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The Role of Institutional Investors in Shaping Market Confidence in Lens of Transparency and Accountability in Corporate Governance

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ABSTRACT

This study examines how institutional investors influence the market confidence in reestablishing transparency and accountability in corporate governance. It evaluates the impact of institutional investors on governance disclosure practices, accountability mechanisms, and the existence of regulatory gaps on market trust. It is through a synthesis of theory and practical policy implications. This study employs a comparative approach, utilising documentary analysis. It conducts a comparative study of the role of institutional investors in Pakistan and the EU, contrasting BlackRock's proactive, ESG-driven climate advocacy with Vanguard's passive engagement strategy to illustrate divergent stewardship models. This paper finds that institutional investors can significantly strengthen governance standards; however, their ability to effect change is often hindered by conflicting fiduciary interests, weak stewardship protocols, and inconsistent enforcement of Environmental, Social, and Governance (ESG) requirements, particularly in emerging markets. Limitations that have been identified as major concerns include the lack of homogeneous disclosure rules, the absence of provisions for avoiding conflicts of interest, and the limited options for utilising collective shareholder action. The work proposes specific policy changes, including the introduction of compulsory stewardship principles, converged ESG reporting standards, and innovative approaches to facilitate active and passive investor participation in governance.

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1.1 Introduction

The presence of financial markets fosters an essential dimension of governance because it necessitates institutional investors as a category that requires accountability. Such investors include pension funds, mutual funds, insurance companies, and sovereign wealth funds. Given their large investments in publicly listed companies, these institutional investors have become significant shareholders (Gillan & Starks, 2003).

Compared to retail investors, institutional investors have relatively greater time, skills, and resources to deal with corporate management on matters that affect their long-term value. Instead of remaining passive owners, they engage by voting on contentious matters concerning independent directors' elections to company boards, which are then required to disclose non-trivial information about their finances and operations (McCahery et al., 2016). Through the aid of institutional investors, agency conflicts can be largely resolved, managerial incentives can be restructured, and overall market confidence can be substantially improved. The shift in corporate governance to the institutional investor model can be attributed to several scandals like Enron, Worldcom or more recently, wirecard, who have brought out long term underperformance of corporate governance mechanisms (Coffee, 2005). The scandals that were committed by Enron and Worldcom, among others, played a great role in eroding trust among investors in the system.

Table1: Enron Scandal: Timeline & Impact

Year/Period	Event	Impact
1990s	Enron rises as America's Most Innovative Company	Investors lost approximately \$74 billion
Mid-2001	Reports of financial irregularities emerge	Thousands of jobs were lost
Oct 2001	Enron admits overstating profits by \$600M	Employees retirement savings wiped out
Dec 2001	Files for bankruptcy largest in US history at the Time	Severe erosion of trust in corporations and auditors.
2002	Arthur Andersen (auditor) convicted of obstruction	
2002+	Investors lose trust	Triggered major reforms, including the Sarbanes Oxley Act (2002

Table 2: WorldCom Scandal: Timeline & Impact

Year/Period	Event	Impact
1983–1990s	WorldCom grows rapidly through acquisitions, becoming the 2nd largest long-distance telecom company in the U.S.	Investors lost approximately \$180 billion in market value
2000	Intense competition and declining revenues put financial pressure on the Company	Over 30,000 employees lost their jobs
June 2002	WorldCom admits to improperly accounting for \$3.8 billion in expenses to inflate profits	Employees' pensions and retirement funds severely damaged
July 2002	SEC files charges; WorldCom files for bankruptcy (largest in U.S. history at that time)	bankruptcies of all the time great at that time in U.S
2003–2005	Former CEO Bernard Ebbers and top executives prosecuted; Ebbers sentenced to 25 years in prison	Severely eroded trust in corporate governance and accounting practices
2002+	Scandal contributes to corporate reforms and strict enforcement of the Sarbanes-Oxley Act	Strengthened the need for Sarbanes-Oxley-Act enforcement and stricter auditing standards

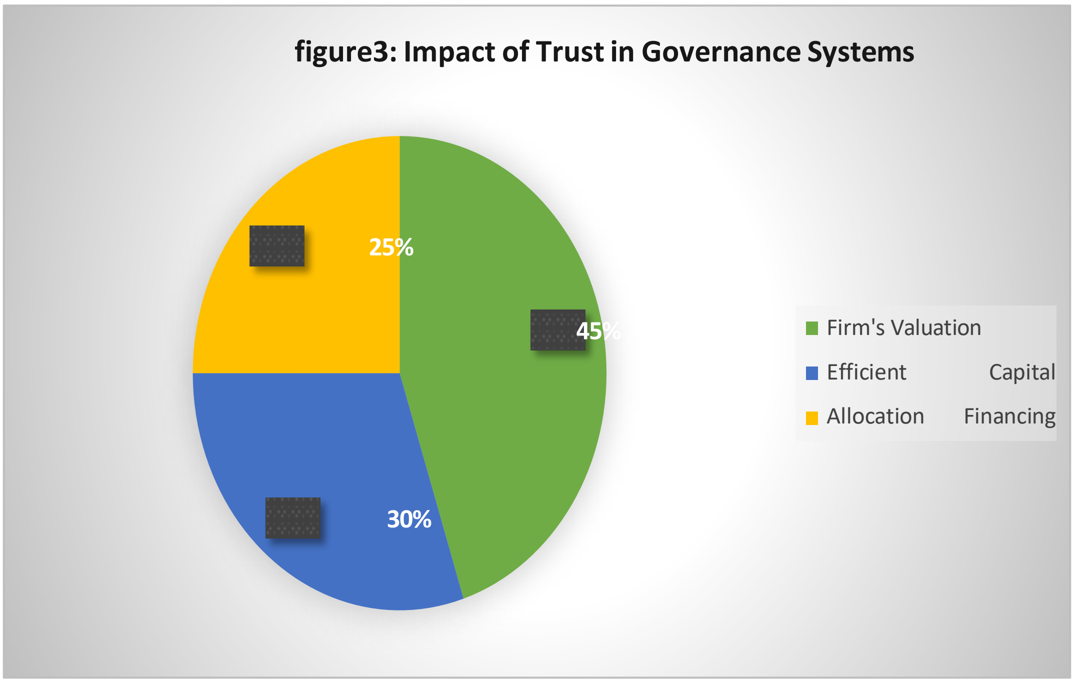
Source: Developed by the author

Tables 1, 2 showed the effect and the outcome of the world's most notorious corporate scandals that involved a lack of transparency and accountability in reporting that struck the corporations with titanic harm not only economic, but reputational as well.

