






# Does Competition Affect Shareholder Activism and Institutional Investors Used as Moderators?

Dr. Rahul Sharma<sup>1</sup><sup>a</sup>, Dr. Rahul Singh Gautam<sup>2</sup><sup>b</sup>, Bhakti Agarwal<sup>2</sup><sup>c</sup>, Dr. Soma Sharma<sup>2</sup><sup>d</sup>,  
Sangeeta Paliwal<sup>3</sup> and Dr. Shailesh Rastogi<sup>2</sup><sup>e</sup>

<sup>1</sup>*School of Management, University of Engineering and Management, Jaipur, India*

<sup>2</sup>*Symbiosis Institute of Business Management, Nagpur, Symbiosis International (Deemed University) Pune, India*

<sup>3</sup>*University Librarian, Central Library, Symbiosis International (Deemed University) Pune, India*

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**Abstract:** The primary objective of this paper is to evaluate the influence of compensation (comp.) on Shareholder Activism (SHA), with institutional investors (II) serving as a moderating factor. This study uses a sample of 78 non-financial firms and employs regression by using Python to understand the outcome. Two distinct models were employed in the analysis: a base model and an interaction model. The base model revealed a negative correlation between compensation and SHA, suggesting that higher compensation levels coincide with increased shareholder activism. In the second model, the impact of the moderator, II, was examined, revealing no statistically significant effect on the relationship between SHA and compensation. From a practical perspective, this study contributes uniquely to the literature by addressing a gap in research concerning the relationship between SHA and compensation. Consequently, the findings hold potential implications for policymakers, offering insights into how compensation levels may influence shareholder activism.


## 1 INTRODUCTION


Investor confrontations with managers, regarding dissatisfaction about some of the actions of the corporates (David et al., 2007) and interventions in the form of suggestions or feedback to modify the corporate strategy for the improvement in the performance of the company are a few of the signals, indicating the increased shareholder activism (SHA). According to sources Judge et al. (2010) and Rose and Sharfman, (2014) the utilization of ownership position to influence company policy and practices is characterized as shareholder activism. As delineated in references Wahal (1996) and Karpoff et al. (1996), shareholder activism has transitioned the corporate governance (CG) paradigm from a market-based model to a political-based model. This transition can


be attributed to a shift in mindset, wherein activism is no longer perceived as a disruption of annual meetings and a squandering of corporate resources but rather as a legitimate avenue for stakeholder engagement and influence (Goranova and Ryan, 2014)


SHA has changed the center of power in the corporates and symbolized the fact that corporate managers are accountable to the shareholders (Thomas & Cotter, 2007); (Bebchuk, 2005) and stakeholders of the firm (Reid & Toffel, 2009; Rehbein et al., 2004). Although individual activists have been successful in removing the board of underperforming corporations (Rosenberg, 1999) the change in the relationship between companies and investors was not that significant. Even after many significant changes and developments in the field of

<sup>a</sup> <https://orcid.org/0000-0003-3990-2952>

<sup>b</sup> <https://orcid.org/0000-0002-4035-9638>

<sup>c</sup> <https://orcid.org/0000-0003-1956-4538>

<sup>d</sup> <https://orcid.org/0000-0001-9919-165X>

<sup>e</sup> <https://orcid.org/0000-0001-6766-8708>

SHA (Anabtawi and Stout, 2007) there are pieces of literature that highlight the need for greater managerial accountability to the firm shareholders to improve the performance of the firm (Dimitrov & Jain, 2011; Bebchuk, 2007; Lan & Heracleous, 2010) have supported the fact that increasing SHA will lead to shareholder empowerment, which may result in the compounding of managerial self-serving with shareholder self-serving. Exercising management control may also be negatively affected by the presence of large shareholders (Cornelli & Li, 1997). Many of the other studies, Artiga González and Calluzzo (2019) and Bebchuk and Jackson Jr (2012), have highlighted the concerns of the private benefit of the shareholder groups on the cost of other shareholders. There are twofold opinions on SHA, one states that director nomination done through the involvement of large investors will benefit all investors, and the other one states that it will benefit some of the shareholders at the cost of others (Ranova & Ryan, 2015). Lack of skills and experience to improve upon the manager's decision and myopic focus on the short-term earnings inimical to the firm's financial health in the long term (Wohlstetter, 1993). Amidst a contentious and multifaceted discourse, shareholder activism (SHA) emerges as a burgeoning concern for economies in development. Within the context of an emerging economy such as India, SHA is observed to be in its formative phase (Shingade & Rastogi, 2020). The significance and repercussions of SHA exhibit variance across nations due to divergent legal frameworks and levels of income inequality (Judge et al., 2010). Consequently, the effects of SHA vary among firms operating within different national jurisdictions.

