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### FRAMEWORK OF SHAREHOLDER ACTIVISM: REVISITING THE REVIEWS OF LITERATURE

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#### **Abstract :**

The concept of shareholder activism has been becoming very popular in the last decade of last century. No more clarification on the ground of definition is required but there is a strong demand to provide proper framework for the better understating of the phenomenon of the shareholder activism. For this purpose, the detailed review of literature in the field of proposed study has been carried out. This paper tried to propose the framework of the shareholder activism with for stages; first, reason for activism, second, action taken by the shareholder, third, action taken by the management and fourth, the result.

Keywords: Activism, Framework on activism, Shareholder, Shareholder activism,

#### **Introduction**

Shareholder activism is a way that shareholders can influence a corporation's behavior by exercising their rights as partial owners. Classes of shares allow for distinct voting privileges, in addition to dividend entitlements. "Activism" represents a range of activities by one or more of a publicly traded corporation's shareholders that are intended to result in some change in the corporation. The activities fall along a spectrum based on the significance of the desired change and the assertiveness of the investors' activities.

On the more aggressive end of the spectrum is hedge fund activism that seeks a significant change to the company's strategy, financial structure, management, or board.

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Shareholder activism refers to investors' influence on firms' policy through the use of an ownership position. Shareholder activism involves the efforts of the shareholders to bring about a desired change in the operations of the company or to influence the management in governing the company to protect the interest of the shareholders.

Shareholder activism is considered to be a set of proactive efforts from the view point of the shareholders to change firm practice or techniques or governance rules. It indicates the efforts on the part of investors to influence the behavior of management in leading the company. Activists are "often viewed as investors who, dissatisfied with some aspect of a company's management or operations, try to bring about change within the company without a change in control." Activist investors can be contrasted from passive investors, who rarely participate in corporate decision-making.

### **Shareholder activism - Indian Scenario**

In India, the Companies Act 2013 is the main source of law relating to shareholder activism. In addition to the Act, regulations framed by the Securities and Exchange Board of India (SEBI) also provide rights and remedies to the shareholders of listed companies. With the enactment of the Companies Act and subsequent developments, the law has been updated to further facilitate shareholder activism.

Under the Companies Act 2013, shareholders' approval is required for dealing in certain matters. Shareholders can bring a class action suit against the company, its directors and third-party advisers. They can sue against oppression and mismanagement, and to exit in certain specified circumstances.

The regulations framed by SEBI provide many additional rights and remedies to shareholders of listed companies to make their views known and to protect their interests more actively. Listed companies must constitute a stakeholders' relationship committee to provide a mechanism for redressal of shareholder grievances and to provide electronic voting facilities.

In the recent past, there have been a notable instance where large companies in India have faced shareholder disagreement on a variety of issues, including 'Related Party

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Transactions (RPT), 'management appointment' and 'management remuneration', 'share issuances and buy-backs' etc.

Consistent with improvements in several countries that seek to deliberate greater control in the hands of shareholders, the recent regulatory developments in India show a greater opportunity for shareholder participation in the form of e-voting postal ballot, and the like. We explore how their access to several investing and trading strategies is allowing hedge funds to redefine investor activism. In the process, we find that, while hedge funds and their activism tend to benefit fellow investors, the potential exists for some specific hedge fund types to expropriate value from minority shareholders, creating 'principal-principal' conflict. The potentially detrimental impact of hedge fund activism on other equity investors is demonstrated, illuminating several current policy concerns.

### **Shareholder Activism Threat level Country wise summary**

A shareholder activist is a person or group who attempts to use their rights as a shareholder of a publicly traded corporation to bring about change within or for the corporation. Shareholder activists typically buy up a minority stake in a company and, subsequently, employ a variety of tactics, from media pressure to litigation threats, to force a conversation and bring about change.

Table 1: Threat Level of Shareholder Activism Country Wise							
North America	Level	Europe	Level	Middle East	Level	Asia Pacific	Level
USA	High	Ireland	Medium	Israel	Low	China	Medium
Canada	High	UK	High	-	-	Hong Kong	Medium
-	-	Netherlands	Low	-	-	Korea	Low
-	-	Germany	Low	-	-	Japan	Medium
-	-	France	Low	-	-	Australia	High

