

Institutional Shareholders and Corporate Governance

By Geof P Stapledon

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Corporate governance is concerned with the direction and performance of organisations. Monks and Minow — two of the most prominent scholars of corporate governance — refer to a “tripod” of participants in governance: (1) shareholders, (2) management (led by the chief executive officer) and (3) the board of directors.¹ The primary concern of Stapledon’s book is with a subclass of the first category, namely institutional investors, and the role that these shareholders play in corporate governance. (In New Zealand the major institutional investors are insurance companies — most prominently AMP, National Mutual Life, Prudential and Tower Corporation — and various superannuation, retirement fund and trustee company shareholders).²

Stapledon’s book is of interest to New Zealand readers for several reasons. First, as with the UK and Australia — the nations that Stapledon examines — New Zealand has seen a significant increase in institutional investors among our public companies; in particular, among our largest listed companies: see Table 1. The most recent example is Warburg Pincus Counsellors Inc, a New York-based funds managers who have acquired a 5.4 per cent stake in Fletcher Challenge Forests.³ However, it must be noted that in New Zealand significant share ownership of listed equities among other than the largest listed companies is rare.⁴

Also, Stapledon adds to our knowledge of corporate governance outside of the United States. (Studies of corporate governance have had a disproportionate emphasis on that country). Along with some other recent works Stapledon adds to our understanding of institutional investors in both the UK⁵ and Australia.⁶ Of related interest, Stapledon contrasts corporate governance and institutional investors between the UK and Australia, providing valuable insights. In the introduction Stapledon comments that: “The supposedly strong similarity between the corporate sectors and systems of corporate governance of the UK and Australia explain the lack of a detailed comparison of the British and Australian systems of corporate governance” (p 4). Such a comparison is of interest to New Zealand as we have more in common with the Australian

¹ R Monks and N Minow, *Watching the Watchers: Corporate Governance for the 21st Century* (1996).

² G Walker and M Fox “Institutional investment and ownership concentration in New Zealand listed companies” (1996) 7 *J Banking and Finance* 356.

³ Anon, “FCL Forests Stake,” *The Press*, 18 Oct 1997, at 27.

⁴ See Walker and Fox, *supra* n 2.

⁵ K Keasey and M Wright, *Corporate Governance: Responsibilities, Risks and Remuneration* (1997). K Keasey, S Thompson, and M Wright, *Corporate Governance: Economic, Management and Financial Issues* (1997).

⁶ I Francis, *Future Direction: The Power of the Competitive Board* (1997). H Bosch, *The*

and United Kingdom legal and governance systems than we do with the United States.

TABLE 1
Ownership Structure of NZSE Top 40 Companies, 1989 to 1996 (%)⁷

Type of Investor	Dec 1989	Aug 1991	Dec 1992	Sept 1993	Nov 1994	May 1995	Aug 1995	March 1996
Local institutions	16	12	14	17	14	13	11	11
Overseas institutions	10	22	24	27	31	29	31	32
Local Corporates	21	11	10	7	9	8	9	8
Employee Stock Ownership Plans	4	4	4	3	3	3	3	3
Overseas Corporates	9	20	20	16	20	25	25	26
Other	40	31	28	30	23	21	20	20
<i>Totals</i>								
Institutions	26	34	38	44	45	42	42	42
Corporates	30	31	40	23	29	33	34	34
Overseas	19	42	44	43	51	54	56	58

Stapledon's book is presented in three main parts. Part I contrasts the corporate governance systems in the UK and Australia and provides evidence of the growth of institutional share ownership. Part II focuses on the UK and the identities of the major institutional investors, their areas of involvement and the manner in which they are involved in corporate governance. The structure of Part III is the same as Part II, but the focus is on Australian institutional investors. Part IV looks at the potential for institutional involvement in corporate governance and suggests some reforms.

This final section of this book is of particular interest to New Zealanders. With increasingly globalisation of investment in general, and institutional investment

Director at Risk: Accountability in the Boardroom (1995). G Stapledon and J Lawrence, *Corporate Governance in the Top 100: An Empirical Study of the Top 100 Companies' Boards of Directors*, Centre for Corporate Law and Securities Regulation, University of Melbourne (June 1996).

⁷ Taken from *Ownership Structure of the New Zealand Stockmarket* (March 1996; September 1993; March 1991), Doyle Paterson Brown Ltd. Note that the *Totals* categories overlap and, therefore, do not add to 100 per cent.

in particular, New Zealand is likely to see increasingly active institutional investors.⁸ Future increases in global investment are likely to result in institutional investors having increased influence over New Zealand companies. Such influence may be manifested in a variety of ways, including moves by institutions to gain board representation, replace poorly performing executives, and lobby for legislative changes in areas such as takeovers. However, as Stapledon points out for Australia — and this applies to New Zealand too — the power of institutional investors is often limited as many of the companies they invest in are typically tightly held. This obviously is the case in New Zealand, where it has been estimated that 47 per cent of New Zealand Stock Exchange (NZSE) companies have a majority shareholder ie, a shareholder that owns over 50 per cent of issued voting capital.⁹

Stapledon's book is commendable for its thoroughness: many governance books do not go beyond existing data, or rely purely on anecdotal evidence. Stapledon provides a wealth of data on institutional investment and this book is invaluable as a resource for academics and practitioners who have an interest in institutional investment and corporate governance. In particular, Stapledon's interviews of UK and Australian based institutions add greatly to our understanding of the role that these institutions play in corporate governance. Furthermore, Stapledon uses statistical data to good effect. For example, the importance of institutional investors in Australia and the UK is highlighted with reference to data that shows that institutional ownership of listed UK equities increased from 29 per cent in 1963 to 60 per cent in 1994. Australian data presented by Stapledon indicates that the level of institutional ownership is lower than the UK, but is still significant (36 per cent of Australian equities in 1991).

In conclusion, I found this book to be well researched, intelligently argued and extremely useful in gaining a greater insight into the role of institutional investors in corporate governance.

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⁸ So far New Zealand has seen institutional investors act to force a company — Brierley Investments Ltd — to abandon an executive share option plan: G Walker and M Fox, "Institutional investors and the Brierley Investments Limited executive share options scheme" (1995) 13 C&SLJ 344.

⁹ See M Fox and G Walker, "Sharemarket control and regulatory choice" (1997) 8 Aust J Corporate Law (forthcoming).