These incidents highlighted the need to develop effective governance frameworks that help curb the chances of fraud, abuse of power, and unethical practices. As capital stewards, it is assumed that institutional investors are the gatekeepers of compliance with ethical standards and the laws under which a firm operates (Bebchuk et al., 2017), although doubts about their performance persist.

Other critics argue that the range of governance attention is sluggish or even absent at certain institutions. Consider the case where the investor in a diversified portfolio controls an index fund and is therefore not motivated to undertake the initiative of enforcing governance. On the contrary, activist hedge funds may also seek governance reforms to achieve a short-term rise in share prices at the expense of long-term value development. The roles of institutional investors integrate governance and accountability, which inherently demand transparency. Transparency in this sense refers to "watching over" corporate activities, which reduces information asymmetry and enables stakeholders to take action (Bushman & Smith, 2003). Institutional investors demand greater scrutiny regarding the receipts of executive compensation, ESG disclosures, and the endorsement of directors so as to ascertain whether the management acts in good faith and really intends to promote shareholder value.

Aguilera et al. (2015) defined accountability as governance in which decision-makers are presumed responsible for the outcomes of their respective decisions and actions. Institutional investors reinforce accountability in governance systems through the exercise of voting rights, shareholder engagement, and, in some cases, litigation against directors who breach their fiduciary duties to the corporation. There exists a beneficial relationship between higher levels of institutional ownership and better governance in firms with lower CEO pay and a higher proportion of independent directors on the board (Hartzell & Starks, 2003). Regardless, the degree to which confidence from institutions is maintained depends on the governance supervision provided by those institutions. Investors' perceptions and trust in the market, as well as governance systems, significantly affect corporate governance assessment and its standards. Efficient capital allocation, financing expenses, and even a firm's valuation are improved by trust in governance systems (La Porta et al.,)



Source: Developed by the Author

Figure 3 showed that the performance of the firm is enhanced relative to the efficient capital allocation, the cost of financing and the valuation of the firm

Institutional investors can reflect the quality of governance through their interactions and investment decisions, thereby shaping trust. Any reduction in institutional investments stands out as a strong indication of weak, flagrant governance that can lead to regulatory due diligence or reputational harm against the company (Ferrell et al., 2016). Stagnant, reputable firms, on the other hand, are kept on their toes by institutional investors, thus facilitating them to incorporate governance reforms that would have increased investor confidence. The jurisdiction's regulatory framework expedites the adoption.

Djankov et al, (2008) explained that in jurisdictions where legal protection rights are strong, it is those who violate laws who experience low business operations. Institutional investors are more strongly affected by rules and regulations in terms of governance change in more rigid regulatory regimes. Although institutional investors can enhance the work of the board of governors, they face numerous challenges in fulfilling their stewardship role. One of the biggest hindrances is the free-rider factor, whereby some investors seek to enjoy the benefits associated with improved governance but will not incur the costs associated with participation (investor attendance, engagement, and monitoring) (Admati and Pfleiderer, 2009). Moreover, some disputes, which might be business-related, could also arise as well with the institutional investor governance responsibility. This occurs when, for example, the asset management departments of banks invest in clients who receive services from the corporate advisory departments of the same banks (Fichtner et al., 2017).

This may sabotage institutional control and trust in the market. Furthermore, the emergence of passive investing, which supposedly involves replicating indices at low cost and with free management, has been reported to deter involvement in governance (Appel et al., 2016). In cases where institutional investors adopt a more passive approach, the number of active investors may decrease, potentially providing insufficient governance control. This research examined the influence of institutional investors regarding accountability and transparency in the corporate governance ecosystem, as well as their repercussions on market confidence. It seeks to address the gaps in institutional governance with regard to the proactive supervision of institutional investors by analysing existing literature and pertinent case studies. The results are expected to inform policy debates aimed at re-engineering corporate governance in a manner that preserves value for institutional shareholders while safeguarding market integrity and stability.

1.2 Literature and Theoretical Framework

ECG's Mechanism in Corporate Governance

The first-hand interest of institutional investors is the central focus of the newly developed research, which can examine both their role as governors and the boundaries of their intervention. The practice of attendance and voting by longer-horizon institutional investors appears to be helpful in the governance of a firm (Appel et al., 2016; Bebchuk et al., 2017). Previous studies have indicated that the higher the extent of institutional ownership, the more independent directors the organisation will have, and the lower the ratio of CEO to employee compensation, which is an indicator of monitoring (Hartzell and Starks, 2003; McCahery et al., 2016).

Conversely, however, there is also counter-evidence, which can be taken as showing that no substantive aught of enhancement which can be submitted to underpin core compliance is permitted, but only of the superficial form (Bhagat et al., 2015; Fichtner et al., 2017). Moreover, the presence of passive investment strategies makes this image more difficult due to the fact that index funds represent the typical large shareholder of such companies and cannot perform active control over them (Appel et al., 2016; Lund and Pollman, 2021). The concern about a policy on transparency and disclosure practices has been identified as driven by the prompting fact that institutional investors have been keen on in-depth ESG-related reporting (Dyck et al., 2019; Gillan et al., 2021).It has been observed that institutional investors have been incentivised by actions put in place to improve their sustainability reporting (Krueger et al., 2020). Nonetheless, the institutional investors are inconsistent in implementing ESG principles, as others ignore changes in structural governance and prioritise short-term profits (Dimson et al., 2020).

