



Shareholder Activism as A Mechanism Within Corporate Governance: A Theoretical and Empirical Review

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Abstract: Research on shareholder activism and corporate governance is considered inconclusive, both internationally and locally, due to ongoing debates, notably within firms. It is posited that shareholder activism should impact corporate governance. Numerous theories have been suggested to substantiate the inference, although there is no consensus among researchers regarding a particular theory that validates the theoretical claim. Consequently, the empirical evidence about the topic has remained inconsistent. The diversity in actual results has prompted numerous studies, primarily from diverse areas and types of organizations. This study conducted a theoretical and empirical evaluation of shareholder activism as a mechanism in corporate governance to emphasize the findings of previous research. A thorough literature analysis was conducted, analyzing 134 publications, from which results were derived from 86 papers by explaining the principal themes of this study. The analysis indicated that multiple theories have developed, with the predominant theory remaining the agency theory. The current empirical evidence is also inconclusive. Consequently, the evaluation substantiates the necessity for further research on the same themes across diverse geographies and various categories of organizations.

Keywords: Shareholder Activism; Corporate Governance; Theoretical Review; Shareholder Proposals; Shareholder Rights

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1. Introduction

Shareholder activism is a process in which shareholders or company members actively engage in management operations through private conversations or suggestions during annual general meetings (Bouaziz, Fakhfakh & Jarboui, 2020). Conversely, corporate governance refers to the mechanisms by which corporations establish their frameworks to reduce the expenses associated with safeguarding shareholders' interests by the management (Leite Collares, 2020). This idea encompasses discussions regarding the management of power dynamics among owners, the Board of Directors, and

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management, and pertains to the suitable management and control frameworks of a company (Del Guercio & Woidtke, 2019). Consequently, shareholder activism can be regarded as a mechanism to engage with the corporate governance framework to mitigate conflicts and ensure returns on investments, thereby impacting firm value (Leite Collares, 2020). Shareholder activism concerning corporate governance is primarily manifested through actions such as share divestiture or exit, proactive lobbying to uphold shareholder rights, and passive share retention, which are perceived to exert either beneficial or detrimental effects on firm value (Guimaraes et al., 2019).

Agency theory, the foundation of corporate governance, restricts shareholders from directly engaging in corporate decision-making and management, a responsibility assigned to the board of directors and senior management (Fama & Jensen, 1983). It is a well-established tenet in corporate legislation that significant decisions must be taken or initiated by management. In most instances, shareholders may be prohibited from proposing new decisions. Members can alter the company's trajectory only by substituting the management team with a new board that will safeguard their interests. This frequently results in shareholders believing that their interests as owners and investors are not adequately represented in good faith by the board of directors.

Shareholders typically participate more in actions that enhance shareholder activism within corporate governance (Hadani et al., 2019). Nonetheless, shareholders' activities within corporations are predominantly constrained by laws, such as company acts enacted by legislation (Bernstein, 2020). Shareholders, predominantly those with greater control, typically utilize legally available methods to advocate for their interests, including submitting shareholder proposals, engaging in private negotiations, exerting non-proposal pressure, participating in hedge fund activism, and initiating proxy contests, to enhance management's attention to their concerns (Subramanian, 2020). Shareholder engagements, known as shareholder activism, have recently acquired significance globally, as they are believed to enhance company performance (Guimaraes et al., 2019). This study sought to investigate the theoretical and empirical data about the role of shareholder activism in corporate governance.

1.1. Shareholder Activism

Shareholder activism refers to the utilization of a shareholder's ownership stake to actively impact the company's policies and management practices (Bouaziz et al., 2020). Othman and Borges (2015) assert that shareholder activism can manifest in several forms of responses from dissatisfied shareholders of the corporation. Swanson, Young and Yust (2022) contend that shareholder activism encompasses demands made by an individual shareholder or a coalition of shareholders, which can be generally classified into actions such as the sale of all or a portion of their shares, private discussions with management to deliberate on strategies aimed at enhancing shareholder or firm value, requests for alterations in board representation, and appeals for changes in corporate governance beyond those pertaining to the board.