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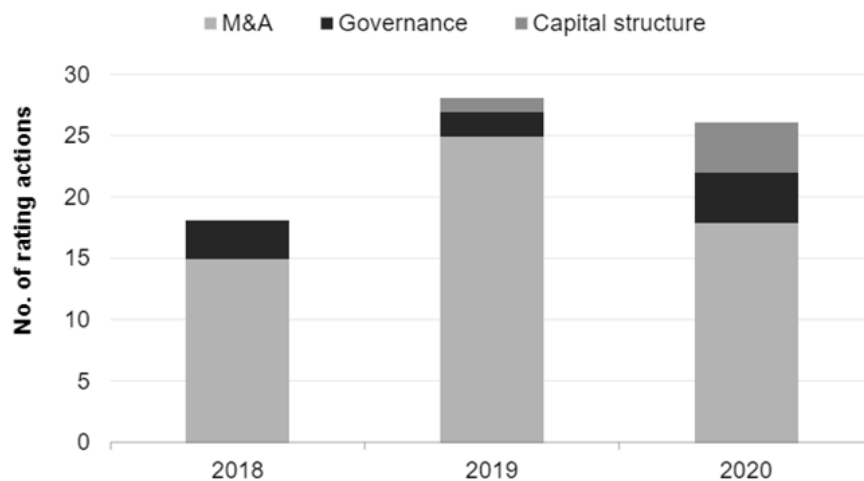
-	-	Italy	Medium	-	-	-	-
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Source: <https://ftiactivism.com/map/>

From the above figure, it can be seen that in United States of America, Australia, United Kingdom and Canada the Shareholder Activism threat is high while in Ireland, Italy, Japan and Hong Kong the threat is Medium and In Netherland, France, Germany, Israel and Korea the threat of Shareholders Activism is Low.

### Recent Reasons For Shareholder activism

The recent studies of this domain show that the shareholder activism requires some reason always to have it. According to S&P Global Ratings the Merger and Acquisition is still the main cause of the shareholder activism (Chart 1).



M&A--Mergers and acquisitions. Source: S&P Global Ratings.

Chart 1: Cause of Shareholder Activist

Source: [www.lazard.com](http://www.lazard.com)

From the chart 1, it can be seen that, during the last 3 Years majority of the Campaigns has been happened because of the M&A, followed by the reason, Governance and Capital Structure.

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### **Review of Literature**

Rho, (2006) have studied “Shareholder Activism: Exploring the Terrain” For Research. This study was based on secondary data. The researcher concluded the definition related elements of activism. They are first, relatively heavy focus on a certain part of shareholder activism such as corporate governance issues, financial motive, and easily observable voice methods, and another, increasingly important but less explored areas such as the role of mediating groups in shareholder activism and the activities of collecting, analyzing, and interpreting the company data.

Musa, (2012) have studied on ‘the Influence of Institutional Shareholder Activism as a Corporate Governance Monitoring Mechanism in Malaysia’. Researcher has concluded that non-financial aspects in order to promote better governance that can prevent corporate failure and promote corporate sustainability in the future. This shareholder involvement affects the management of companies in different ways. Effective monitoring and engagement require transparency and a mechanism to support engagement in order to be effective and efficient but given the recent policy trends towards good corporate governance, the role of Board of Directors is indeed gaining focus because of the institution of independent directors, besides; banks and financial institutions can still continue to be conscious keepers.

StuartSpencer & Evercore, (2016) mentioned in their study that within companies that have been subject to an activist campaign/engagement within the past five years, the survey found that the four most common outcomes included the removal and replacement of directors (34%), a change in governance policies (33%), and a change in either capital allocation/management or in CEO/executive management (both 30%). Only 6% responded there had either been no significant change in the boardroom or that the outcome had been positive, including the addition of directors with an increased focus on strategy and execution.

Lim, (2017) predicted that soft activism where activists communicate with target management or other fellow shareholders increases firm value because it is relatively inexpensive than hard activism where activists publicly criticize target management, acquire more shares, initiate litigate, so on. The results showed that investors react more positively to

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soft activism than to hard activism, suggesting that investors perceive soft approach as more value-enhancing than hard approach. The positive reaction on soft activism is particularly pronounced for the actual communication than the threat of soft activism in which shareholders state that they intend to communicate with the managers. We also find that the market negatively reacts to activists exit, which can indicate an unsuccessful intervention prior to the exit. A significantly negative reaction to passive activism repeats that the market strongly reacts to shareholder's intervention rather than exit or passiveness. They also found that the market reacts negatively to change in boards of directors, indicating the problems in current internal governance are greater than the market expectations of improvement in external governance that arises from activism. Moreover, positive market reactions to M&A-related activism, suggesting the market reacts to the increases in the expected takeover premium. Findings of their research indicated that activist intervention is successful with more accountable firms with a large number of block owners possibly forming a wolf pack.

