OWNERS, TRADERS AND PROVIDERS OF CAPITAL: THE MULTIPLE FACES OF INSTITUTIONAL INVESTORS

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Abstract
We draw on a series of in-depth interviews with senior fund managers and senior company executives to explore how different and often-contradictory conceptualizations of institutional investors, their role in the corporate governance process, and their interactions with corporate management, are reflected in the attitudes and perceptions of the actors concerned. We find that while conceptualizations in terms of agency and ownership dominate both academic and popular discourses, the actors conceptualize institutional investors more as financial traders and, from the management perspective, politically powerful resource providers.

Keywords: Corporate governance, institutional investors, power, resource dependence, shareholder value.

JEL codes: G1, G2, G11, G30, G34

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Within the Anglo-American systems of corporate governance, the role of institutional investors and their relationship with corporate management are of central importance. The largest shareholders of most large, listed corporations are investment funds and fund managers, and collectively the institutions dominate both share holdings and share dealings. When the governance systems are described, as they commonly are, in terms of the separation of ownership and control (Berle & Means, 1932; Monks & Minow, 2003; OECD, 1999; Roe, 1994; Shleifer & Vishny, 1997), the relationship between the institutional investors (who dominate ownership) and the corporate managers (who exercise control) is implicitly placed at center stage.

If we ask more specifically what the role of institutional investors in corporate governance is, however, and how they interact with corporate management, the answers are surprisingly unclear. Direct empirical studies are rare, and restricted largely to the case of activist institutions, primarily public pension funds, that are not necessarily typical of the investment community as a whole (see for example Useem, 1996; Romano, 2001; and for a rare examples of a broader studies Holland, 1998). Theoretical analyses are more commonplace, but their conceptualizations are drawn from a variety of research traditions, the underlying assumptions of which are not always consistent.

The dominant theoretical perspective is that of agency theory (Eisenhardt, 1989; Jensen & Meckling, 1976; Ross, 1973). Indeed the relationship between shareholders and managers is sometimes treated as a paradigmatic case of a principal-agent relationship. But there is a growing concern that this is too simplistic a view (e.g. Daily et al, 2003; Hermalin & Weisbach, 2003; Hillman & Dalziel, 2003). It is evident, for example, that shareholders are not the only 'principals' for whom managers are agents. They also have agency-type relationships with banks and bondholders. Other stakeholders, such as employees and communities, are not naturally cast as principals but nevertheless have legitimate claims on management's attention. The interests of shareholders are themselves diverse, and many might more naturally be desribed as financial traders than as owners in any meaningful sense. Institutional investors typically have shareholdings in competing companies, and if underweight in a particular company (i.e. holding fewer shares than they would if holding an index-matching portfolio) they may actually have an interest in that company under-performing relative to those of its competitors in which they are overweight. Generally the interests of an investing institution may be very different from those of a company in which it invests, and different too from those on whose behalf it is investing. The fund management institutions can themselves be seen as agents of the pension fund trustees (acting in turn on behalf of pension fund beneficiaries) whose mandates they hold, and for which they compete among themselves. Finally, while agency theory assumes that all parties are motivated by economic self-interest and are fully competent to achieve their aims, the possibilities that they may also have a sense of moral duty or be constrained in other ways are hard to rule out. Managers in particular, working in an organizational context, rely heavily on the cooperative efforts of others and may well act themselves as honest fiduciaries.

None of these considerations invalidates an agency theory approach, providing that it is pursued rigorously and consistently, but they do suggest a complex reality for which other theoretical approaches, incorporating moral, political and organizational as well as economic considerations are also salient. In this paper we shall begin by reviewing some of the more prominent theoretical conceptualizations of institutional investors, their role in the corporate governance process, and their interactions with corporate management. We shall then draw on a series of interviews with senior fund managers and senior company executives to explore how these different and often-contradictory conceptualizations are reflected in the attitudes and perceptions of the actors concerned. We shall conclude that while conceptualizations based on agency and ownership dominate both academic and popular treatments of corporate governance, the dominant actor perspectives are those that cast institutional investors primarily as financial traders or, from a management perspective, as politically powerful resource providers. The second of these conceptualizations appears particularly salient in understanding how managers interact with their investor communities, and we shall finish by calling for a renewed attention to resource-dependence and other political perspectives on corporate governance.

Theoretical Conceptualizations

Issues of corporate governance have been explored within a number of research traditions, including those of finance, economics, law and sociology, and both academic and popular conceptualizations of institutional investors owe something to each of these.

Within much of the finance literature, where the focus is on the market rather than on the firm, investors are characterized as market traders, whose sole interest is in maximizing their financial returns by buying and selling shares. Ownership of shares here carries little if any significance. Corporate managers feature in the investors' worldview to the extent that their actions can influence the share price, but share ownership no more gives stock market investors a stake in the polity of the corporation than the ownership of a foreign currency gives currency traders a stake in a country's politics. Management actions, like the actions of politicians, are effectively treated as exogenous variables over which the market actors have no control. Even where an investor maintains a substantial long-term holding in a company, this is interpreted simply as the result of a particular trading strategy, based on particular assumptions and beliefs concerning the information properties of the market, the valuation of particular stocks and the temporal relationships between valuation and stock price.

Within the economic literature on the theory of the firm, investors feature rather differently. With the focus on the firm, seen typically as a nexus of contracts (Alchian & Demsetz, 1972), rather than upon the stock market, investors are characterized as economic actors who contract with management for the supply of risk capital. As owners of a company's share capital, they are the residual risk-takers of the enterprise, and this gives them a particular interest in its fate. On account of this interest, they are often characterized as principals, and the firm's managers as agents, in a principal-agent relationship, but they are not seen as the owners of the firm itself. Like other parties to the nexus of contracts they are simply owners of a particular factor of production, and any property rights they might claim derive from that (Fama, 1980; Hart & Moore, 1990).