The effectiveness of engagement varies across jurisdictions, with the most effective being those where the legal protection of investors is well established (La Porta et al., 2000; Djankov et al., 2008). Comparative research findings indicate that the Shareholder Rights Directive under the EU has positively changed the stewardship obligations of institutional investors; nonetheless, they still maintain gaps between the Basel Committee's (instructions) and also show variance among the regulatory frameworks (Enriques and Zetsche, 2021). It is observed that corporate management directly interacts with institutional investors on important governance issues, such as disproportionate executive compensation (Bebchuk et al., 2015; Ferrell et al., 2016). However, the carrying of conflicts of interest, especially in asset management units serving corporate customers, hinders the functioning of governance (Fichtner et al., 2017; Brav et al., 2018). The failure of engagement with investments and the opportunity behind it (Riedl and Smeets, 2017) can be illustrated by examples, such as the relationship between the investment company BlackRock and ExxonMobil. When attempts are made to resolve these problems, a quickly growing body of regulatory oversight on the transparency of stewardship has not been evenly applied across all jurisdictions (Enriques and Zetsche, 2021; Gelter and Puaschunder, 2022).

In such cases, looser governance introduced fiduciary constructs that sought to incorporate institutional owners with longer-term horizons (Coffee, 2020; Lund and Pollman, 2021). The new governance concerning sovereign wealth funds and pension funds is beginning to attract attention (Megginson and Fotak, 2022). In addition to controlled sources of incentives, it is also suggested that defaulting to dominant conflicts of interest will predispose institutional investors to a high degree of short-term returns orientation, thereby compromising any significant changes in the governance framework (Bhagat et al., 2015; Bebchuk and Hirst, 2019).

1.3 Why Do ESG Disclosures Matter?

The present social climate is also where investors are more than ever hedging their investment policies through evaluation frameworks that examine societal, environmental, and corporate governance issues of companies. As they form investment choices, they largely overlook non-financial strategies. The ecological factor comprises the long term environmental impacts of the operation carried out by a given firm and the efforts that the firm is undertaking to manage the environment responsibly.One of the impacts that the company might face is its overall susceptibility to significant physical climatic hazards and the consequences of climate change, including its resilience in the event of potential flooding and fires, and direct or indirect greenhouse gas emission. The social component primarily focuses on business management, specifically how it handles its human resources and its interactions with the people it works with. This can include assessment and judgment of the companies, whether the wages they pay to the employees are fair, and similarly, this could be as regards the supply chain partners. This is especially critical for suppliers with operations in less developed countries, where labour regulations are generally softer compared to those in the US. Second, the governing framework of the organisation, comprising the diversity and composition of its leadership, its pay plans, and the overall amount of internal and external disclosure, as well as the quality of its shareholder rights, falls under the governance prong.In many cases, this component is analysed through the use of how well the internal accountability procedures and leadership tiers of a company align with the expectations of the stakeholders. Widely used rating systems, such as ESG ratings by various ESG rating agencies, can be used to assess this core triad, which has been central to the investment policies of most institutional investors. It is not surprising that the range of ESG-targeted investment vehicles, such as index funds, exchange-traded funds (ETFs), green bonds, and mutual funds, has expanded in popularity over the years. This is because, as shown in the diagram, there is a general understanding that a better response to an ESG evaluation may be achieved by focusing on extending initiatives that are positive influences, where disaster risks are likely to arise and hence implement solution sets that are both proactive and scalable in nature, and consequently better corporate governance.