Conversely, Subramanian (2020) contends that shareholder activism can manifest in several forms. The predominant categories encompass shareholder proposals, private negotiations, non-proposal pressure, hedge fund activism, and proxy contests. Typically, institutional shareholders commence their interventions through informal and private negotiations with the firm's management; if this approach proves ineffective, they may subsequently reach out to board members and firm advisors. If all previous efforts are unsuccessful, they may choose to publicly disclose their concerns, which is typically a last resort due to the potential for adverse consequences for the entire organization. Public

manifestations of shareholder activism may encompass proxy voting, shareholder proposals, and media campaigns, which can be perceived as hostile, indicating to the securities market that corporate management is hesitant to address shareholder grievances (Subramanian, 2020).

Shareholder activities are thought to affect management behavior due to shareholders' ownership control, enabling firms to formulate effective strategies and uphold high standards of corporate governance, thereby maximizing returns for owners and enhancing firm value (Bouaziz et al., 2020; Goldman & Wang, 2021; Guo, Lin, Masli & Wilkins, 2021).

1.2. Corporate Governance

Corporate governance has been a significant topic of discussion in both public and academic spheres over the past few decades. Leite Collares (2020) asserts that corporate governance refers to the mechanisms via which organizations establish their frameworks to reduce the expenses associated with safeguarding shareholders' interests by the management. It has been observed that numerous complexities of corporate governance fail to clarify the scope of the term (Goldman & Wang, 2021). The committee emphasizes that corporate governance encompasses discussions regarding the management of power dynamics among shareholders, the Board of Directors, and management. Consequently, corporate governance pertains to the suitable management and control frameworks of a firm, as well as the stakeholders, including employees, customers, suppliers, and the general public (Del Guercio & Woidtke, 2019).

Shareholder activism, exemplified by hedge funds, defines activism in the capital market and can significantly impact corporate governance, policy formulation, and the ownership and management of the organization (Ahn & Wiersema, 2021). Research examining shareholder activism as a tool in corporate governance has revealed its impact on governance aspects including management and directors, minority shareholding, policy formulation or management practices, and market performance or firm value (Goranova & Ryan, 2014). Shareholder activism is primarily driven by financial incentives and returns, rather than strategic considerations, but a certain degree of socially motivated activism is evident (Hadani et al., 2019). The financial pressure exerted by shareholders compels managers to address their shortcomings, impacting the company's financial performance while also pursuing strategies, such as an effective governance structure for management and directors, that improve the firm's performance (Barros, Guedes, Santos & Sarmento, 2021).

1.3. Research Problem

Theory posits that shareholder activism impacts corporate governance; nevertheless, the literature has yet to establish a convergence theory linking the two notions (Leite Collares, 2020). While several theories have been utilized to elucidate the connection between shareholder activism and corporate governance, stakeholder and agency theories have emerged as predominant paradigms; yet the literature presents more criticism than affirmation (Goranova & Ryan, 2014). Furthermore, Goranova and Ryan (2014) contend that the empirical evidence supporting the theories presents contradictory outcomes. The study aimed to elucidate the principal ideas endorsing shareholder activism in corporate governance and the empirical data substantiating them.

Moreover, investigations of shareholder activism provide significant practical implications, since it remains uncertain if such activism facilitates shareholder empowerment and whether enhanced

shareholder empowerment is likely to address corporate governance challenges (Bernstein, 2020). Moreover, shareholder activism is predominantly driven by financial incentives and returns rather than strategic considerations, while a certain degree of socially motivated activism is present (Hadani et al., 2019). The financial pressure exerted by shareholders compels managers to address their shortcomings, impacting the company's financial performance while also pursuing measures that improve firm performance (Barros et al., 2021). The study aims to elucidate the impact of shareholder activism on directors or management, minority shareholders, and policy formation, as seen in the literature.

1.4. Research Objectives

The objectives of the study were:

- To review the major theories advocating for shareholder activism in corporate governance;
- To review the empirical evidence on shareholder activism as a mechanism within corporate governance.

2. Methodology

The review was conducted based on existing literature, and the findings of this research were derived from an analysis of the primary ideas of this study: shareholder activism and corporate governance. Nyamita, Garbharran and Dorasamy (2014) assert that the formulation of the review question is established through a systematic review, which delineates the focus and parameters that inform all facets of the review process, including inclusion and exclusion criteria, search strategy, volume of literature reviewed, quality appraisal, and evidence synthesis. The evaluation process adhered to a systematic literature review, which involved formulating review questions, developing a search strategy, applying research selection criteria, assessing study design, and conducting quality appraisal (Xiao & Watson, 2019). This was accomplished by analyzing 134 articles from the existing literature, and the findings of 86 papers were derived by discussing the principal principles of this study.