Although they differ in focus, these two literatures have in common that they treat actors and their relationships in purely economic terms. The underlying model of human behavior is that of economic man, self-seeking, amoral and competently utility maximizing, where utility is typically measured (not as a matter of principle but as a matter of necessary convenience) in purely monetary terms. This model is applied both to investors and, in the theory of the firm, to company managers. All interactions take the form of economic exchanges, and while both literatures afford a central role to contracts (in particular, contracts for the sale or purchase of shares and for the payment of dividends), contracts are kept only because it is in the long-term economic interests of the parties to keep them.

In the legal and sociological traditions, in contrast, the focus has traditionally been on quite different aspects of human behavior, on rights and duties in one case, and on power and influence in the other.

Within the corporate law literature, the focus is upon the legal rights and duties of the different parties involved in a company, and investors are typically characterized either as owners of the company in which they invest (in the USA) or as members of the company whose membership gives them rights closely akin to those of ownership (in the UK). Prominent among these ownership rights is the right to have the company managed primarily, and subject only to relatively minor qualifications, for their interest and benefit. Consistent with this, company managers are portrayed as having a fiduciary duty either to their shareholders directly (in the USA) or to the company and thus to the shareholders as its members (in the UK). The extent to which ownership carries responsibilities as well as rights is open to debate, but there is a general presumption that as with the ownership of anything else of value in which other parties also have a stake or interest, there is some duty of care. There is also a presumption that the duties of managers are accompanied by certain rights, including in American law the right to exercise “business judgment”. Both investors and managers are cast primarily as moral beings, and the relationship posited between them is seen as both legal and moral (for standard accounts see Mann & Roberts, 2001; Twomey & Fox, 2001; Monks & Minow, 2003; and for the UK, Ferran, 1999).

Within the sociological literature, the focus has been mainly upon the relative power of different social groups or classes and the systems within which this power is entrenched. Here the investment community (or, more broadly, the financial community) and the management community feature as competing interest groups within a political arena. They are not the only such groups. Others include organized labor, the state, and wealthy family interests, all of which are or have been prominent in different societies and at different periods. In the contemporary Anglo-American system of diversified share ownership, however, in which state intervention is limited, labor markets have been deregulated and trades unions have lost much of their former power, institutional investors, who control the lion’s share of financial resources, and managers, who control the operations of their companies, are seen as the dominant rivals, competing against each other for the political control of business (Scott, 1997; see also Useem 1996). This competition is partly economic, as each party seeks to enhance its share of the wealth created by business activity, but within the sociological perspective power is also seen as an end in itself.

The rapidly growing literature on corporate governance draws on all these traditions, but it is dominated by a particular and arguably confused combination of the financial, economic and legal perspectives. Institutional investors are typically characterized both as traders, whose primary purpose is to make money out of their trading and, when they happen in the course of their trading activities to be in possession of a particular shareholdings, as company owners, with all the rights that entails. Company managers, similarly, are characterized both as self-interested, amoral economic agents, and as moral agents with fiduciary responsibilities.

The dominant theory within the corporate governance literature is agency theory, and when strictly applied, as it mainly is by the finance and economics communities, this avoids the contradictions we have noted. Based on the behavioral model of economic man, agency theory is concerned simply with how one self-seeking party to an arrangement, identified as the principal, influences the behavior of another self-seeking party, the agent, so as to maximize their own utility. In the corporate governance context, in which the shareholders are typically cast as principals and the managers as agents, it is assumed that rational managers will seek to serve their own interests over those of their shareholders, and no moral blame is attached to this. There is no notion of fiduciary duty, and no privileging of ownership: agency theorists can and do treat other parties, such as bondholders or bank creditors, as principals, as well as addressing problems of multiple principals (Myers, 1977; Harris & Raviv, 1991; Rajan & Zingales, 1995; Doukas & Pantzalis, 2003).

Agency theory is no longer simply a branch of economics, however. In the context of corporate governance the application of agency theory ideas has spilled over both into common parlance and into literatures and discursive arenas, most obviously those of government and regulation, that do not share its core assumptions. It has become commonplace to observe that the central problem of corporate governance is how investors can get self-seeking managers to act in their (the investors') interests, rather than in their own, but this observation is often set within a framework that sees the investors as owners (albeit as insufficiently "responsible" owners) and the managers as insufficiently dutiful fiduciaries. (See for example the standard corporate governance text by Monks & Minow, 2003) There is confusion here both in respect of the behavioral assumptions and in respect of the attributed roles.

When we consider how and for whom companies should be managed, and how managers should interact with and respond to their institutional investors, this confusion is of considerable practical importance. If managers see serving their own self-interest as a legitimate goal (as agency theory assumes) their behavior will likely be very different from if they see themselves as having a fiduciary responsibility to shareholders. If they see their institutional investors as traders, with no interests in the rights or responsibilities of ownership, they will likely interpret their own duties differently than if they see them as responsible owners, or as political competitors.

Data And Method

To explore how the roles of institutional investors and company managers are conceptualized in practice, we conducted a series of semi-structured in-depth interviews with senior fund managers and chief investment officers on one hand and chief financial officers and investment relations / corporate communications directors on the other. In all the firms we researched the chief financial officer was a member of the main board who took primary responsibility for shareholder relationships.

The focus of our interviews was on the meetings that take place on a regular basis (yearly or half-yearly) between the senior managers (normally the chief executive officer and/or the chief financial officer) of a quoted company and their main institutional investors. In most cases we did not ask explicitly how the roles and relationships in which we are interested here were conceptualized. By engaging our interviewees in wide ranging discussions around the central topic, however, we were able to gain considerable insights into the conceptualizations that informed their attitudes and behaviors.

For reasons of convenience and to facilitate access, the research was conducted in London, England. On the corporate side we constructed a sample of twenty companies from the FTSE-100, chosen to give a broad spread of recent stock market history and industry sector. Pure investment companies and real estate companies, whose values are closely tied to asset value, were excluded, as were South African companies using London purely as a listing of convenience. Of the twenty companies approached, fourteen agreed to interviews. In nine of these we interviewed the chief financial officer, either alone or in the company of the investor relations director, and in the remaining five we interviewed the investor relations or corporate communications director. Of the fourteen companies researched, three were in the retail sector, two in food and beverages, two in aerospace and defense, two in pharmaceuticals and health products and one each in banking, media, telecomm, oil and gas, and automobiles and engineering. The average market capitalization of the companies at the time of interview was about $30 billion. Apart from the retailers all were global businesses and most had significant US as well as UK shareholdings. Eight of the fourteen had ADR listings on the New York Stock Exchange.