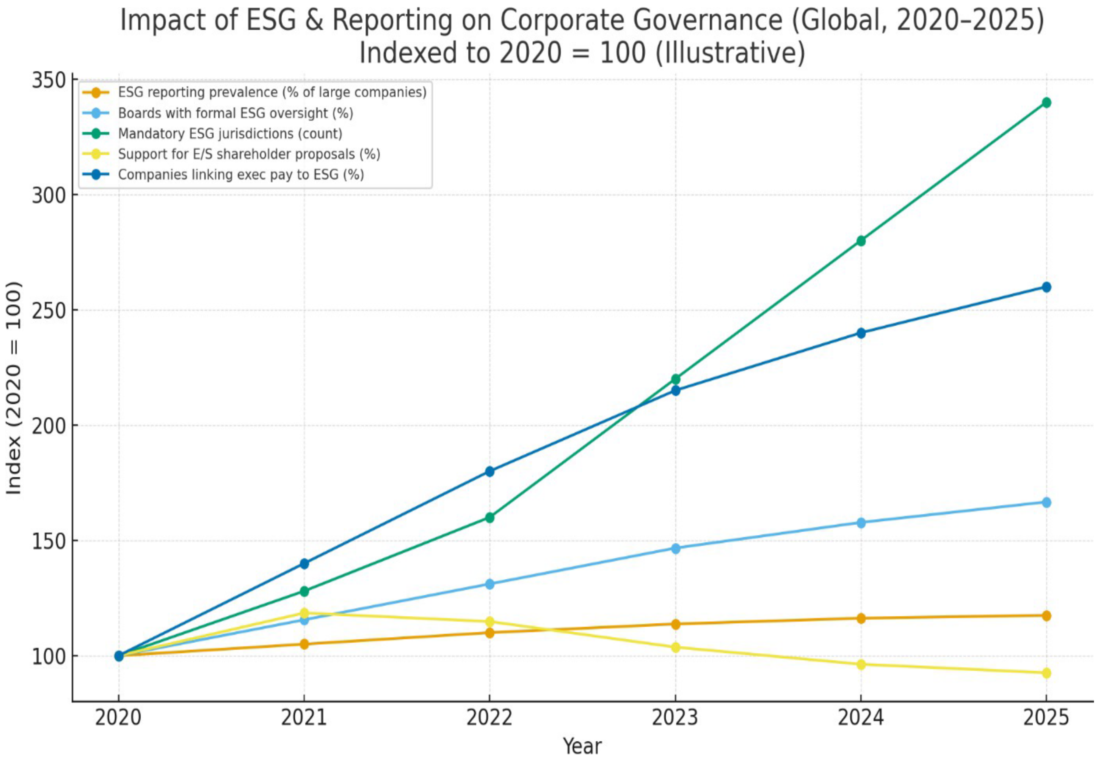


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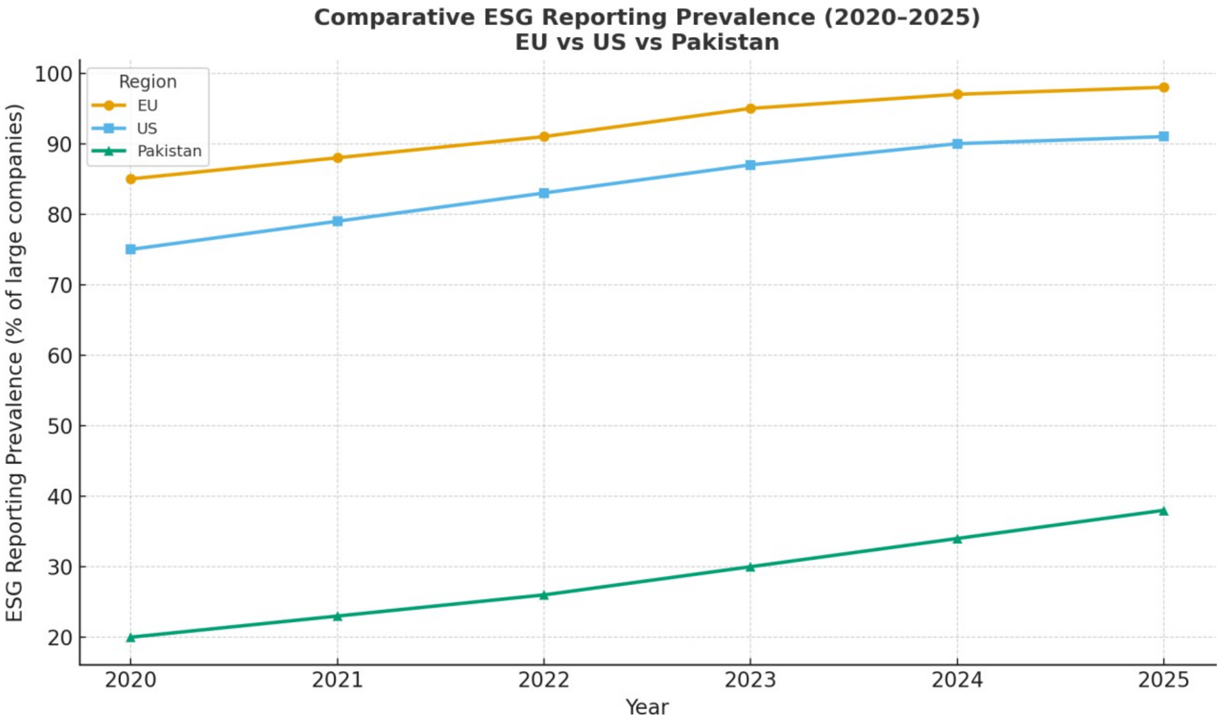
Figure 4: To simultaneously compare the governance-related indicators, the author indexed the five years 2020 = 100. This demonstrates how ESG reporting has significantly impacted and enhanced the corporate governance of companies.

Since corporate responsibility and ESG reporting have become so popular in the business world, they have not been spared of the international focus. As 90 per cent of S&P 500 businesses publish sustainability reports in 2019, ESG reporting is becoming even more mainstream despite the lack of government regulations. PricewaterhouseCoopers (PwC) indicates that at least 60 per cent of the total mutual fund assets will be ESG-centred funds by the year 2025. In addition, according to PwC, ESG-focused investment is projected to almost double by 2026, reaching up to 34 trillion, compared to the 18.4 trillion registered in 2021.

Among the key reasons why businesses consider their ESG implications, beyond the pressure exerted by the government, the increased importance of ESG considerations among regular customers stands out. It is a highly rated topic among Millennials and Gen Z employees because employers have invested the largest share of employees (55), thus, prompting businesses employing it to attract more staff, engage and retain a staff (Dyck et al. 2019). It is because the management of environmental, social and governance issues in a company demonstrates that therein lie the leadership and good governance that are so imperative in sustaining growth.

Lary Fink, CEO of investment of giant BlackRock, who also says the company is focused on increasing its integration of ESG factors in investment decisions. ESG considerations in investment choices have benefited sophisticated corporations as demonstrated internationally, particularly in the US, EU and Pakistan.



Source: Developed by the author

Figure 5: illustrates how warming up to the corporate governance in line with ESG reporting and disclosure processes occurred.

Clear-cut ESG initiatives can enhance the success of corporations, not only because it is consumer-led. The relevant cases in academic literature indicate that even after accounting for the aspect of ESG operations and considering the provisions of ESG, numerous business elements minimise the risk of downside by lowering credit ratings and prices of loans and credit default swaps, thereby reducing downside risk and realising increased equity returns. The priority that is ESG strategy and transparency can enhance the productivity of employees, prevent legal and regulatory pursuit, reduce costs, generate most out of investment and capital expenditure and contribute to the top line formation. Therefore, an advocacy of powerful and inclusive ESG regulations could be an effective measure to sustain the competitive edge of a business.

The increased attention paid to ESG reporting is evidenced by the worldwide realisation that financial data are insufficient as a mechanism for evaluating corporate performance. KPMG (2022) also shows that two-thirds of the 250 largest business organisations globally (G250) now release sustainability reports, of which 80 per cent of the reports follow the Global Reporting Initiative (GRI) framework. Similarly, approximately 60 Fortune 500 companies report climate-related risks in compliance with the Task Force on Climate-related Financial Disclosures (TCFD) (TCFD Status Report, 2022). The formation of the International Sustainability Standards Board (ISSB) in 2021 marks the further trigger of the shift toward harmonising disclosure practices.

The EU is again ahead regionally: three-quarters of companies report clear climate-related targets, typically above the global minimum standards. In the United States, convergence with TCFD is strong and voluntary, with 54 per cent of S250 companies of the S 500 metrics. Pakistan's Sustainable reporting practices have their genesis in the 25 per cent of Pakistan Stock Exchange (PSX)-listed companies that report environmental indicators, and less than 15 per cent of which disclose social data (SECP, 2023). Institutional ownership coupled with a proactive approach helped enhance the quality of ESG disclosures and raised long-term company value (Dimson, Karakas, and Li, 2015), whereas MSCI revealed lowering the cost of capital by 10-20 percent in companies with quality ESG disclosures. These findings suggest that ESG reporting fosters confidence among investors and promotes sustainable capital allocation, rather than merely serving as a compliance tool.

