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Active and passive investors and their impact on corporate governance.

All over the world the different companies have a similar set of corporate governance problems. Everyone wants to improve the effectiveness of internal and external control mechanisms. The active and passive investors, obviously, have a great impact on corporate governance of each company.

One of the external control mechanism is investor activism. How far can institutional investors bring about improved corporate governance in the companies in which they hold shares, and what impact does this intervention have on the performance of those companies? Nevertheless, we will attempt to understand the role of passive investor and what it, actually, leads to? To some changes in corporate governance and performance or to that passive investors simply tend to hold stocks?

Academics are skeptical as to whether a scientific link can be proven between effective governance and performance [1], as the study of these effects is constrained by methodological issues. But some practitioners underline, that there is indeed a strong positive link between good corporate governance and firm performance. Thus, we have solid evidence, that improving and encouraging increased shareholder activism is on the legislative agenda. There are some forms of investor activism as organize a very costly proxy fight, which on average has a positive effect on the share price, voting campaigns and voting initiatives. In voting campaigns, investors vote against proposals by the management, while in voting initiatives investors put proposals of their own to the shareholders. The last one is the most common form of institutional activism [4].

Today activists are more likely to push a company to accept an acquisition offer,

sell off certain parts of its business, or improve operations. That means they are helping to drive strategy. Research shows that activists apparently make companies more profitable and productive. And although their intervention may be followed by a decrease in research and development (R&D) expenditures, the companies appear to become more innovative in the years following. [2]

At this point, let us turn our attention to the passive investors and the results of some researches. The passive investors affect firm governance in several ways. On the other hand, an increase in passive ownership is associated with a statistically significant increase in the share of independent directors on firms' boards. In addition, firms with higher passive investor ownership were more likely to remove firm takeover defenses.

The results point to that passive institutions influence firm governance primarily through the power of their voice. An increase in passive ownership is associated with a decline in support for management proposals and a boost in support for shareholder proposals. Basically, when passive funds make up a larger percentage of the ownership, management appears to be confronted with a more contentious shareholder base.

There is evidence that passive investors are taking these actions with the belief that improved governance will eventually lead to improved performance and, ultimately, shareholder value. Surprisingly, but passive ownership is associated with higher profitability and firm value.

The passive investors always try to choose own way in their actions. But, nevertheless, it is solid evidence that passive investors are improving firm performance by advocating for proven governance reforms that require a low level of costly monitoring on their part. While not active in the traditional sense, passive investors are not passive owners. Even without the power of exit they are leveraging the power of voice in their growing voting blocs to shape firms' governance and policies. [3]

Finally, we should put emphasizes on an important area for future research - rise of hedge funds. These are increasingly at the forefront of shareholder activism. Hedge funds have gone as far as launching their own hostile takeover bids. It may be that, by leading the charge, hedge funds will encourage many of the more traditional institutions to become more activist.

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Innovations in financial services

The purpose of this thesis is to consider innovations in financial services. It is particularly concerned with exploration of the transformative potential of new entrants and innovations on business models in financial services. The group of experts from World Economic Forum set out three major problems that have prevented a comprehensive understanding of the state of disruptive innovation[1]:

- There is no common taxonomy or understanding of which innovations are the most relevant;
- There is no clear understanding of the evolutionary path of emerging innovations;