On the institutional investor side we sought interviews with the top twenty UK-based investment houses measured by assets under management. Eleven of the twenty agreed to participate, leading to a total of eighteen interviews with chief executives, chief investment officers and senior fund managers, typically heads of UK or European equities. One of these resulted in no data relevant to the issues discussed here. Of the ten remaining houses, one was independent, six were subsidiaries of globally-operating investment banks, and three were subsidiaries of large insurance companies.

The interviews were conducted between Spring 2002 and Spring 2003 and ranged from one to two hours in length. With two exceptions, where detailed notes were taken, they were recorded, transcribed and thematically coded using a two-stage process, the first being based on categories arising from the literature and the second on categories emerging from the texts. Our analysis was based on a form of discourse analysis rooted in discursive social psychology (Potter & Wetherell, 1987; Harré and Gillett, 1994; c.f. Watson & Harris, 1999, for a similar approach). Treating the accounts offered in the interviews as socially achieved constructions that reflected both the interview situation and the world of practice being described, our aim was to explore how our interviewees perceived the worlds of practice and social action in which they were professionally engaged. The approach required that we pay attention not just to the conceptual content of the interviews but also to the rhetorical and referential contexts within which different conceptualizations were employed (Fairclough, 1992) and to the structural properties of the discourse (Heracleous and Hendry, 2000), specifically in this case to the hierarchical relationships between conceptualizations and the thematic structures associated with these (Kets de Vries & Miller, 1987).

In addition to our interviews, we also observed a total of eight meetings between senior corporate managers (chairman, CEO or CFO) and their institutional investors, five of which were regular one-to-one meetings between a large company and one of its large institutional investors. The others were a meeting between an institution and a large company in which it was not at that time an investor, a meeting between an institution and a small cap company in which it had a significant shareholding, and a lunch meeting between a company and a number of smaller institutional shareholders arranged by the company's broker. The seven one-to-one meetings involved six different companies and four different institutions. We were not able to record these meetings, but they gave us an opportunity to observe the interactions between investors and managers directly and crosscheck our interpretations of the interview data.

Research Findings

Summaries of our analysis, necessarily simplified, are given in the tables. Table 1 summarizes the accounts given by investors of themselves, of other investors and of company managers. Table 2 summarizes the accounts given by managers of themselves, their investors and their management of investor relationships, In each case the left hand column lists explicit conceptualizations and descriptions, with contextual qualifications in parentheses. The right hand column summarizes the underlying conceptualizations that structure each account taken as a whole.

TABLE 1
Accounts offered by investors

Explicit conceptualizations	Underlying conceptualizations
Investor A (Head of European Equities)[1]	
Account of selves	
Traders of shares, buying and selling to maximize profits for clients	Traders, but in position of principals
Account of other investors	
Competitors, also traders to varying extent	Competitors, similar to selves
Account of managers	
Mainly partners, but many self-interest agents	Agents or stewards for shareholders
Investor B (Head of European Equities)	
Account of selves	
Traders	Traders
Account of other investors	
	Competitors, also traders
Account of managers	
	Stewards for company (but not clear)
Investor C (Senior Fund Manager)	
Account of selves	
Traders, seeking to maximize profit for clients and out-perform competitors	Traders who end up as owners
Investors on whom companies depend for capital	
Owners	
Account of other investors	
	Competitors, similar to selves
Account of managers	
Should be acting as fiduciaries in long-term interest of shareholders, and mostly are.	Stewards for owners
Investor D (Head of European Equities)	
Account of selves	
Traders maximizing value for clients and outperforming competitors so as to win more clients	Traders
Not owners	
Account of other investors	Competitors
Competitors, with some shared interests	
Account of managers	
	Not clear

Investor E (Senior Fund Manager; Head of Corporate Governance)	
Account of selves	
Investors adding value for clients	Owners and also traders
Account of other investors	
	Not discussed
Account of managers	
	Stewards for owners
Investor F (Chief Investment Officer; Head of European Equities; Senior Fund Manager)	
Account of selves	
Traders, making money for clients by buying and selling Not principals Not owners [when underweight even have interest in company doing badly] Responsible owners [when selling services to clients]	May have to present selves as owners, but really traders
Account of other investors	
Competitors, also traders to varying extents Not co-owners	Competitors
Account of managers	
Stewards for company, with varying degrees of competence Self-interest agents Should be putting investors first	Fiduciaries for generalized owners
Investor G (Chief Investment Officer; Head of UK Equities; Senior Fund Manager)	
Account of selves	
Traders, trying to out-perform market and beat competitors Part-owners [where particularly large stake, or in corporate governance context which kept separate from trading; for portfolio reasons may hold shares where would rather not]	Traders who sometimes fill role of owners
Account of other investors	
Competitors	Competitors
Account of managers	
	Stewards for company
Investor H (Regional Chief Executive. Chief Investment Officer; Head of UK Equities; Head of Corporate Governance)	
Account of selves	
Agents of clients as owners Managing client assets through trading and oversight, and competing for that business Duty to be responsible owners, independent of making money	Both traders and owner-principals, or agents of owners
Account of other investors	
Trading competitors and competitors for client business Some also co-owners / agents of co-owners [ownership activities kept completely separate from trading] Some pure traders	Both competitors and co-owners
Account of managers	
	Stewards for company

Investor I (Head of UK Equities)	
Account of selves	
Principals monitoring managers and keeping them accountable	Principals. Ambiguous on ownership
Not owners, but bear obligations of responsible ownership [but limited when underweight]	
Traders seeking to out-perform competitors	
Account of other investors	
Competitors	Competitors
Account of managers	
	Agents
Investor J (Chief Executive; Chief Investment Officer; Head of Corporate Governance)	
Account of selves	
Asset managers making money for clients	Owner-principals
Owners	
Principals monitoring managers	
Account of other investors	
	Not discussed
Account of managers	
Should be fiduciaries delivering shareholder value	Agents
Need incentives and monitoring to perform	

[1] Job titles of interviewees are generic descriptions, not the actual titles used.