1.4 Accountability Mechanisms in Corporate Governance:

Many corporate governance systems of accountability have historically been the focus of accounting and finance scholars, where accountability has traditionally been understood as corporate accountability to shareholders. Internal corporate procedures about boards and board performance have been the attention of finance scholars. Research on corporate governance in finance has primarily focused on how boards and their effectiveness impact company profitability and shareholder value.

For instance, Dahya et al. (2002) examined the relationship between financial performance, a measure of management effectiveness, and senior management turnover, a measure of board effectiveness. The selection of non-executive directors and their function in overseeing business management on behalf of shareholders have been examined by others. The question of whether the number of non-executive directors is positively correlated with business financial success has been the subject of research. Another field of study has examined the board's subcommittees, such as the nominating and compensation committees, as a means to enhance the board's effectiveness (Fauver et al. 2017).

For instance, some research has indicated that the presence of compensation committees influences the amount and composition of top management compensation, while other studies have found evidence to the opposite. Crude proxies for board effectiveness include CEO duality, the percentage of non-executive directors, managerial turnover, and the presence or makeup of board subcommittees. Some academics have criticized this type of study and called for the inclusion of additional relevant metrics related to company success, including metrics of CEO involvement and competency (Christensen, Hail, and Leuz 2021).

Another relation that scholars have reviewed concerns the compensation of executives and financial performance. Several corporate governance studies have focused on takeovers and mergers and their effects on performance and these studies are the results of the pioneering research that identified takeovers as disciplinary measures on the management of firm, once again under agency theory. The other fundamental mechanisms through which corporate governance can be improved is through institutional investors.

There has been a continuous increase in the research on their increasing role as corporate management watchdogs and the evolving relationship between institutional investors and the management of their investee companies (Kang and Kim, 2010). Behaviours in accounting, such as accountability mechanisms (including audit committees, internal auditing, and risk management), serve as evidence of the wars of such calibre in financial reporting and transparency mechanisms (particularly financial reporting) that seek to harmonise the interests of management and shareholders. These are all subjects of accounting studies.

In a study by Cohen et al. (2023), the authors studied the relationship between firm governance procedures and the quality of financial reporting. In their review article, they consider the relationships between executive leadership and boards of directors, auditing committees, internal and external audit and the financial reporting quality, as such, is the heart-of-this this special issue of the Accounting, Auditing and Accountability Journal.

They were also well aware of the influence of shareholders, financial professionals, and regulatory authorities, such as lawmakers, judges, and the stock exchange. However, this special issue works in consideration of responsibility issues that exceed Cohen et al. (2023) focus on financial reporting. Openness mechanisms such as accounting, financial reporting and voluntary disclosures have been two aspects of research of corporate governance.

1.5 Financial Reporting, Disclosure, and Information Efficiency

Institutional investors can significantly influence financial reporting, disclosure, and the effectiveness of information distribution by enhancing corporate transparency. Guedhami, Pittman, and Saffar (2009) are among the pioneers in examining the relationship between shareholder identification and quality financial management in a global environment. They include 48 (n=48) banks and 32 (n=32) privatised businesses tied to 48 different countries in their sample. They find that the higher the foreign ownership in a company, primarily through institutional investors, the greater the chances of it engaging a top auditor. Their results also show that the relationship is enhanced when the governance structures at the national level are rather weak.

Fang, Maffett and Zhang (2015) studied the role of institutional investors in the US in the development of global financial reporting convergence. Their sample comprises data on firms in 20 developed economies, as well as in emerging markets, between 1998 and 2009. They find that the higher comparability of financial reporting among the emerging market companies and their US counterpart, the higher representative of the former of ownership of the US mutual funds. This effect is amplified in economies with lax regulatory regimes, where FIIs encourage standard behaviour through the hiring of a Big Four auditor. This means that US institutional investors, most notably those in countries with weak governance structures, are catalysts for the increase in financial reporting requirements.

Miller et al. (2021) examined the effect of institutional investors on the objective of maintaining the bank profits in the period in 2007 to 2018 in an almost 800-sample of the publicly listed banks in 45 countries. They found that, institutional ownership was negatively related to the management of bank profits. In nations, its impact is more severe in case of tightening and augmenting transparency and regulative demands. It is interesting to note that domestic institutional investors perform better than their international counterparts in managing bank profits. This highlights the impact of proximity and local capabilities on improving governance. It also dwells upon the importance of domestic institutions.

This means that they understand the local conditions better and, therefore, have a better ability to oversee the activities of the banks and appropriate reporting of earnings, which reduces systemic risk. Tsang, Xie and Xin (2019) also contributed to the understanding of how voluntary disclosure is formed through the efforts of voluntary managers. Their sample includes firms from 32 non-US countries between 2003 and 2011.

They discover that lack of transparency does not stop voluntary disclosures; on the contrary, more tactical and informative management forecasts of it indicate effective use of FII. This beneficial effect is most potent in cases when they are Long-term investors and represent areas with a better corporate governance framework and in the case of the disclosure champions. On the other hand, voluntary disclosure is worse in the context of representatives of financially principles of weaker disclosure laws.

Consequently, the origin of stakeholders is key in determining the transparency at the corporate level. The results can be compared to the article by Lel (2019), which found that FIIs encourage accountability and transparency through improvements in board oversight. The view of Chen et al. (2017) was further supported by demonstrating that FIO enhances investment efficiency by reducing managerial opportunism and increasing surveillance. It can thus be used to counter agency issues as well as information asymmetry.

With a sample of 506 privatised firms and an analysis of 64 countries, they end up with a similar conclusion that FIO brings on more efficient investment. This is more effective in less developed governance institutions where the entry of foreign investors is vital in closing governance gaps and enhancing surveillance capacity. These results support the importance of FIIs. They uphold higher governance standards and transparency in the decision-making process, particularly in areas lacking local governance mechanisms (Anton and Lin 2020).