3. Results and Discussion

The main objective of this paper was to conduct a theoretical and empirical review of shareholder activism as a mechanism in corporate governance. Specifically, the study started by conducting a theoretical review followed by the empirical review.

3.1. Theoretical Review

The theoretical review indicated that multiple theories have been utilized to elucidate the connection between shareholder activism and corporate governance; however, the predominant theory supporting this relationship is agency theory (Victor, Maria João, Joana & Joaquim Miranda, 2021). The empirical data supporting the idea has yielded contradictory findings (Goshen & Squire, 2017). Consequently, other theories such stakeholder theory, stewardship theory, managerial entrenchment

theory, signaling theory, property rights theory, and primary cost theory have been emphasized (Bouaziz et al., 2020).

3.1.1. Agency Theory

Fama and Jensen (1983) assert that the majority of governance mechanisms are rooted in agency theory, aiming to align the actions of boards and management with the interests of shareholders and the firm at large. This results in a dynamic of cat and mouse, wherein governance specialists devise methods to regulate managerial behavior, while managers develop strategies to circumvent such tools. Consequently, agency theory posits that a corporate governance model exclusively centered on adherence to existing rules and regulations will significantly falter, as the contexts in which businesses and managers operate are dynamic. Consequently, shareholder activism is characterized as an endeavor to mitigate agency conflicts in corporate governance by directly or indirectly impacting management or board actions (Bouaziz et al., 2020).

Agency theory posits that shareholder interests are uniform, resulting in homogeneous actions towards firm management (Goranova & Ryan, 2014). Corporations possess many stakeholders, and shareholder activism can manifest in various forms contingent upon the circumstances, the interests of individual or group shareholders, and available options (Beebeejaun, Koobloll & Management, 2018). Furthermore, Goranova and Ryan (2014) contend that shareholder interests may be shaped by their equity stakes in the firm, business affiliations, social identities, portfolio dynamics, liquidity, investment timelines, and disparities in voting rights. The diversity of shareholders' interests presents a problem to agency theory about shareholder activism, necessitating supplementary theories, such as stakeholder theory, to elucidate shareholder activism.

3.1.2. Stakeholder Theory

Stakeholder theorists assert that all shareholders or interested parties, including management and the board, engage with the objective of deriving value, and that no individual's interests or benefits are prioritized over those of another shareholder or group (Harrison & Wicks, 2013). Consequently, stakeholder theory, as articulated by Brenner and Cochran (1991), seeks to delineate and conceptualize how management and the board of the firm endeavor to equilibrate choices in accordance with the nature and makeup of the firm's stakeholders. The notion posits that a firm's value is augmented when it comprehends the wants of diverse stakeholders, which may subsequently elevate shareholder activism.

Goranova and Ryan (2014) assert that the stakeholder theory of the company, which mandates that management considers the interests of all stakeholders, has contributed to the theory's popularity in promoting shareholder activism. Nonetheless, akin to the limitations of agency theory regarding stakeholder heterogeneity, the theory inadequately elucidates how a firm's management reacts to shareholder activism driven by financial motives, especially concerning the prioritization of various stakeholder interests (Guimaraes et al., 2019; Hosseini & Brenner, 1992). The constraints of both agency theory and stakeholder theory continue to drive the development of alternative shareholder activism theories, such as stewardship theory.

3.1.3. Stewardship Theory

Davis and Schoorman (1997) assert that certain scholars advocate for stewardship theory, positing that managers ought not to be rigidly monitored, as they function as diligent stewards of organizational resources, striving to optimize outcomes for all stakeholders. This viewpoint paradoxically introduces

a contrasting issue, wherein any novel governance tool designed to regulate managers, such as shareholder activism, may jeopardize the firm's capacity to attain optimal outcomes. This suggests that imposing unnecessary restrictions on senior management, acting as stewards, will typically hinder their effectiveness, so complicating firm administration without yielding any advantages.

In addition to these conflicting theoretical issues, governance practices inside firms varies by country due to variations in formal and informal institutions (Moore, Bell, Filatotchev & Rasheed, 2012). Krause, Filatotchev and Bruton (2016) assert that when enterprises expand globally, they must navigate an increasingly intricate governance environment where behaviors deemed lawful in one context may be viewed with scorn or outright prohibited in another. Despite these complexities, corporations possess little adaptability to varying environments, hence complicating corporate governance and shareholder engagement. In tackling these issues, alternative theories, including principal cost theory, have arisen (Goshen & Squire, 2017).