TABLE 2
Accounts offered by managers

Explicit conceptualizations	Underlying conceptualizations
Company 1 (Chief Financial Officer and Investor Relations Director)[1]	
Account of selves	Stewards for company (not shareholder) interests
Account of investors	
Customers for company's shares Traders, stock-churners Determine share price Enable deals, rights issues etc Potential source of huge problems Not owners or principals and don't determine management behavior [but no point driving company against their wishes] Messages can be used internally [company has past history of investor dissatisfaction and is now strongly focused in shareholder value]	Owners in generalized sense, but in practice neither owners nor principals: traders and resource providers, to be both managed and used for internal discipline. Element of partnership
Account of relationship management	
Manage information flow to manage expectations and control speculation Avoid surprises, pre-condition to changes Build personal relationships and mutual understanding Broaden investor base; actively sell shares	Manage relationships to moderate power
Company 2 (Chief Financial Officer and Investor Relations Director)	
Account of selves	Stewards for overall company interests
Account of investors	
Customers, whose needs we aim to meet Long term shareholder needs dictate strategy [but value-based management described as strategy technique to perform for all stakeholder, not as part of duty to owners]	Customers and stakeholders. Not principals
Account of relationship management	
Clarity and accuracy to maximize investor understanding Explain what doing and why; meet any concerns by explaining better [strategy serves shareholder needs, so just need to explain it] Find out what investors want so can give it to them	Clarify stakeholder objectives and provide customer service
Company 3 (Investor Relations Director)	
Account of selves	Unclear
Account of investors	
Traders, churning stock Can cause serious difficulties if feel mistreated [company was recently in serious trouble]	Traders. Important stakeholders and resource providers
Account of relationship management	
Keep open, accessible, reasonable; importance of clarity Avoid arrogance Build 'credit in bank' Actively sell shares	Keep happy, avoid trouble, neutralize power

Company 4 (Chief Financial Officer and Investor Relations Director)	
Account of selves	
	Agents who should be stewards for owners
Account of investors	
Owners of business [and by implication principals] Determine share price and so constrain options	Owners and principals
Account of relationship management	
Maximize transparency and understanding Lock management into shareholders' wishes	Ensure shareholders understand business so can make appropriate decisions
Company 5 (Chief Financial Officer and Investor Relations Director)	
Account of selves	
Stewards	Stewards for company as a whole
Account of investors	
Owners acting as principals Traders, making market and determining share price Customer to whom we [choose to] market our shares	Owners at one level. Traders and resource providers at another
Account of relationship management	
Broaden shareholder base; actively sell shares Get accurate information into market, subject to constraints of not giving away too much to customers and competitors Explain what we are doing and convince them it's right	Manage resource providers and neutraslise their power
Company 6 (Investor Relations Director)	
Account of selves	
Stewards with fiduciary responsibility to owners	Stewards for company, but with particular duties to owners
Account of investors	
Owners to whom owe duty [in specific context of meetings] Gamblers, betting on management teams [same context] Customers for our shares Control our ability to make acquisitions Traders, buying and selling to make a profit [when comparing them with each other]	Owners or traders, depending on perspective
Account of relationship management	
Sell shares to broaden shareholder base Determine what owners want so can take account of, but not necessarily follow, it Build support to give future freedom of action	Treat as powerful resource providers and manage to limit power
Company 7 (Investor Relations Director)	
Account of selves	
	Unclear
Account of investors	
Traders, who set share price [which company uses to manage internally]	Traders whose actions can affect us
Account of relationship management	
Build long-term relationships Enhance understanding of company Manage information flow to manage expectations Manage share price	Manage resource providers

Company 8 (Investor Relations Director)	
Account of selves	
Stewards for company as a whole [implicitly not for owners]	Stewards for company as a whole
Account of investors	
Traders who make money out of us – no ownership commitment Set share price [which we use and need to be stable to manage internally] Can get us taken over [which we don't want]	Traders and resource providers. Only artificially owners
Account of relationship management	
Sell shares and broaden investor base Avoid major surprises Get feedback on our targets Keep investors happy and manageable	Manage resource providers
Company 9 (Investor Relations Director)	
Account of selves Stewards of company [but not especially of owners]	Stewards of company as a whole
Account of investors	
Technically owners Behave like traders, short term and sellout if things get rough [business has very long internal investment horizons] Control ability to defend against bids Powerful audience who can change management, limit actions and influence public perceptions of company Source of company	Traders and very powerful resource providers
Account of relationship management	
Build good relationships and long-term commitment based on shared understanding Give out consistent message, not too much detail [share performance has been very volatile] Make sure they get our message – if they disagree, change way we communicate it	Mange power relationship with key resource providers
Company 10 (Chief Financial Officer)	
Account of selves	
Stewards for shareholder present and future	Stewards for long-term shareholders
Account of investors	
Stakeholders to whom we owe an account of what we are doing They control our possibilities, e.g. rights issues for acquisitions Short-term traders who set share price [which used for internal incentive schemes, though do not adopt value based management] Different investors have very different objectives [distinguishing legitimately (since mandated) short term traders from long term investors]	Owners in generalized sense and stakeholder to whom have particular obligations. But also traders and powerful resource providers
Account of relationship management	
Build good relationships to preserve options Build confidence to free us to manage Sell shares	Mix between fulfilling duties and managing powerful resource providers

