similarly, ESG reports are rarely offered.

Overall, institutional investors in this group acknowledge the relevance of ESG factors in today's world and the potential risks they pose on investments, but the main focus and use of ESG information is to enhance internal investment decisions, not to promote wider change.

Theoretically, stakeholder conscious would still be considered representatives of the owner perspective, but these members rate the relevance of ESG risk factors as sufficiently significant to warrant the extra expense in including these in their stewardship activities.

Stakeholder focussed

On the other end of the continuum comprising the top-scoring investors lies the stakeholder focussed group. They are called stakeholder focussed because they display a high degree of stakeholder orientation. In contrast to the previous group, in this group's Stewardship Statements ESG and sustainability considerations feature strongly and these factors are firmly integrated into investment decisions.

The wider responsibility of investors is acknowledged and every asset manager in this group displays a strong willingness to engage collectively on ESG issues. They all provide examples of the various initiatives they are actively involved in. There is a strong focus on influencing policy and promoting sustainable business practices among their investee companies. A large number of asset managers in this group offer ESG reports to their clients and the public.

Overall, there is clear evidence of the investors in this group assuming wider responsibility, which clearly goes beyond the ownership role. Of course, the overall objective of these institutional investors is still to enhance the long-term return to their clients, but their stewardship policy reflects the firm believe that this objective is only achievable in the long term by combining financial returns with societal responsibility.

These investors have made a strategic choice to position themselves as 'responsible investors' in the market and are likely to use their positioning to differentiate themselves from their competitors confirming Crifo and Forget's (2013) findings in the private equity sector. With the UK and EU regulators placing greater importance on stewardship and ESG integration, there is the potential of a new market opening up for the provision of stewardship services, offering opportunities for large and small asset managers alike (FRC and FCA DP 19/1, 2019). This may also explain why the size of institutional investors had no statistically

significant impact on the Stakeholder Index as particularly smaller investors might see their stewardship and stakeholder expertise as a good way to differentiate themselves from their competitors. With a wealth of ESG information available from specialist providers, more investors willing to collaborate on ESG issues and a number of networks available to facilitate this collaboration, size is no longer a deciding factor. In conclusion, the behaviours displayed by the investors in this group are practical examples of the stewardship conceptualisation that combines ownership characteristics with stakeholder thinking as discussed earlier in this paper.

Conclusions

This paper initially considered different theoretic conceptualisations of institutional investors in the literature and established that the stewardship role of these institutional investors, introduced by the UK Stewardship Code, is distinct from the traditional ownership conceptualisation dominant in the literature. It added elements of stakeholder theory to the classic agency theory that forms the basis of the ownership conceptualisation.

This study then set out to test empirically, through a content analysis of the Stewardship Statements published by UK Stewardship Code signatories, to what extent these added stakeholder elements were demonstrated in these statements.

Results demonstrated that the degree of stakeholder focus varied widely across asset managers. The regression analysis showed that the Stakeholder Index was predominantly influenced by existing commitments like being a long-standing signatory to the UN Principles for Responsible Investing or having a particular focus on SRI funds in their portfolio. Foreign investors also tended to score more highly on stakeholder focus. Size, type of clients and listing status were not found to be relevant to the Stakeholder Index.

The paper's analysis then concluded by developing a classification of stakeholder focus represented by three distinct groups, the Owners, Stakeholder Conscious and Stakeholder Focussed.

In conclusion, this study has made an important contribution to the literature by developing a scoring system to assess the stakeholder focus of institutional investors in their stewardship practices, as presented in their published Stewardship Statements. This scoring system can be used to assess the development of investors' stakeholder focus over time, and it can also be adapted to other groups of institutional investors, like asset owners and investment services providers. With regulators around the world increasingly encouraging institutional investors to place greater emphasis on ESG factors in their investment practices, policy makers will be interested to see what progress is being made in this area and to what extent voluntary codes like the UK Stewardship Code are effective in driving behavioural change.

In addition, this study has provided empirical evidence concerning the extent to which the stakeholder focus of the stewardship role is reflected in current practices. The empirical data found support for both the ownership and stewardship conceptualisation confirming the heterogeneous nature of institutional investors.

These findings suggest that the dominant conceptualisation of institutional investors as owners in the literature, may no longer be entirely appropriate, as it risks ignoring the interests and actions of those institutional investors incorporating a greater degree of stakeholder focus in their investment practices. Therefore, this study argues that agency theory alone, with its single objective of profit maximisation, no longer reflects adequately the role of institutional investors. Consequently, it is recommended using stakeholder theory alongside agency theory to capture the full extent of institutional investors' motivations and behaviours.