3.1.4. Principal Cost Theory

Principal cost theory is a novel concept proposed to demonstrate that the foundational assumptions, including agency theory, stakeholder theory, and stewardship theory, highlighted in the statistical and empirical research utilized by scholars to validate shareholder activism are significantly deficient (Lipton, 2016). Principal cost theory, as posited by Goshen and Squire (2017), elucidates that the diversity among a firm's stakeholders mirrors the actual circumstances and the unique characteristics of the principal cost and agency cost trade-off. It demonstrates that in corporate governance, firms are likely to achieve enhanced financial returns or firm value when the balance between principal costs and agency costs is optimized. The primary costs were characterized as "costs associated with the exercise of control by investors," whereas agency costs were described as "costs associated with the exercise of control by managers." Martin (2016) asserts that the principal cost theory represents a significant improvement in current research, aimed at mitigating the theoretical deficiencies in shareholder activism and fostering balanced corporate governance.

3.1.5. Management Entrenchment Theory

Alongside the aforementioned ideas, additional frameworks, such as managerial entrenchment theory, have elucidated the rationale for increased shareholder activism in corporate governance (Bouaziz et al., 2020). Managerial entrenchment theory posits that shareholder activism can be positively or negatively affected by management's efforts to establish their value in relation to the diverse interests of stakeholders, with such entrenchment potentially enhancing the firm's value (Shleifer & Vishny, 1989). Managerial entrenchment escalates as more managers and employees obtain ownership within the firm, potentially resulting in heightened shareholder activism, especially when institutional shareholders perceive that their interests are overlooked (Goranova, Abouk, Nystrom & Soofi, 2017; Obermann & Velte, 2018).

3.1.6. Property Rights Theory

Conversely, property rights theory emphasizes that private information may result in suboptimal negotiations between managers, and the theory was formulated to examine the optimal ownership structure that mitigates this bargaining inefficiency (Matouschek, 2004). Kim and Mahoney (2005) assert that property rights theory connects the discrepancies between agency and transaction costs theories by aligning residual control rights with residual income rights in the context of company ownership. Kim and Mahoney (2005) contend that property rights theory establishes novel theoretical

linkages with other domains of organizational economics and strategic management, including corporate governance and shareholder activism.

3.1.7. Signaling Theory

The signaling theory is relevant in competitive contexts, such as corporate governance, as it seeks to address the issue of information asymmetry (Connelly, Certo, Ireland & Reutzel, 2011; Vasudeva, Nachum & Say, 2018). The disseminated strategic information of the organization conveys signals to the securities market on obligations and initiatives that affect the firm's worth and its relationships with other institutions and stakeholders (Taj, 2016). If the disseminated information is viewed favorably by the market, it signifies management's commitment, resulting in an increase in the firm's value with minimum shareholder activism (Mavlanova, Benbunan-Fich & Koufaris, 2012). Conversely, material that conveys negative signals to the market tends to diminish stock prices and amplify shareholder activism (Vasudeva et al., 2018). Nonetheless, not all firms disclose their information to the market, and the timing may not correspond with the actual event; hence, the signals may not be entirely dependable as a catalyst for shareholder activism.

3.2. Empirical Review

The study's second purpose was to examine the empirical data on shareholder activism as a mechanism in corporate governance. Denes, Karpoff and McWilliams (2017) assert that numerous research on shareholder activism as a tool of corporate governance have been undertaken, revealing diverse connections in the findings. This section provides an overview of the extent of shareholder activism and its role as a novel instrument in corporate governance, supported by empirical evidence.

3.2.1. Extend of Shareholder Activism

Empirical evidence indicates that the emergence of shareholder activism was observed from the 1980s, attributed to the increase in institutional shareholding among the majority of corporations in the U.S. and other countries (Denes et al., 2017; Filatotchev & Dotsenko, 2015; Goranova & Ryan, 2014). Goranova and Ryan (2014) assert that private shareholder activism is a more prevalent form of activism compared to public activism, as corporate management may be more amenable to agreements with activists in private to circumvent public embarrassment and mitigate costs to the firm's value.