Give insights and information on performance Try to keep share price stable Manage expectations	
Company 11 (Chief Financial Officer)	
Account of selves	Managers of business aiming to maximize value
Account of investors	
Part of capital allocation system Some are short-term traders Can constrain our actions Not principals [and implicitly not owners]	Investors of capital and powerful resource providers
Account of relationship management	
Maximize transparency to gain credit Deliver on promises to build investor confidence Important to stand up to investors – do what you think best, but communicate it well Manage shareholder base	Manage resource providers
Company 12 (Chief Financial Officer)	
Account of selves	Stewards for company as a whole
Account of investors	
Buyers of rights issues Determine share price, which impacts on business [company uses value based management, but no sense of duty to owners] Traders following their mandates	Traders and hence resource providers. Customers
Account of relationship management	
Sell shares and manage share price	Manage resources
Company 13 (Chief Financial Officer)	
Account of selves	
Aiming to maximize long-term performance	Stewards for company as a whole
Account of investors	
Buy and sell so set share price [low share price or share price volatility can constrain management] Traders, maximizing their clients' and their own profits Big investor is important stakeholder, but may sell tomorrow	Traders and important interest group who can disrupt management
Account of relationship management	
Manage share price Manage expectations Position business [following recent change of strategic direction] Deliver on promises to maintain market confidence Communicate clearly and transparently to reduce guesswork and speculation and avoid share price volatility	Manage interest group who incidentally control resources

Company 14 (Chief Financial Officer)	
Account of selves	
Manage for long-term shareholder value [but no sense of duty to actual shareholders; business has very long term investment horizons compared to investor horizons]	Stewards for company as a whole
Account of investors	
Providers of capital and supporting votes Portfolio managers Can constrain decisions if don't trust you Customers who buy our shares or someone else's Wide range of objectives [and of views as to what managers should be doing]	Resource providers and allocators of capital who can constrain investment decisions. Customers
Account of relationship management	
Putting accurate basis of fact into market Avoid surprises; communicate changes over long period Find out limits of investor tolerance Find out what they want so we can deliver Explain what doing and deliver on promises [so as to earn right to make investment decisions] Keep customers happy	Keep key resource providers satisfied so as to preserve freedom of action

[1] Job titles are generic.

No one conceptualization dominated our interviewee's discourses. Indeed most of our interviewees gave accounts of their own and others' roles that were on the surface internally inconsistent.

Investors' accounts differed somewhat between the more active investors on one hand, those whose investment strategies were based on individual stock-picking and active trading in an attempt to outperform the market, and on the other hand the quantitative (computer program driven) investors, those with long-term holding strategies, and more passive investors whose portfolios tracked or deviated only marginally from the index.

The more active investors presented themselves primarily as money managers, creating value for their clients (and so winning business and making money for themselves) by trading in shares, with no interest in ownership and interacting with company managers purely and simply to check out and enhance their valuation models. Other institutional investors were treated very explicitly as competitors and not as co-owners. However while one interviewee stressed that his house did not irritate managers by "acting the principal", others described the relationship between shareholders and managers explicitly as one between principals and agents. Some also criticized managers, sometimes using quite emotive and morally charged language, for not appreciating that their duty was to run the company for the benefits of its shareholders. One senior fund manager not only shifted between all these characterizations in the course of our interview but introduced another element too, suggesting that a healthy relationship between managers and investors was one of “partnership”. Two interviewees from another house, a chief investment officer and his most senior fund manager told us one how the house emphatically did not see itself in an ownership role and the other how it did.

The more passive investors tended to give a greater priority to their role as owners, and as principals and monitors in an agency relationship, but they presented conflicting views of what ownership entailed, mixing agency notions of shareholders as self-interested principals with notions of morally responsible ownership and with notions of ownership responsibility as a competitive selling point, a role or positioning they could offer their clients as part of their fund management service. Managers similarly were treated one moment as self-interested agents to be monitored and controlled and another as dutiful stewards running businesses for the benefit of shareholders and to the best of their ability.

In sharp contrast to the investors, none of the managers we interviewed described the investor-company relationship explicitly in terms of principals and agents. Perhaps not surprisingly, all appeared to see themselves as dutiful stewards, rather than as self-interested agents. Perhaps more surprisingly, given the dominance of the rhetoric of ownership in public and political discourse, only four out of fourteen described their investors explicitly as owners, and even here the term seemed to be used in a conventional sense rather than as a descriptor of the perceived social reality. One interviewee set out by describing investors as owners to whom management owed a fiduciary duty, but went on to discuss them as if they were traders, with no legitimate ownership interest. Another began by using the language of ownership but quickly dropped it and began to talk of shareholders as a company resource, to be managed like any other. A third, similarly, seemed to treat the owners of a business as supporters, rather like the fans of a football club. For the fourth they were “technically owners”, but “I don’t think we perceive they behave like owners”. Curiously, the companies most strongly committed to shareholder value management systems were amongst those in which the status of shareholders was most explicitly *not* privileged in terms of ownership. The concept of managing for shareholder value, as a tool for focusing management attention and so enhancing corporate performance, seemed to be largely divorced from the concept of managing for the benefit of the shareholders.

Most of the managers interviewed shifted between two characterizations of their investors, as financial traders, serving their own clients, and as resource providers, or suppliers of capital. Reflecting the confusion that inevitably arises when what is supplied is money, some also talked of them as customers, to whom the company had to be sold. When discussing the specifics of their relationship with their investors, they used a mixture of political and economic language, but whereas the investors tended to describe the relationship in economic or moral terms, the tone of the managers' discourse was predominantly political. They talked of the need to maintain good relationships and keep shareholders on side, of the importance of managing expectations and controlling the flow of information, of the value of broadening the shareholder base, and of working to keep options open and maintain a freedom of maneuver.

On the face of it, these interviews present us with myriad inconsistencies. These begin to get resolved, however, when we look at the structures of the discourses being analyzed and at the social and organizational contextualizations of the interviewees' comments.

First, both managers and investors seem to accept that shareholders *in general* are in some sense owners of the firm, with concomitant rights and responsibilities. Managers accept that they have a general duty to manage their companies for the benefit of their shareholders, and that shareholders as a body can legitimately expect them to engage in a constructive discussion as to what that duty might entail. Investors for their part recognize that the shareholders of a company have a duty to watch over it and to ensure that it is competently managed. For both sides, however, these rights and duties seem to reflect general, almost theoretical features of the capitalist system as operated in America and Britain, and to refer to shareholders in the abstract. They are not apparently conceived as duties owed by or to any particular shareholders, either individually or collectively. The owner-fiduciary model, in other words, acts as an ideal description of the system but not as a real description of the situation with which the actors are in practice faced. In conceptualizing this real world of day-to-day practice, neither managers nor investors cast the latter as owners.