Subramanian, (2019) mentioned in his article that the proxy advisory firms and domestic investors were not the only ones to take a proactive stance on activism; a few foreign investors too started taking keen interest in their Indian investee companies. Shareholder activism can only take shape in an environment where the regulators demand that minority shareholder interests be protected. The new Companies Act 2013, subsequent revisions to Clause 49 of the Listing Agreement and other regulatory changes by SEBI have ushered in many changes that enhance the corporate governance landscape in India. The requirements for greater degree of disclosures by companies aided shareholders to analyze particular actions and make better-informed decisions. E-voting was made mandatory in 2013 which resulted in greater investor participation as it made voting process painless and independent of the location of the investor.

Artiga González & Calluzzo, (2019) remarked in their study that despite the attention clustered activism has received from the media, practitioners, and regulators, and its potential to improve or harm firm governance and performance, there has been little research that has empirically examined it; the existing literature only documents the phenomenon indirectly literature by providing empirical results on the motives and outcomes of clustered activism.

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They also contribute to the theoretical literature on shareholder activism. They consider the mechanisms that drive multiple large shareholder activists to target the same firms, and the resulting implications on firm performance. Specifically, they develop three hypotheses on the motives and outcomes of clustered activism, and test these predictions using a large dataset of U.S. shareholder activism events.

Thus, from this review of the literature it has been said that shareholder activism and corporate governance issues, financial motives have been related, but there has not been any focused study found on mediating group in this process. Further it can be found that shareholder activism affects the management actions in the company. Mostly equity shareholder vote if they are not happy with the management. Moreover, it has been observed during the review that investors react more positively to soft activism than to hard activism as well as drive multiple large shareholder activists to target the same firms, and the resulting implications on firm performance. While developing the model this reviews have been provided the great input.

### **Framework of Shareholder Activism**

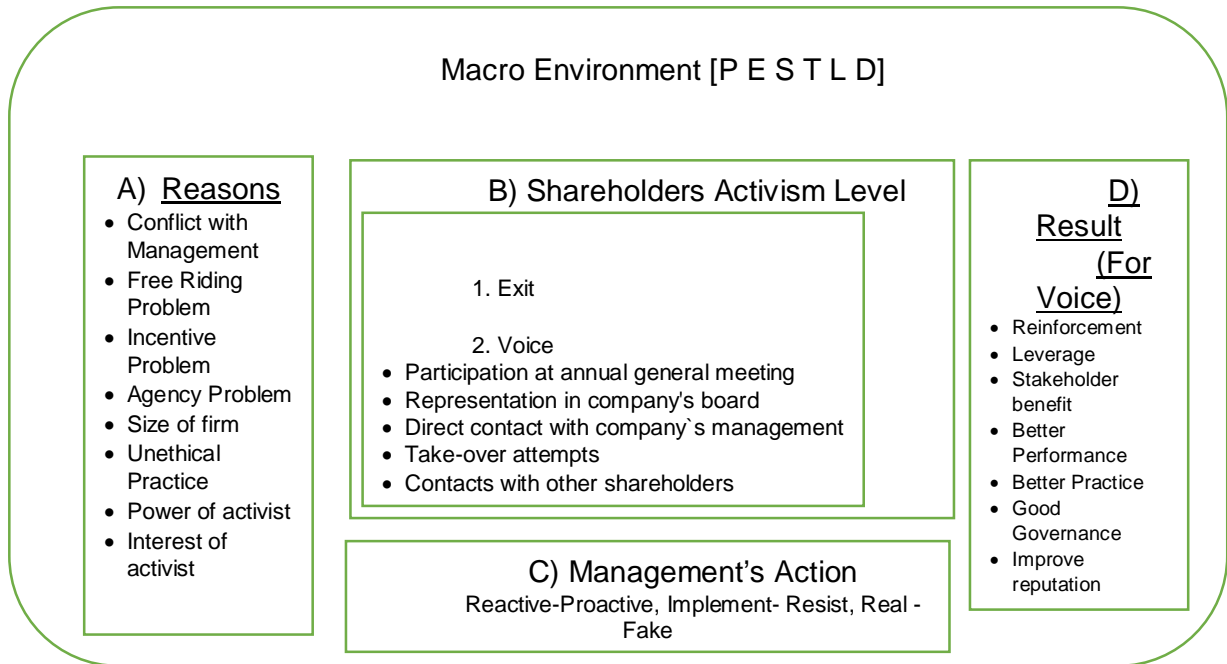
The growing conflict of interest between managers and shareholders has resulted in the increased importance of shareholder activism (Gillian and Starks, 1998)<sup>1</sup>. The main stress of activist shareholders has been to concentration on the sick firms and to force the management for improved performance to enhance shareholder value.