Among the several methods of private shareholder activism, the submission of shareholder proposals is the most prevalent means of enhancing corporate governance, since it is deemed less expensive for both management and shareholder activists (Ng, Wu, Zhai & Zhao, 2021). Schaefer and Hertrich (2013) report that over 33% of firms in Germany receive shareholder proposals annually, with approximately 56% of these suggestions being approved at shareholders' meetings. The U.S. Securities and Exchange Commission has recently enacted Exchange Act Rule 14a-11, which compels management to improve accountability by augmenting shareholder authority (Buchanan, Netter, Poulsen & Yang, 2012). This has resulted in a significantly greater number of shareholder recommendations being presented in the United States compared to other countries. Buchanan et al. (2012) report that 30% of U.S. shareholder proposals address social and environmental concerns, with a pass percentage of about 20%, but over 90% of U.K. shareholder proposals focus on board and business objectives, achieving a pass rate of 44%.

Individual shareholder private conversations with management and non-proposal pressure may represent the most effective and economical form of shareholder activism. Goranova et al. (2017)

contend that it is not empirically prevalent, even in the U.S., as shareholder interests are typically heterogeneous and managers often endeavor to discreetly bargain with and appease important activists, such as institutional shareholders or hedge fund activists. Literature indicates that institutional shareholder activists comprise pension funds, mutual funds, hedge funds, banks, and insurance firms. Uche, Adegbite and Jones (2016) found that only a limited number of institutional shareholders, primarily hedge funds, engaged in shareholder activism in Nigeria. Data from South Africa indicates that institutional shareholders favored private conversations and regarded proxy voting as a final recourse in the shareholder activism continuum. Consequently, merely 6.6 percent of shareholder votes, encompassing dissenting votes from institutional shareholders, were recorded among the 347 listed businesses in 2013.

Hedge fund activists are posited to exert greater influence on corporate management and boards than other forms of institutional shareholder activists, hence engaging in more shareholder activism than mutual funds and pension funds (Subramanian, 2020). Miyachi and Takeda (2021) demonstrated that substantial shareholdings by activist funds, including hedge funds, were beneficial in Japan, with more favorable reactions occurring in instances of hostility from these funds. As per Margoc (2016), shareholder activism has surged in Canada recently, attributed to hedge fund investors targeting Canadian corporations. It is estimated that Canada may host 6% of worldwide shareholder activist campaigns, predominantly driven by hedge fund activists.

Consequently, based on empirical evidence, numerous activists would engage in “private activism,” regarded as the most effective, nonviolent, and least expensive method of shareholder activism. This type of activism is sometimes known as “behind the scenes” or “private negotiations” between shareholders and managers.

3.2.2. Shareholder Activism and Corporate Governance

Shareholder activism, particularly by hedge funds, exemplifies activism in the capital market and can significantly impact corporate governance systems, policy formulation, and the ownership and management of firms (Ahn & Wiersema, 2021). Research examining shareholder activism as a tool in corporate governance has revealed its impact on governance aspects including management and directors, minority shareholding, policy formulation or management practices, and market performance or firm valuation (Goranova & Ryan, 2014).

Shareholder activism is mostly driven by financial incentives and returns, rather than strategic considerations, but there exists a certain degree of socially motivated activism (Hadani et al., 2019). Shareholder-driven financial pressure compels managers to rectify their shortcomings, impacting the company’s financial performance while also encouraging the adoption of strategies, such as effective governance structures for management and directors, that improve firm performance (Barros et al., 2021).

Levit (2019) asserts that the typical modus operandi of an activist shareholder is targeting a public firm to advocate for significant alterations in its operations, financial policies, people, and strategic direction. The activist must convince the management or other shareholders of the significance of implementing his or her plan for it to be realized. The board’s or other shareholders’ failure to execute the plan leads to the initiation of a public campaign as a governance mechanism (Hadani et al., 2019). The campaign may focus on the alteration of management (CEO) and the composition of the board of directors (Cundill, Smart & Wilson, 2018; Ertimur, Ferri & Muslu, 2011; Zhang & Wiersema, 2009).

Ertimur et al. (2011) assert that shareholder activism favors proposals about the pay-setting process above those that micromanage CEO compensation or management structure. They recognize that shareholder activists focus on companies with elevated CEO compensation, and their voting support is greater just at businesses with excessive CEO pay. Additionally, firms with excessive CEO pay that are subjected to vote-no shareholder activism see a notable decrease in CEO compensation. Conversely, Li (2021) discovered that shareholder activism results in increased profits and reduced CEO compensation in non-target firms, while its efficacy diminishes due to enhanced connections among CEOs.