Taken altogether, these studies reveal the heterogeneous dimension of the contribution of the institutional investors in quality improvement of fiscal reporting, disclosure and efficiency of information.

However, one is noteworthy in that US institutional investors are more likely to encourage global convergence in financial practices through greater comparability and uniformity of reporting. Nonetheless, domestic investors also have a significant role to play in close attention to earnings management in the financial institutions. This study also highlights the role of investor origin: foreign investors in higher governance jurisdictions tend to increase the transparency of the company; those in lower governance jurisdictions may unintentionally reduce the quality of disclosure.

The issue of institutional ownership has increased significantly worldwide, becoming a hallmark of the global financial markets. This massive growth has changed the pattern of corporate governance, and institutional investors have become driving forces in the behaviour of firms and market efficiency. There has been an increase in institutional ownership in major markets. Institutional investors owned over half of the equities of US-based companies in 2015 (Doring et al. 2021a) and almost three-quarters by 2020, according to OECD data (Medina, de la Cruz, and Tang 2022).

US market has significant institutional ownership of 68% as Table 1 indicates. It is motivated mainly by domestic investors who have the majority market (57) against the foreign institutions which are only 11. This trend as elected points to the further assertiveness of depressed investors in the US financial markets. Mainly, institutional ownership is low outside the United States. Nevertheless, market capitalisation values of 20% or above are reached in most countries, with small percentages of at best 0% in Bulgaria, Saudi Arabia, and Lithuania, and high percentages of above 40%, which are mainly found in the United Kingdom, Canada, and Iceland.

To sum up, the United Kingdom has a relatively equitable institutional presence, with 32 per cent occupied by non-domestic and 29 per cent by democratic investors (61 per cent composite). Likewise, Canada is highly institutionally engaged at 47, with a nearly even divide between non-domestic and domestic intense engagement (23 and 24). This is because the economies of the largest EU markets, which include France, Germany, Italy, and Spain, are in the medium range, as indicated by Table 1. Institutional investors in such countries took between 20 and 30 per cent of the market capitalisation at the end of 2020 (Bas et al. 2023).

The strong standing of these countries is primarily attributed to their well-developed legal and regulatory environments, as well as a higher level of transparency, which mitigates information asymmetry and enhances investor trust (Leuz, Lins, and Warnock 2009).

Additionally, high-level corporate governance practices are prevalent in these markets, which in turn appeal to institutional investors seeking stability and robust oversight systems (Gomers and Metrick 2001). Institutional ownership in the developing world, Mexico, Chile, and Turkiye, in contrast, falls between 15 and 25 per cent of market capitalisation. To illustrate, the role of institutional investors in Mexico is only 20%, compared to non-domestic ownership at 13% and domestic ownership at 7%. This suggests that Mexico continues to face challenges in attracting foreign investment. Weak or compromised governance structures, market volatility and low levels of transparency usually discourage institutional investment. Investors are more sceptical in markets prone to shareholder protection and governance arrangements that are underdeveloped, often found in such areas (Ferreira and Matos 2008).

Additionally, international investors in emerging markets continue to face a liability barrier due to their foreign status. Developing markets face a higher challenge in generating the institutional engagement levels needed to bring about governance improvements due to cultural differences, divergences in regulatory environments, and limited knowledge of the host country market (Doring et al., 2021b; see Brockman et al., 2024, for a literature review on the capital market-related liability of foreignness). Such variation in institutional ownership between developed regions and developing countries reveals the relevance of institutional maturity, governance, and investor protection in making institutional decisions that can be damaging on the global map of institutional investment.

Table 3: Ownership by institutional investors around the world, end of 2020

Country	**Foreign**	**Domestic**	**Total**
Bulgaria	0%	1%	1%
Canada	23%	24%	46%
Chile	6%	6%	12%
China	3%	8%	11%
Colombia	6%	10%	16%
Croatia	1%	9%	10%
Denmark	27%	9%	36%

Estonia	7%	4%	11%
Finland	21%	10%	31%
France	21%	6%	27%
Germany	23%	7%	30%
Greece	14%	2%	16%
Hong Kong (China)	15%	3%	18%
Hungary	26%	6%	32%
Iceland	16%	51%	66%
Argentina	10%	0%	10%
Australia	16%	11%	27%
Austria	15%	8%	23%
Belgium	33%	2%	35%
Brazil	17%	9%	27%
India	13%	9%	22%
Indonesia	8%	1%	8%
Ireland	48%	1%	49%
Israel	14%	17%	31%
Italy	25%	4%	29%
Japan	15%	15%	30%
Korea	15%	3%	18%
Lithuania	2%	0%	2%
Mexico	13%	7%	20%
Netherlands	37%	3%	40%
New Zealand	16%	5%	20%
Norway	18%	12%	30%

Poland	19%	16%	35%
Portugal	21%	2%	22%
Romania	7%	9%	16%
Russia	10%	1%	11%
Saudi Arabia	1%	0%	1%
Slovenia	7%	1%	8%
South Africa	19%	11%	31%
Spain	24%	2%	25%
Sweden	19%	19%	38%
Switzerland	26%	6%	33%
Turkey	5%	4%	9%
United Kingdom	32%	29%	60%
United States	11%	57%	68%

1.6 Legal and Regulatory Frameworks for Transparency

Corporate and Board Governance Accountability: Two of the two corporate governance pillars that directly influence market confidence are accountability and transparency. Transparency involves the process of providing the relevant information in an accurate manner and in time to and to the resources that found it, at the same time accountability implicates the boards and the executives in the process and their decisions. Given the size and the amount of power that institutional investors possess, they can resort to such mechanisms as well and accept some system of assessing the quality of the governance and the alignment of the flows of capitals ((Barg et al. 2024).

International regulatory and market regimes, which have intensified their focus on transparency and accountability since 2020, continue to vary significantly across jurisdictions. A highly dynamic European Union (EU) legal environment has made transparency needs very acute. First, the Non-Financial Reporting Directive (NFRD) was mandatory to the comparatively large companies of the size that mostly had to disclose non-financial information. But the future has introduced the Corporate Sustainability Reporting Directive (CSRD), to assist the sustainability reporting to reach nearly 50,000 businesses, and therefore about 75 percent of the spillover in the EU business turnover. In turn, 93 percent of large EU companies already report that is ESG-oriented (KPMG, 2022). Using this strong regulatory impetus, the EU has become the leader in the disclosure of sustainability awareness intention both at the global stage.