Extensive literature is available, highlighting the involvement of social issues (King & Gish, 2015) political connotations (Goranova & Ryan, 2014), and environmental issues (Perrault & Clark, 2016; Yang et al., 2018) in the context of SHA. Instead of providing financial benefits, SHA shows concerns related to these issues, which puts an extra burden of cost to the firm, as firms have to react to these issues raised through SHA. A firm operating in the market will always aim to increase the firm's performance year by year. These efforts of the firm indirectly lead to shareholder wealth maximization (Denis, 2016; Dobson, 1999). Striving towards reaching a position where the shareholder wealth is maximized optimally, leads a firm or bank to achieve the edge over its competitors.

Market comp. is something that a firm should always look forward to, and in the era of SHA, it becomes of utmost importance for firms to keep both eyes on their

competitors. Thus, the primary purpose of the research is to discover the impact of comp. on the SHA. Putting all the best efforts into delivering the offerings (goods/services) to the customers is the best way through which the firm can do good for themselves as well as for everybody else (Parmar et al., 2010; Wright, 2001). The phenomenon this paper is exploring is in the direction of further development in the field of established SHA and putting light on its relation with the comp. This paper explores this relationship in the moderation effect of Institutional Investors (ii).

## 2 REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

The research aims to assess the effect of comp. on the SHA, the literature on the topic deals with the impact of comp. on the different domains of SHA. The first opportunity to submit the shareholder resolution in 1942 (Reid & Toffel, 2009) and the naming of individual investors as "corporate gadflies" in 1970 were the two main foundations of the SHA stage (Gillan and Starks, 2007). Financial activism, because of its more prominent impact on the firm's performance Thomas and Cotter (2007); Gillan and Starks (2007). has got a big push through the rise of institutional ownership.

In the 1990s, labor union funds became more prominent sponsors of governance proposals by replacing the public pension funds (Agrawal, 2012), and at the same time, traditionally subtle mutual funds joined the stage of activism (Brandes et al., 2008). The prime focus of these activists is to render the managers more accountable to shareholders and promote governance-based financial activism (Gillan and Starks, 2007); (Gillan & Starks, 2000). In developed nations SHA has come in the spotlight through the activities of the ii (Gillan & Starks, 2000; Proffitt Jr and Spicer, 2006) especially the hedge funds (Cheffins and Armour, 2011)

Managerial labor in the firm is exposed to many monitoring mechanisms managers are expected to direct the company in a way that maximizes firm value. Several literatures are available that highlight the connection between managers' efficiency in dealing with threats and its impact on shareholder wealth (Gompers et al., 2003). Second, the insights these studies give are further extended by the degree of comp. among industries, complementing the CG mechanism in motivating and aligning the managers

to put on their best efforts (Giroud & Mueller, 2010). The operating performance of a firm has a significant association with the SHA (Goranova & Ryan, 2014). There is literature evidence available that shows that there is a positive (Hadani et al., 2011) and negative (Prevost and Rao, 2000) impact of SHA on the operating performance of the firms. Just like the association with operating performance, SHA's association with firm value also has twofold evidence from the literature. Studies like (Alexander et al., 2010; Cai & Walkling, 2011) show that SHA paves the path for a better firm value, whereas (Clifford, 2008; Edmans, 2014) showed the other side of the story and concluded that SHA cut back the firm's value. Comp. among industries helps in reducing managerial slack and promotes opportunistic behavior, because of these positive impacts, business comp. as a governance maneuver has its significance in the economic market. SHA is more likely to occur in industries in which companies compete with very few companies for market share because of industry comp. is a kind of mechanism that cannot be altered by the shareholders (Bauer et al., 2010)