The more active investors clearly see themselves, and are indeed seen by managers, as primarily traders. They may occasionally take on ownership functions, either to satisfy their clients' needs to be seen to be pursuing "responsible ownership" or, as a matter of necessity, if they find managers acting clearly against their interests and are constrained for one reason or another from selling their shares. In simple terms it may on occasion be less costly to play the owner and try and force a change of direction than to offload a large block of shares. For the most part, however, they seem to take on these ownership functions very reluctantly and as a last resort. Their job as they see it is to make money for their clients, and so for themselves, by trading in shares, and the fact that they are perforce shareholders is incidental. If they could have the investment without the ownership they would: indeed their approach to their work seems to be very close to that of hedge fund managers (many of whom were themselves once conventional fund managers), who tend to deal in options and contracts for difference rather than holding shares directly. That the institutional fund managers end up being shareholders is a peculiarity of the mandates given them by their clients: it has no deeper significance.

The more passive investors also come across as reluctant owners. They more frequently find themselves engaged in ownership activities, taking a more activist stance, for example, on issues of corporate governance. But they do so mainly because it helps them to attract clients or because, with little opportunity to trade, there is little else they can do to add client value. To a certain extent acting the owner helps them to differentiate what would otherwise be a commodity product. As for the active investors, however, they end up being shareholders only because they happen to specialize in investing in shares (rather than in, say, government bonds) and ownership remains incidental to the primary task of investing.

All this was clearly recognized, and seen as quite legitimate, by the managers we interviewed, who described the motivations of their institutional investors in very much the same terms as the investors used themselves. The managers recognized a duty to shareholders in general, and were also quite willing to cite this duty for their own purposes, using share price based incentives for senior management and imposing on their employees the need to meet shareholder expectations. But these were to a large extent expectations they had themselves raised, on the basis of performance targets they wished to meet. AT a general level these targets may have been the product of disciplinary market processes, but the managers clearly did not recognize any duty to shareholders in particular, who were characterized as playing their own (trading) games and as having little real interest, and so little legitimate interest, in how the companies were managed.

Of course, all the managers we interviewed met regularly with their main institutional shareholders but this was not described by either side as a form of principal-agent monitoring, and did not appear as such from our direct observations. Investors used the meetings primarily to clarify points of detail relevant to their financial valuation models and to gauge the quality of the top management team. They talked of monitoring their consistency from one meeting to another, looking at the whites of their eyes, and looking at the body language of CEO-CFO relationships, not in order to pass judgment or monitor for self-seeking but in order to gain some kind of metric of management quality for feeding into their investment decision-making. Two of the more passive investors did also talk, in principal-agent terms, of watching over management, and impressing on them that they were being watched, but this was presented more as a rationalization for governance activities than as characterization of the routine meetings, which seemed even for these institutions to have more to do with valuation.[1] The managers for their part recognized that this was the agenda, and played to it.

A slightly different situation arises when shareholders call for a non-routine meeting with the company management, typically to discuss a proposed acquisition or merger or other major investment. Here the investors, whether active or passive, appear to put on their ownership hats and seek to engage the managers in a discussion as to whether the proposed course of action will add or destroy shareholder value. Talking about meetings of this kind, the managers drew a distinction between short-term and long-term investors, and clearly privileged their interactions with the latter. This was not, however, because they saw these as in some sense ‘real owners’, but because they recognized a commonality of interest that made constructive dialogue possible and worthwhile. Short-term shareholders, they suggested, were interested only in the immediate share price implications of the deal, and in detailed issues of timing that might affect their trading plans. Long-term shareholders would be more interested, as they themselves were, in the impact on the company’s longer-term growth and development.

From the investors’ perspective, these meetings provided the primary context for the use of principal-agent language. As we have already noted, the managers saw themselves implicitly as dutiful stewards rather than as self-seeking agents. This may simply reflect that fact that people often do prefer to see themselves as morally responsible, but managers also work in an organizational context in which cooperation and team work are essential, self-seeking is frowned upon and senior managers in particular are expected to devote themselves to the company’s interests. In such a context explicit self-interest is likely to be relatively rare, or at least suppressed. Both rhetorically and in practice, a stance of honest commitment is likely to be more productive (Perrow, 1986; Ghoshal & Moran, 1996; Pfeffer, 1997). Investors for the most part cast managers in a

[1] It should be noted that even the most passive investors we interviewed were not pure index managers: all had some funds under active management.

similar light. Most were seen as honest, hardworking people doing a pretty good job. There is a widespread (and empirically grounded) perception, however, that corporate acquisitions are pursued more to enhance managerial self-esteem and pay packets than to serve the interests of shareholders, who typically pay over the odds for the company acquired (Morck et al, 1989; Sirower, 1997). In a mergers and acquisitions context, as also in the context of particularly generous CEO pay awards, suspicions of self-interest evidently come to the fore. Managers get recast, not as a generalization but temporarily and in the specific circumstance, as self-seeking agents, and investors as principals.

Mergers and acquisitions are also, typically, where managers most need their shareholders' support, either in the form of a vote or as providers of further capital. The interactions to which they lead fall outside the routine of their regular exchanges and are treated by both sides as exceptional, and not the norm. But whereas for investors they typically affect only a small part of an investment portfolio, and seem to be a nuisance or irritation as much as anything, for managers they are of critical importance. It is not surprising, therefore, that the conceptualization of investors that seems to be most salient for managers is that of resource providers.

In our interviews with managers, this conceptualization of investors underpinned all others. Investors might behave as traders, they might in some generalized or ideal sense be owners, they might occasionally engage as if principals, but what structured the managerial discourse was an underlying presumption that from the practical perspective of people trying to run a business they were providers of a scarce and valuable resource. Central to this presumption, moreover, was the further presumption that control over that resource gave the investors power to constrain the managers' actions and frustrate their attempts to build and develop their business. From this core perspective investors were not so much a party whose interests determined the proper running of the business but a party whose interests could potentially damage the proper running of the business, if they were not carefully managed politically.