Limitations and future research

Arguably, the strength of any research lies in recognising its limitations. This study acknowledges the following limitations that are indicative of suggested future research.

First, this study analysed the Stewardship Statements published by signatories to the UK Stewardship Code. While the Financial Conduct Authority strongly encourages all UK registered asset managers to follow the provisions of the Code, it does allow asset managers to follow a different investment approach. Therefore, this study does not reflect the practices of asset managers that have not signed up to the UK Stewardship Code.

Second, the Stewardship Code is UK focussed and the majority of signatories are UK based, so it is possible that findings may not be applicable outside the UK. However, as the UK Stewardship Code states, the intention is that UK-based signatories start applying the Stewardship Code principles to their UK shareholdings initially and then, over time, transfer these practices to their overseas investments. Indeed, institutional investors in the higher stakeholder categories tend to apply their stewardship policy more widely than solely to their UK shareholdings. Future research could thus focus on applying the scoring system developed for this study to other countries that have issued comparable Stewardship Codes, for example, Japan.

Third, this research reflects the practices of investors in 2019 before the publication of the 2020 version of the UK Stewardship Code. It is likely that the new version of the Code, with its more explicit requirements regarding stakeholder focus and ESG factors, will influence the practices and reporting of investors to some degree. In this respect, this current study represents an important baseline against which future reporting and practices of these investors can be assessed.

Finally, the aim of this study was to develop a way of measuring stakeholder focus in institutional investors and exploring differences between investors. Future research could examine how different degrees of stakeholder focus affect investor behaviour and outcome, for example, the nature and frequency of engagement and improvement in investee practices.

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[1] Signatories to the UN PRI have committed themselves to contributing to developing a more sustainable global financial system by incorporating ESG factors into their investment decisions (UNPRI, 2017).

[2] Investors were ranked by Stakeholder Index. The top third of investors comprises the 27 (N=81/3) highest scoring investors with the 27th investor achieving an index value of 0.48.

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Appendix 1: Scoring criteria for content analysis

Sustainability focus

- C1 Reference to sustainability made? (2=frequently[1]; 1=occasionally; 0=no)
- C2 Reference to responsible investing made? (2= frequently; 1= occasionally; 0=no)
- C3 Reference to long-term focus made? (2= frequently; 1= occasionally; 0=no)
- C4 Promotion of sustainable business practices mentioned? (2=yes; 0=no)
- C5 Sustainable/responsible investing has prominent role? (2=explicitly; 1=implied; 0=no)
- C6 Integration of ESG factors into investment decisions? (2= fully; 1= partially; 0=no)
- C7 Examples of sustainability/ESG focus/engagement mentioned? (2=yes; 0=no)
- C8 'Stakeholders' (or stakeholder groups) explicitly mentioned? (2=mentioned as aim; 1=just mentioned; 0=not mentioned)?
- C9 Buy specialist sustainability/ESG info from external provider? (2=yes; 0=no)
- C10 Is SC applied to all equity investments? (i.e. not only UK companies) (2=yes, 1=partially/working on it, 0=no)
- C11 Application of SC principles to other asset classes? (2=yes, 1=partially/working on it, 0=no)

Transparency

- C12 Separate public sustainability/ESG report available? (0=no; 2=yes)
- C13 Stewardship externally reviewed and verified? (2=fully; 1=partially/voting only; 0=no)
- C14 Specific reporting to clients on ESG issues? (2=yes; 0=no)
- C15 Voting records publicly available? (2=fully; 1=partially; 0=no)
- C16 Specific point of contact incl contact details mentioned? (2=yes; 0=no)

Collaboration and wider engagement

- C17 Signatory to other international SC equivalents? (2=yes; 0=no)
- C18 Signatory to UN Principles of Responsible Investing? (2=yes; 0=no)
- C19 Aim to influence policy/contribution to public policy debate? (2=yes and specific example provided; 1=yes but only mentioned in generic terms; 0=no;)
- C20 Engages collectively with other investors on ESG issues? (2=yes and specific engagement networks mentioned; 1= yes but stated only in general terms; 0=no/rarely)

Max. Stakeholder Score = 40

Stakeholder Index = Stakeholder Score / 40

[1] Frequently has been defined as 'mentioned at least three times and across at least 3 separate sections in the stewardship statement'.