

Literature review on shareholder engagement activism and corporate performance

[Law](#), [Criminal Justice](#)



Introduction

Corporate governance has picked up a much higher profile in the recent two decades. This has been attributed to the rise of different corporate embarrassments and collapses. Corporate social responsibility (CSR) is presently becoming a part of standard corporate governance because of the fact that an organization can't - in the long-run - work in seclusion from the more extensive social order in which it works (Mallin, Chris A. 2013). This view is supported by Sir Adrian Cadbury: 'The broadest method for categorizing corporate governance is to say that the proceeded presence of organizations is dependent upon an inferred knowledge between business and social order or the agreement between social order and business is that organizations should not seek after their prompt benefit targets based on long-term term diversions of the society'.

Shareholder Activism and Corporate Performance

Shareholder activism refers to the mechanisms by which shareholders use to assert their powers as company owners to affect its behavior. Activism tackles a wide spectrum of activities. It includes exit, private talks or public discourses with corporate management, blogging, press campaigns and other electronic ways of public exposure, openly engaging in talks with other corporate shareholders, putting forward their resolutions, calling their meetings and -finally - replacing individual directors or even the entire board. On the other hand, Solomon, J. c (2010) defines corporate governance as the procedure by which associations are guided, regulated and considered answerable. This infers that corporate governance envelops the power,

responsibility, stewardship, authority, heading and control practiced currently supervising associations.

In some instances, shareholder engagement is directed against large shareholders and not against directors. This activism may be collaborative, specifically when it is carried out in private.

Shareholder engagement may be looked at as a euphemism for uninformed, disruptive and populist at AGMs and in its most extreme form, is seen to be an extortion scheme. In contrast, it may be argued that institutions with engaged and active shareholders are likely to uphold effective corporate governance activities and ultimately become successful in the long-run more than those who are left on their own to do what they choose (Tricker, R. Ian 2012). Therefore, shareholder actions and not antics could be immensely powerful towards ensuring the practice and enthronelement of good corporate governance.

Organizational shareholders play an important role in good corporate governance by monitoring and influencing corporate strategic decisions and direction. Indeed organizational shareholder activism as a mechanism for monitoring is emerging to be influential in altering corporate governance practices. Organizational shareholders monitor not only their investments but also paying close attention to the policies of management (Goergen, M, Renneboog, L and Zhang, C., 2008). Monitoring describes both formal and informal ways organizations look to affect the performance of institutions. Monitoring ranges from informal responses to a critical situation. Monitoring goes hand in hand with activism, the latter being the steering wheel.

The field of organizational shareholder engagement has been taken over by

public pension funds plus hedge funds. (Judge et al, 2010) For example, in the United States, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and the California Public Employees' Retirement System (CalPERS) continue to lead the way in shareholder activism. For the afro-mentioned organizations, organizational shareholder activism gives a lens by which the legal needs of activists are channeled so as to attain governance reforms. This lays bare the governance activities which are considered favorable, appropriate and in shareholders' best interest. For instance, the wide spectrums of governance reforms which have formed a good part of organizational shareholder proposals include poison pill, confidential voting, executive compensation, corporate takeovers and independence (Thomas 2007).

However, the not so hard issues pursued continue to be a topic of great debate as (Bainbridge 2005) argues that part of the agenda covered by institutional investors displays little effort is put into the discipline of activism. On the other hand, establishing the best governance reform agenda in the most appropriate legal framework proves to be a challenge. Thus, not only are organizational shareholder efforts misdirected but also very minimal results are obtained. For example, whilst organizational shareholders are interested in making sure that there is fair representation of independent and non-corrupt directors on the board, there is no evidence that the existence of independent directors increases financial performance. In contrast, Ravina and Sapienza (2009) find great evidence that fair and independent directors are at times privy to information that provides them a competitive edge, which in turn allows them to attain abnormal returns from

their sale of stocks. Normally, this evidence is supposed to inform decision-making as this makes it known that directors may also be opportunistic giving priority to their goals over shareholders (Bebchuk and Weisbach 2010). On executive or strategic compensation, regardless of the evidence with regards to the abuse and slow but sure rise of the latter (Kaplan 2008), institutional shareholders lack the power to execute changes since voting outcomes on directors' pay is not binding. This is the increased situation in the USA, the UK, Netherlands and third world Nigeria (Cziraki et al 2009; De Jong et al 2006). Though in some instances, institutional shareholders have succeeded in pressuring directors into reconsidering their once stringent proposals on executive compensations.