The managers we interviewed perceived themselves to be acutely dependent on their institutional investors in two ways. As a matter of routine, they felt dependent on them not to upset the apple cart by selling their shares and so driving the share price down. Apart from reflecting badly on themselves, a low or falling share price restricted their strategic options and brought unwelcome attention in the form of critical media comment. Since most companies used some kind of share based or share price based compensation, it also affected employee moral. Volatility in the share price was also seen as troublesome.

Again this disrupted strategic planning, led to distracting and unwanted critical exposure, and played havoc with compensation planning. Some of the interviewees had been through periods in which their companies had been out of favor with the markets, and clearly wished to avoid that in the future.

The managers were also acutely aware that they might at some point in the future be dependent on their shareholders for more active support. This might arise if they wished to raise new capital to fund an acquisition or major expansion or, more critically still, if they had to fend off a hostile takeover bid. On such occasions both the future direction of the company and the future employment of the managers themselves might well be at stake, and the institutional shareholders would hold the whip hand.

One way of responding to this pressure would be to accept the owner-fiduciary model and do what the investors wanted, and it was apparent from our background research that several of the companies in our sample, having experienced embarrassing share price declines, had adopted this route in the recent past. Only one manager talked in such terms, however, pointing out that there was no point driving a business in a direction its investors didn't want. At another point in the interview, moreover, the same manager offered an alternative: either do what the investors want, or educate them to be happy with what you want to do. And it was the second of these options that came up repeatedly in the other interviews. From the managers' perspectives their job was to manage and the investors' job was to invest. It was not for shareholders to dictate what managers should do. But in order to keep control of the situation it was imperative that managers educated their investors so that they understood and shared the management agenda. In part this was just a question of ensuring clarity and consistency of message, avoiding any grounds for misunderstanding, but it was also a question of ensuring that the investors had the right understanding – the understanding the managers wanted them to have. In this context a critical response from an investor was a prompt not for rethinking the strategy but for rethinking the communications.

A second recurring theme was the need to manage expectations, so as to ensure as far as possible that investors were never surprised either by the company's results or by the managers' strategic moves. Managers talked of the need to keep speculation under control, making sure that investors didn't get over-exited or read too much into their strategic moves, only to over-react when their expectations weren't met. They also talked of the need to condition investors well in advance of any major moves, so that these didn't come as a shock.

A third theme that ran very strongly through all the interviews concerned the building up of trust or credit with investors so that if the managers ever needed their support they would be prepared to give it, even though they might not be convinced by the case in question. Managers talked here of the need to build up good relationships in the good times so that they could carry investors with them in times of trouble; and of building up enough trust, or “credit in the bank” to give them the freedom to make major moves, such as acquisitions, that investors would not otherwise support. The emphasis here was on the need for open, transparent relationships with long-term shareholders, on the dangers of making enemies by behaving arrogantly or ignoring governance conventions, and on the absolute necessity of delivering on any promises made.

Finally, a fourth common theme was the need to reduce dependence on individual institutions by actively managing the shareholder base. The ideal shareholder base from a managerial perspective appeared to be a large and diverse group of investors, including active traders, for liquidity, but dominated by long-term investors, each with a relatively small percentage holding. Large holdings were considered dangerous, both because of the potential power they gave to the institutions concerned and because of the potential disruption if these institutions changed their minds and sold. The managers also recognized as a fact of life that institutions churned their portfolios, and that they might well sell blocks of stock for reasons that did not reflect directly on performance – for profit-taking when the share price was rising, for example, or as a consequence of other, unrelated portfolio adjustments. They considered it important to ensure that there were willing buyers to match the sellers, and actively marketed their shares to institutions that were not current shareholders, both at home and overseas. It was in this context that some of our interviewees talked of their investors as customers and used marketing language to describe how they interacted with them. Managing their shareholder base was about winning new customers, and managing their investor communications was about retaining those they had.

Power and Resource Dependence

The centrality of these themes to our managers’ discourses suggests strongly that the relationship between corporations and institutional investors might be most appropriately theorized in terms of power, generally, and resource dependence (Pfeffer & Salancik, 1978), more specifically.

Our interview analysis suggested that both corporate managers and fund managers were acutely aware of the power wielded by the latter by virtue of their control over financial and voting resources, and this was confirmed by our direct observations of their meetings. In these meetings, the senior executives of leading global corporations traveled to the offices of investing institutions, at those institutions' convenience, to face questioning by much more junior analysts and fund managers, many still in their twenties, who had no conception of what was involved in running such a company. Although it was commonplace for the corporation to field its chief executive for these meetings, it was most unusual for an institution to field even a division head, let alone its chief investment officer or chief executive. The institutions controlled the agendas for the meetings, and the settings, in luxuriously furnished paneled rooms, emphasized their power and status.

Our expectations going into the research were that in these meetings at least the institutional investors would act out the identity of owners, but this was not what we observed. The display of power was evident, but it did not need any concept of ownership to support it: resource control was quite sufficient. In one meeting we observed, the institution (part of a global investment bank) did not actually own shares in the company, but this if anything enhanced the sense of power. The message being conveyed was clear: "you badly need us to be at least potential shareholders, prepared in principle to invest, and if we do invest you will need us even more!"

Our research design allowed us to observe directly both the symbolic exercise of institutional investors' power and its impact on the managers' discourse, and in both cases to link the power with resource control rather than any rights of ownership. It did not allow us to observe directly the managers' response, but in our interviews with company managers they described many of the tactics identified by Pfeffer (1992) to employ their own countervailing power. They described the ways in which, while formally leaving the agendas for their meetings to the investors, they sought to frame the exchanges in these meetings by setting the bases for contrast and comparison. They noted how, in doing this, they drew on one resource advantage they did have, control over internal company information and analysis. They talked of carefully managing the content, timing and sequence of their communications, releasing information in such a way as to control investor perceptions of changing strategies or results. They talked of building investor commitment both to a company's direction and to its top management team, and of capturing the psychological moment for major announcements or initiatives. They also talked, more obliquely, of their efforts to divide and conquer. One political advantage that company managers enjoy over their shareholders is that while the latter wield collective control over resources they are also each others' competitors, reluctant to share any insights or information that might give them a relative trading advantage. By widening their shareholder base, while at the same time trying to build commitment at the personal level with individual institutions and fund managers, the managers sought to maximize this advantage.