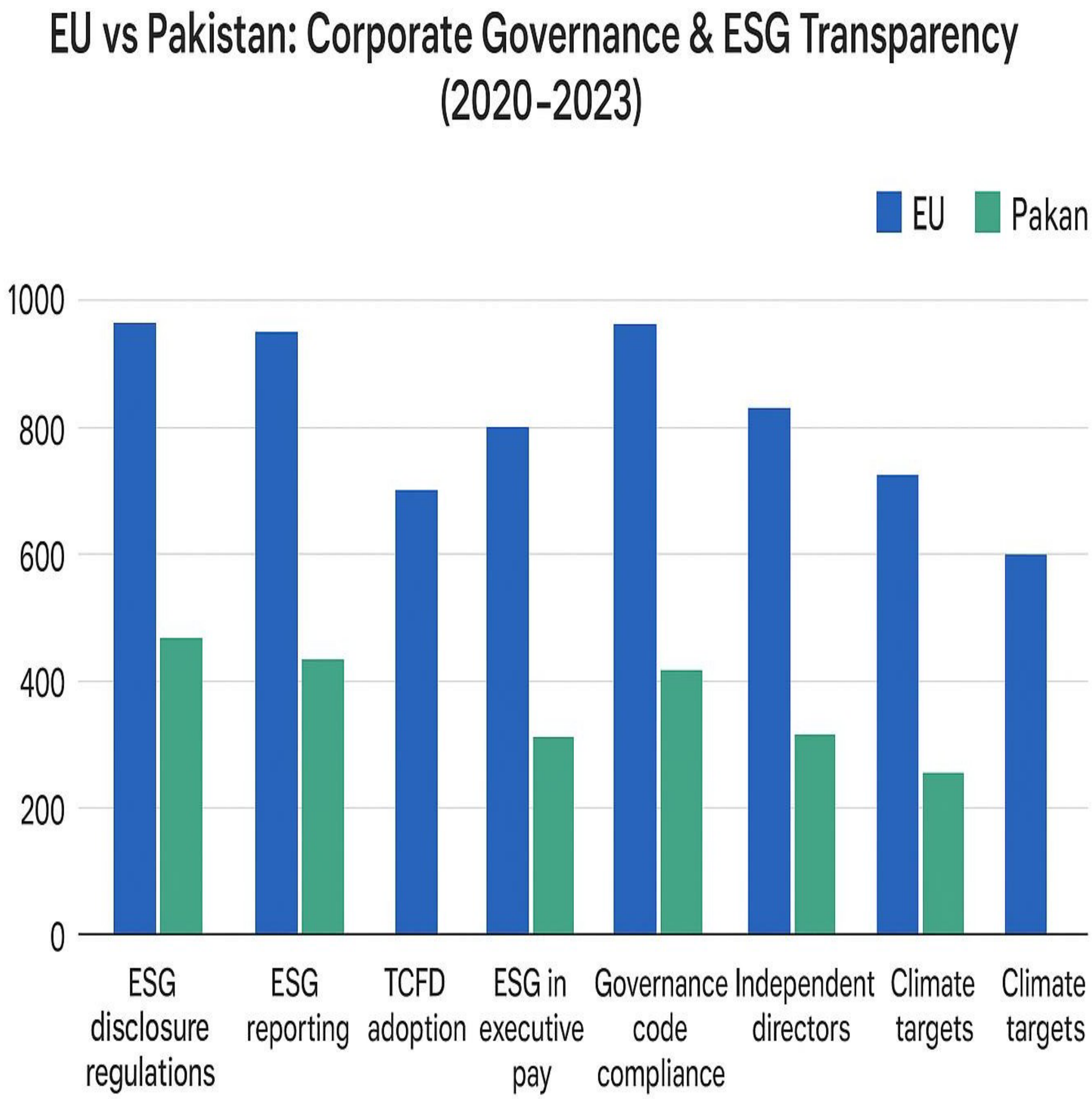
The United States was more decentralised, and the practice of regulation was becoming increasingly stronger. Securities and Exchange Commission (SEC) regulation in 2022 has also mandatory climate-related disclosures, including Scope 1 and Scope 2 emissions and voluntary Scope 3 proposed (disclosure is more material) (where reporting is more important). Already, the market practice shifted toward voluntary reporting, and 92 per cent of S&P 500 businesses publish sustainability or ESG reports already in 2021 (Governance & Accountability Institute, 2021). Not all of this is therefore disclosed due to the absence of a federal ESG disclosure law that would enable comprehensive communication of these details. Compared to the EU, the practices provided by the U.S. constitute more of a market-driven practice.

In Pakistan, it has been slower at the regulatory level. In a provision of the Securities and Exchange Commission of Pakistan (SECP), the 2019 Listed Companies (Code of Corporate Governance) Regulations is a project that necessitated the addition of independent directors and an audit control unit to improve information transparency. In turn, the SECP developed Guidelines on ESG Reporting in 2021, a step towards integrating sustainability into corporate governance. However, this has not been a general practice: in 2023, 38 per cent of the top 100 listed reported ESG-related information (SECP, 2023). This highlights the regulatory aspirations and structural challenges of promoting transparency in an emerging market environment. Development and supervising boards also provide a great deal of operationalization to the corporate governance accountability. It is no longer a privilege in a firm, and this means that currently 86 per cent of the companies worldwide have independent directors on their boards (OECD, 2020).

A perception that governance is made stronger by non-reflective controls. Many jurisdictions in the EU, and in Pakistan SECP In several jurisdictions, such as the

EU and the SECP requirement of board Independence and gender diversity Learn more Laibarth This is optional but has become mandatory in specific places Req board 2 ind director, or 1 3 board In certain jurisdictions SECP required a hefty majority is mandatory per hefty majority requirement.