Whilst organizational shareholders may find it in their best interests to re-evaluate their engagement strategies with corporate governance and performance, it should be recognized that varied factors such as legal rules may hamper effective organizational shareholder activism (Robert Wearing 2005). These impediments are led by various factors that may be classified into the stringent corporate governance plus non-corporate governance led factors. The former corporate governance led factors are hinged on the regulatory and legal framework. For instance, (Bainbridge 2005) noted that legalities have restricted organizational shareholders' practices in relation to the monitoring and influence of corporate decisions in US. Regulations with regards to insider trading have led shareholders to becoming more cautious, discouraging shareholder co-ordination and communication. Netherlands is facing similar legal obstacles where only directors can sponsor proposals, though a shareholder has upwards of 2% stake in the particular company

(Cziraki et al 2009). In summary, the legal environment may constrain organizational shareholders from the active monitoring of a firm's governance.

There exists three vital non-corporate governance led factors, including conflict of interest, protection of relations regarding business, as well as activism costs constitute the central driving forces which influence organizational shareholder willingness to take part in activism. First and foremost, (Bebchuk, L, Brav, A and Jiang, W., 2013) all pay reference to pressure sensitive organizational shareholders who consider the protection of the relationships of their business as priority over the issue of governance. According to Brav, (2013) organizational shareholders show greater preferences for the maintenance of a good business rapport with their preferred companies and this in effect supersedes their responsibility of trust to their clients. This stance may be explained by the lack of suitable legal framework to reduce the conflict of interest in the many jurisdictions. Activism costs may prove to be a hindrance to corporate shareholder involvement in the monitoring process (Goergen, M, Renneboog, L and Zhang, C., 2008). The small issue of cost becomes even more apparent when organizational shareholders encounter tribulations and risks to their greatly worked for reputation. The shareholders also evade bearing the heavy cost of activism in instances that they believe it may cause harm to their profits.

Some other negative effects of Activism include the following,

Active shareholders;

- May not correctly read the situation at hand of a particular company.

- Might not have the aptitudes or the experience.
- Can support value diminishing arrangements.
- Can seek after objectives other than share value expansion.
- Might be translated negatively by the business sector and or business environment.
- Are frequently driven by self motivation and preservation.
- Most of the times are found to deplete firm assets.
- Are incapable and have irrelevant effect on strategies, operations and qualities.

Regardless of the above effects, shareholder activism is by and large proposed or supported in light of the fact that it can make social change (Becht, M, Franks, J, Mayer, C and Rossi, S., 2006). Anyhow how viable are various types of activist crusades prone to be in this respect? This article diagrams the full extent of diverse courses in which shareholder activism could have an effect via deliberately experiencing, in the first place, all the more particular lines of action typically incorporated under the shareholder activism umbrella and, second, the sum of the distinctive routes in which it has been proposed that these could impact the activities of business organizations. It is contended that - although much more observational examination is required in the territory - there are in any event hypothetical explanations behind suspecting that it will be difficult to impact organizations through the standard movements of indexing or voting on shareholder resolutions. However, some elective procedures open to activists may allow them to expand their adequacy. It is specifically argued that even distinctive speculators might push for corporate change through conceiving a

drastically self-conciliatory fight that devises a workable plan to get the consideration of effective compels outside the corporate spectrum

Conclusion

According to Goergen, M, Renneboog, L and Zhang, C., (2008) it is evident that shareholder voting and stock market reaction are dependent on the issues addressed by the proposals and the identity of the respective proposal sponsor. It also gives the idea that shareholders make qualifications on the premise of suggestions and backers in the voting process. Suggestions regularly supported by investors such as official remuneration, executive proprietorship, and the confinement of chief terms gain low voting support, and accordingly are definitely not observed by different shareholders as being effective enough in influencing corporate administration to seek reform. The comparability of issues and voting comes about crosswise over institutional investors and facilitated assemblies prescribes that they act as substitutes in applying weight to managers.

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