Ellis, Guo and Mobbs (2021) conducted an empirical study on the behavioral changes of directors following the ousting of a CEO due to shareholder activism. They discovered that shareholder activists are more inclined to terminate CEOs of underperforming firms than to appoint external CEOs, which subsequently enhances board meeting attendance among directors. Shareholder activists of underperforming corporations respond favorably to the inclusion of experienced directors on the board. Bedendo and Siming (2021) discovered that CEOs may engage in activism to publicly address issues that are not directly related to the firm's main business, particularly political or environmental matters. Managers are more inclined to assert their positions when supported by shareholder activists and corporate governance protocols of their organization.

Empirical evidence demonstrates that shareholder activism, including vocal threats or public campaigns, enhances communication between the board of directors and shareholders, while the option to exit facilitates dialogue with the board when the activist proposal poses risks to the firm or when activism fails as an effective corporate governance mechanism (Levit, 2019). Subramanian (2020) contends that, despite evidence supporting shareholder activism as a mechanism to influence corporate governance regarding management and board structure, managers and directors across diverse governance models may struggle to navigate shareholder activism.

Ghahramani (2013) contends that the desire of minority shareholders to effectuate changes in strategy, financial policy, and operations to enhance firm value primarily catalyzes shareholder activism. Successful implementation necessitates the persuading of the board or other shareholders (Hadani et al., 2019; Kong, 2019). This financially driven activism exerts pressure on managers to address their deficiencies affecting the company's financial performance while also implementing methods that enhance business success (Barros et al., 2021).

Yinju and Ming (2021) contend that minority shareholder activism may serve as a novel corporate governance strategy that has not garnered significant academic scrutiny. The empirical study on shareholder activism and minority shareholders revealed that activism enhances minority shareholding and that minority shareholders could assume a more vigilant role if empowered with greater influence by fellow shareholder activists and the public. The research conducted by Othman, Jo-Ann and Latiff (2019) indicated that the activism strategies employed by minority shareholders are judiciously selected depending on their anticipated impact on other business stakeholders, including fellow shareholder activists. It was discovered that "Exit" and "Voice" were the predominant activism strategies mostly utilized by minority shareholders.

In addition, Heejung and Tae-Hyun (2013) also found that most group owners, such as hedge funds, mutual funds, government trust units and institutional shareholder activists channel efforts to the associated firms for their own benefits and in response more minority shareholder activism is triggered to reduce those individualized efforts. In overall, Mazumdar (2021) observed that markets regulators

urged institutional shareholders, such as mutual funds and hedge funds, to enhance more shareholder activism within the firms in order to protect the interests of minority shareholders.

Barzuza, Curtis and Webber (2021) argues that the idea that shareholder activism involves inactive owners who overlooks an important aspect in which companies have demonstrated outspoken, confrontational and effective stewardship. Particularly, they demonstrate that corporations, such as index funds have taken a leading role in stimulating management and voting against board directors' proposals in order to advance corporate structure, board diversity and policy. It is therefore believed that active shareholders will have a great influence on development of corporation policies (Barros et al., 2021; Cherkes, Sagi & Wang, 2014). Ghahramani (2013) acknowledges that given the growing prominence of shareholder activism, managers, directors, and policymakers should embrace the activism and get to understand its influence on corporate governance, and its repercussions for firm and public policy development.

Yang, Uysal and Taylor (2018) performed an empirical study to explore effectiveness of shareholder activism and on corporate sustainability policies and found that organizations with high activism are more efficient results in sustainable policy developments. In addition, Dam and Scholtens (2012) also found that shareholder activism, in terms of type of ownership by employees, individuals, and firms, is related with relatively deprived corporate social policies of the firms. While the activism by banks and institutional shareholders, as well as those by the government trusts, appear to be neutral in this respect. Carr, Fradin and Uhlaner (2019) also asserts that over the past a number of years, 85% of corporations that have come across shareholder activism tend to settle in terms of policy development and sustainability, since most shareholders normality desire peaceful operations and governance.