Such audit committees are highly necessary to give a feeling of responsibility that there is integrity in the reporting of finances. In the U.S. Sarbanes-Oxley Act of 2002 institutionalised the independent audit commissions and the laws in the EU state that statutory audit commissions shall be imposed on entities that are of the public interest. The remuneration committees that make the executive remuneration based on the long-term value addition to the shareholders also support accountability. Interestingly, institutional investors also tend to demand that compensation is based on ESG performance attributes: by 2021, 72 per cent of S&P 500 companies had factored in ESG-based characteristics in pay premiums (Harvard Law School Forum on Corporate Governance, 2021). Comparatively, the rate of introduction of the practice is also less in fewer than 10% of Pakistani firms (SECP, 2023). The compliance similarity between EU and Pakistan is indicated in the graph.



Source: developed by the author

Figure 6: Comparison of ESG transparency and corporate governance between the EU and Pakistan (2020–2023), highlighting the EU's regulatory-driven leadership versus Pakistan's limited but evolving adoption

1.7 The Discussion and Analysis

BlackRock has demonstrated how coordination at the institutional level of climate advocacy can transform governance in oil and gas companies. With its significant stake in the asset management sector, BlackRock leveraged the remedy to demand climate risk disclosure and adjustments in the business strategies of ExxonMobil and Chevron, in line with the Paris Agreement (Eccles et al., 2020). BlackRock has utilised a combination of contingent and non-contingent supportive approaches, such as shareholder resolutions and personal and visible engagements, to encourage various significant energy firms to align with TCFD-aligned ESG reporting commitments.

One of the changes observed as a result of the leadership change at ExxonMobil was the introduction of new emission and reduction reporting objectives, along with the appointment of a climate-conscious board member. This turnaround can be attributed to the research by Riedl and Smeets (2021), who positioned the firm's commitment to sustainability as a strategic investment in 2020. Moreover, critics contend that, although transparency measures were advanced as a response to reduce counter-fossil fuel divestment, there were no positive outcomes from shifts in operational activities in the areas of operational engagement (Fink, 2021). This is used to demonstrate the conflict between client expectations and the regulatory constraints of fiduciary duty, which assumes a linear relationship based on the universal ownership theory. According to this theory, most large investors are believed to internalise systemic risks, such as climate change (Dimson et al., 2020). The conclusions demonstrate that governance systems can resist the changes imposed on them by the institutional consumers. However, the reforms that the government undertakes concerning governance are also likely to hinge on the level of compatibility between the financial incentives and the long-term governance norms.

The case illustrates how BlackRock influences asset managers in the industry, and the other competitors, Vanguard and State Street, implemented stricter climate voting policies following BlackRock, which led to a response in the industry (Krueger et al., 2021). In any case, the conspicuous differences between the emissions reported and the actual cuts render the entire governance model established ineffective. This means that such governance, although it exists.

The indexed ownership of Vanguard generates in the company a challenge of agency of the institutional investors have engaged at all times as active governors. Vanguard is an enormous asset manager in the world and its business is to market index funds that track indices. Consequently, stock selection does not occur on the basis of governance or performance. This model restricts the firm from engaging positively with underperforming firms, as the investment methods based on passivity ensure that it holds investments in poorly governed or underperforming firms. The passivity of its investments effectively challenges Vanguard because it is difficult to dispose of these poorly managed companies without breaching its index-tracking rule. The dilemma here is that Vanguard's fiduciary duty to provide low-cost returns is in conflict with the capital structure of conducting research to avoid exposure to corporate governance risk. Vanguard attempts to bridge this divide by establishing a steward team to work with the portfolio companies, with the hope that they can be brought into governance matters. It is, however, criticised that the engagements are too limited and are therefore more limited than those of active or even activist investors. The timidity of the corporate system in undertaking governance reforms renders the decision of Vanguard regarding the expedient form of action (privacy or confrontation) moot.

The model poses challenges to the aspects of whether passive investors can discharge their fiduciary duties and making any meaningful governance at the firm level at Vanguard. One, low cost index funds allow Vanguard to offer low-cost index funds to millions of customers to execute fiduciary duties to establish and sustain value at low cost. The passive mode of Vanguard, on the contrary, can be a cause of governance malaise by investing in poorly managed firms that have a billion years of underperformance. It is of particular concern to industries with systemic governance failures, such as the banking and energy sectors, where a lack of scrutiny may lead to significant financial or environmental harm. Other researchers argue that since passive investors, such as Vanguard and other large fiduciary managers, hold outsized ownership positions in a marketwide capacity, they are, to some extent, a permanent shareholder. Accordingly, they have a skewed responsibility to engage. Nevertheless, the relatively small proportion of expenditures made by the firm on stewardship resources suggests that it does not actively engage in governance.

The stewardship of their assets is aligned with Vanguard's organisational structure. For example, to influence firms, active managers can use the threat of selling shares as a means to an end. Index-based investing is a sinister approach, meaning that the only trend is the talk, since it cannot be divested. Being certain that some state can be achieved through private work, there is no transparency in a state campaign, and thus, they are unable to determine whether Vanguard's activity is fruitful or merely one-sided. The stock voting history of the firm indicates that the controversies it engages in include governance-related features, such as board independence and executive compensation, which increase at an excessive rate. These conflicting proposals suggest that in some of these spheres, Vanguard is attempting to prevent change and maintain stasis, rather than promoting movement that would strengthen the status quo.

Findings and Conclusions

The corporate governance challenges have continued to gain prominence with the widespread adoption of passive investing. Pyramidal firms such as Vanguard deal with index funds are attracting increasingly more market share and this phenomenon seems to diminish the number of serious investors in the corporate governance universe. The classical method of correcting market inefficiencies by utilising exit threats, ownership and punitive price signals becomes ineffective in situations where active ownership and oversight are limited. This is not desirable as this compromises the organisation of corporate governance in a scenario where investors owning a disproportion of equity in a given company do not have an incentive to control the governance or take action. Changes proposed by some regulators and scholars include passive managerial structures, which require that engagement activities be disclosed, leading to further descriptions of activities under this structure. Other modifications introduce making it mandatory as there are more specific fiduciary requirements that compel one to emphasise long-term governance in order to restrain passive management. But all such changes are controversial.

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