Discussion

In this paper we have explored how the senior executives of institutional investors and the companies in which they invest conceptualize the activities of institutional investors, their relationships with companies and their role in the corporate governance process. Our study has evident limitations. It is exploratory in nature, and the methodology employed was designed to identify different conceptualizations, not to test one against another. Moreover, apart from the very limited observation of company-investor meetings, we were not able to observe how the accounts offered by our interviewees related to the practices they purported to describe. This was a limitation especially on the company side, where we remain unclear as to how far managers' accounts of their own exercise of power, in resisting and controlling shareholder pressures, constituted a realistic description of their actions, and how far they represented wishful thinking or defensive rationalizations.

The other main limitation of the study is geographic. For practical reasons we have based our research on companies with their primary listings on the London Stock Exchange and London-based investing institutions, and this may well have affected our results. For example, from a related study of a wider group of fund managers (reference suppressed) it appears that communications between institutional investors and companies are in some respects more open and transparent in the UK than in either the USA or continental Europe, and this may well be reflected in their conceptualizations of their relationship. It seems likely, however, that the main substance of our findings will apply in the American as well as the British context. Most of the people we interviewed work in globally operating businesses. The companies, all relatively large by international standards, have significant international and especially American shareholders, and most of the managers we interviewed routinely interact with American as well as British based investors. The majority of the institutional investors in our sample had Wall Street as well as London offices, with a commonality of practices and procedures. And while there are some legal and institutional differences, there is a general consensus that the systems of corporate governance operating in the UK and USA are essentially the same (see for example Black & Coffee, 1994; Coffee, 2001; Franks & Mayer, 1997).

The core of our findings is that while both popular and academic discourses of corporate governance are dominated by conceptualizations in terms of agency and/or ownership, these play only a secondary role in the actors' conceptualizations. The ownership model, in which investors are owners with rights and managers are fiduciaries with duties, was broadly accepted as a general theorization of the governance system as a whole, but had little practical force. When investors invoked the language of ownership it was to satisfy the political needs of their own clients rather than to make demands of company managers, and while managers recognized some kind of theoretical duty to shareholders in general, and were willing to engage publicly in ownership rhetoric, they did not see themselves as practically obligated to serve any particular shareholders. The agency model, in which investors are cast as principals and managers self-seeking owners, played no part in the managers' accounts and was invoked by investors only in very specific circumstances, such as in the context of outrageous pay settlements or value-destroying acquisitions.

In place of agency and ownership, the thematic structuring of our interviewees' accounts was dominated by two other conceptualizations. In the first place, investors saw themselves, and were seen by managers, primarily as financial traders with no particular interest in either ownership or control. They just happened to be trading in shares rather than currencies, options or bonds, and were shareholders almost by accident. Accompanying this conceptualization, implicitly if not explicitly, was that of managers as stewards, who were doing their honest best to make profits for their companies just as the fund managers / traders were doing their best to make profits for their own institutions. The investors invested, the managers traded, and in the normal course of events that was that.

In the second place, and reflecting the fact that this 'normal' course of events was never permanent, the managers saw investors as providers of scarce resources that they might at some time in the future need. From this management perspective, investors were potential providers of the additional capital that might be needed to fund an expansion or acquisition. They also provided the votes that might be needed in times of trouble, such as in a hostile takeover situation.

From the interview evidence, this latter conceptualization would appear to be the most salient in determining management actions, and to be closely linked with a framing of manager-shareholder interactions in terms of power and political tactics. This conclusion is reinforced, moreover, by our observations of company-investor meetings, in which the symbolic exercise of power by the investing institutions and the location of this power in the control of resources rather than in the moral authority of ownership are evident.

These findings suggest that the relationship between company managers and institutional investors might more usefully be theorized in terms of resource-dependence (Pfeffer & Salancik, 1978) and organizational power (Pfeffer, 1992), rather than in the more usual terms of economic agency and control or ownership rights and fiduciary obligations. Following Pfeffer & Salancik's (1978) exploration of intra-organizational politics in terms of resource-dependence and their identification of director networks as sources of organizational control over the environment, resource dependence theory has frequently been employed within the corporate governance literature to explore board roles and the relationship between board structure and performance (e.g. Boyd, 1990; Daily & Dalton, 1994; Hillman et al, 2000; Hillman & Dalziel, 2003). It has not, however, been employed in the analysis of manager-shareholder relationships. Moreover, despite the fact that the separation of ownership and control is often described in overtly political terms (Monks & Minow, 1991; Pound, 1992; Useem, 1984, 1993, 1996), there have been no detailed analyses of these relationships in terms of organizational power.

One result of these gaps in the literature is that important and widely held perceptions remain empirically untested. It is commonly held, for example, that the power of investors over managers has increased in recent years. But while this view has been vividly illustrated, for example by Useem (1996), it has not been critically analyzed. Powerful arguments to the effect that investor power has led to a 'financialization' of company strategy in which traditional product-market strategic direction has been replaced by short-term share price management (Froud et al, 2000) have enormous implications for both managers and society but again remain untested. It is evident that managers and investors are engaged in some kind of power struggle, but without studying in detail the political behaviors in which they are engaged we cannot safely make assertions as to the balance of power, nor can we say with confidence how this impacts on management decisions and performance outcomes.

Addressing issues such as these will need further research of two kinds. It will need detailed observational studies both of the processes leading up to management communications to shareholders and of the ways in which strategy-forming processes are shaped by the political context. And it will need quantitative population level studies to test hypotheses derived from resource dependence theory alongside those from agency and stewardship theories, where the resources measured are those directly pertinent to manager-shareholder relationships rather than, as is commonly the case, to board structure and executive-non-executive relationships.

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