Shareholder activism is thought to impact the formulation of human resource policies, particularly the compensation policies for the CEO and directors (Ertimur et al., 2011). Helyar (2011) contends that shareholder activism, specifically regarding shareholders' advisory votes on executive compensation, resulted in just 2% of corporations rejecting their compensation systems in 2011, suggesting a significant impact of shareholder activism on human resource practices. Aggarwal's (2021) empirical research demonstrates a considerable favorable impact of shareholder activism, regarding ownership, on human resource disclosure policies in Indian listed corporations. Furlotti and Mazza (2020) assert that shareholder activism, which aims to mitigate agency conflicts in corporate governance, may facilitate the formulation of structured policies in human resource management. In their analysis, shareholder activism that strengthens the independence of the board of directors is favorably correlated with human resources policy for the communication of ethical problems. Chen and Kao (2020) discovered that firms with corporate governance systems that are less responsive to shareholder activism exhibit a greater propensity for hoarding human resources. They recommend that firms implement corporate governance mechanisms that diminish shareholder concern.

Corporate social responsibility constitutes a significant element of social shareholder activism, serving as a signaling mechanism to shareholders and other investors, indicative of strong performance (Desjardine, Marti & Durand, 2021; Hadani et al., 2019). Michelin, Rodrigue and Trevisan (2020) assert that the incorporation of profit-driven objectives into the social justice principles underpinning the initial shareholder activism movement has led to the establishment of CSR policies inside governance as a significant risk element that necessitates management.

Their empirical analysis shown a significant rise in the development and publication of CSR policies among corporations subjected to shareholder activism, including transparency initiatives.

Nonetheless, their analysis indicated that apprehensions over the establishment and implementation of the CSR policy within the firm deteriorate, suggesting that shareholder activism advocating for CSR transparency fails to incite changes in corporate behavior beyond mere disclosure. It has been empirically found that shareholder activists, such as hedge funds, are more inclined to target enterprises with advanced CSR policy innovations and practices, hence imposing reaction costs on the establishment of effective CSR policies by these organizations.

4. Conclusion

It is observed that, aside from these conflicting theoretical issues in shareholder activism and corporate governance, behaviors differ between countries due to variations in formal and informal institutions (Bell & Filatotchev, 2014). Krause et al. (2016) assert that when companies expand globally, they must navigate an increasingly intricate governance environment where behaviors deemed acceptable in one context may be rejected or prohibited in another. Despite these complexities, corporations possess little adaptability to varying environments, rendering the theoretical articulation of corporate governance and shareholder activism more challenging.

Consequently, despite the numerous ideas put forth, it is highly improbable that corporate shareholder activism and governance processes will experience disruption or demands for reform. Demands for reform in corporate governance have been voiced by stakeholders including activist investors, government regulators, corporate governance experts, and oversight organizations. Although there is typically considerable overlap, each group possesses unique incentives for advocating change. Activist investors frequently want enhanced transparency regarding corporate decision-making via substantive boardroom discussions and communication among board members. Conversely, shareholders that prioritize governance oversight monitor firms from a considerable distance, frequently advocating for specific and observable structural modifications that enhance the independence of boards (Bednar, 2012; Westphal & Graebner, 2010).

Regulators ultimately advocate for reforms that would hold senior executives accountable for the accuracy of the information disclosed in their regulatory filings. An exemplary instance of this is the requirement for both the CEO and the CFO to attest to the correctness of financial accounts (Zhang & Wiersema, 2009). Although each group may not be inherently antagonistic towards the proposals of others, they all vie for finite corporate governance focus and resources. This leads to a regulated environment with minimal substantive change and lacks a singular theory to elucidate shareholder activism as a vehicle in corporate governance (Harrison & Wicks, 2013; Hosseini & Brenner, 1992).

In summary, empirical evidence indicates that shareholder activism, as a mechanism of corporate governance, primarily seeks to instigate changes in strategic direction, encompassing policy development and implementation, or to secure control over the board or management, which often exacerbates the decline in firm value. Shareholder activism aimed at securing board participation effectively enhances corporate governance, particularly within the target corporations. Overall, the empirical research contributes to the current literature and illustrates that the type of shareholder activism employed influences the impact of activists' actions on corporate governance practices.

The study is also important for future research to pursue the literature gaps, particularly on the dominant behind the scenes or private negotiations of shareholders on corporate governance and its effect in firm value for a less developed securities market, particularly from nations with developing

economies. The common methodology has been quantitative approach with regression analysis models or probability models, few have adopted qualitative approach particularly under financially motivated activism.

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