Shareholder activism is present mainly through large financial institutions such as investment companies, hedge funds, insurance companies, mutual funds, and pension funds rather than individuals (Black, 1998). Due to Collective action problems and Shareholders apathy, both retail and institutional investors have historically been passive shareholders.

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The model is represented with

**A) Reason that includes;**

1. Conflict with Management
2. Free Riding Problem
3. Incentive Problem
4. Agency Problem
5. Size of firm
6. Unethical Practice
7. Power of activist
8. Interest of activist etc.

**B) Shareholder Activism Level that includes;**

There are different types of shareholder activism, although such as “participative” shareholder activism. Where shareholders assume greater responsibility for participating in shareholder meetings and exercising their corporate engagement. This way, greater participation by minority shareholders could have an impact on the outcome of corporate



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decisions. Even if the decisions themselves may not be different because minority shareholders may only have infinitesimal shareholding in the company, their overwhelming response cannot be ignored altogether by managements and controlling shareholders. While shareholders, particularly of the institutional variety, are demonstrating greater interest in participative activism, legal reforms in various jurisdictions are utilizing soft law and self-regulatory mechanisms to encourage greater participation by shareholders in corporate decision-making.

Another type of shareholder activism is more open that is “Interactive” shareholder activism, this involves the direct engagement by the shareholders with the management. Large institutional shareholders seek to interact with the management and obtain an assessment of the affairs of the company. Such interaction usually takes place when either the shareholders are unconvinced of the direction adopted by the management on certain matters, or when the company undertakes a major transaction, such as a merger or suffers a material adverse effect such as a significant loss, or other extraordinary event such as a corporate fraud.

Hedlund et al, (1998)<sup>2</sup> has identified following ways of activism;

1. Participation at the annual general meeting
2. Representation in the company's board
3. Direct contact with the company's management
4. Take-over attempts
5. Contacts with other shareholders
6. “Exit” behavior on the other hand is characterized by taking a passive role and leaving the company because of dissatisfaction with the management.

The choice between the strategies “Exit” or “Voice” depends on a number of factors. Primarily it comes down to three questions, first question, “Do we need to influence our target?”, second question, “Can we influence our target?” and third question would be, “Does the expected gain exceed the costs of influencing our target?”

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While moving ahead with the activity a rational investor who answers “yes” to all three questions should engage using “Voice”. If second questions. and third questions are answered with “no”, a rational investor should “Exit”.

### **C) Managerial Action which includes;**

Corporate managers may respond to shareholder activism in case of persistent irritation by activists. The shareholder activism field may take a somewhat different posture on the role of management in the shareholder activism process. Environmental trends have not only affected shareholder activism directly by influencing the legitimacy and the ease of engaging in activism, but also indirectly by affecting the behavior of corporate managers. Task environments have long been understood to affect the latitude of managerial action. Thus, depending on the situation, the managerial actions may be

1. Reactive-Proactive,
2. Implement- Resist,
3. Real -Fake

### **D) Result which includes;**

In case of ‘exit’ option, there cannot be any expected result, but in case of voice option depending on the reasons for which activism has been done it may result in to;

- a. Reinforcement
- b. Leverage
- c. Stakeholder benefit
- d. Better Performance
- e. Better Practice
- f. Good Governance
- g. Improve reputation
- h. Social Concern
- i. Ecological Concern

From this model framework perspective, financial and social activism could be viewed as striking, as social goals may not be shared by financially driven shareholders.

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While this shareholder activism instigates, it would equally support with the favorable Political, Economic, Social, Technological and Demographic environment. If the shareholder activism will be supported by the political environment having power may lead to “Voice”, economic factor having weak symbol may again lead to “Voice”, same for social environment if the company acts against the society it may lead to “Voice”. In case of technological environment advancement era if the firm uses obsolete technology may lead to “Voice”, while if the action of the company harmful to the demographic environment may lead to “Voice” again.

### **Conclusion**

There has been years and the world is witnessing the shareholder activism. Shareholder activism has become a self-motivated established force, and its connected, rapidly growing body of intellectual entities affects many organizations and their management. Previous research has made substantial contributions toward understanding the complex nature of shareholder activism. But this paper helps to gain understating on framework of shareholder activism in macro environment, featuring reasons of shareholder activism, probable actions taken by the shareholders towards improvement of the situation and corresponding practice adopted by the management to answer the issue raised by the shareholders and at the last it also focuses on result of this activism. In short, this framework gives comprehensive framework of entire shareholder activism phenomenon in general.

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