A shareholder proposal can be seen as a catalyst to the process of strengthening the control over corporations or pressuring the management for beneficial changes [46]. This sort of proposal increases an activist investor's influence on important corporate issues and firm policies indirectly. The time between 1997 and 2006 has witnessed an increasing trend in shareholder proposals. Companies belonging to the less competitive industry and with poor governance are among the highest recipients of shareholder proposals (Bauer et al., 2010). Apart from being a shareholder, institutional investors play a vital role as proposal sponsor (Gillan & Starks, 2000). These investors have more power to influence other shareholders to use their rights and vote with them. This is the reason that the proposals which are sponsored by institutional investors, get strong voting support from the shareholders. Institutional investors seem to be more active in the issues related to the change in management, corporate policies, and governance structure of the firm (Chidambaram & Woidtke, 1999). As compared to other developed nations, SHA is in its early stage in India (Shingade et al., 2022). The slow pace of development at SHA can be attributed to the fact that in the past, hostile takeover attempts and the division of ownership and management were almost unheard of in India. Apart from these two, scattered or inactive institutional

investors as shareholder was also one of the major reasons (Sridhar, 2016)

The last few years have been marked as watershed years in the context of SHA in India because of the changes in the regulation and legislation regarding SHA, international investors are entering the shareholder's arena of Indian firms (Sarkar & Sarkar, 2000; Varottil, 2009). and the major milestone is the introduction of The Companies Act, 2013 (Aggarwal et al., 2022). The steps taken by the regulatory body SEBI (Security Exchange Board of India) have also polished the horn of the shareholders, allowing ballot voting, and allowing intermediation by international institutional shareholder groups are some of the major reforms among them (Sridhar, 2016; Sarkar & Sarkar, 2000; Varottil, 2009). The majority of the research that has already been written about shareholder activism (SHA) has focused on making deductions about the variables that affect the probability of receiving proposals and the results of the subsequent votes (Gillan & Starks, 2000; John & Klein, 1995; Gordon and Pound, 1993). To the best of our knowledge, though, no earlier studies have looked closely at how pay (comp.) affects SHA, especially when institutional investors are acting as a moderating force.

Based on the above discourse, it can be inferred that remuneration exerts a noteworthy influence on the direction of shareholder activism. Interestingly, no research has been done to date on how compensation affects SHA. In order to set itself apart, this study analyses how remuneration affects SHA while accounting for institutional investors' moderating influence. As a result, the subsequent theory is proposed for the study.

H<sub>1</sub>: comp. significantly affects the SHA

H<sub>2</sub>: Institutional Investors significantly affects the Comp. and SHA

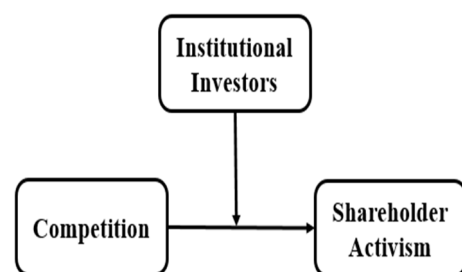


Fig. 1. Conceptual Model.

Source: Authors' own creation

### 3 DATA AND METHODOLOGY

This section explains the source of data and methodology used to understand the effect of competition on the SHA using ii as a moderator.

#### 3.1 Sample and data

The S&P BSE 100 Index includes 78 non-financial Indian companies that make up the study sample. The time frame of the study is from 2016 to 2020. In this work, panel data regression which is defined as a blend of cross-sectional and time-series data is utilised to improve the overall comprehension of the dataset. This study's use of panel data regression makes it possible to estimate results and findings more precisely, enhancing the analysis and making it more perceptive using Python. The dataset includes 390 company-year data points that cover the performance of 78 companies over the course of five years from the perspective of econometric analysis. Remarkably, just 78 of the 100 S&P BSE-listed businesses were considered the best candidates for this study's inclusion. The Centre for Monitoring Indian Economy (CMIE) prowess and the annual reports of these corporations provided further data for this study.

#### 3.2 Methodology

This study used two models (base and interaction model) represented by equations (eq) 1 and 2.

$$SHA_{it} = \beta_0 + \beta_1 \ln\_comp + \beta_2 \ln\_mcap + u_{it} \quad (1)$$

$$SHA_{it} = \beta_0 + \beta_1 \ln\_comp + \beta_2 \ln\_ii + \beta_3 i\_ln\_Comp * \ln\_ii + \beta_3 \ln\_mcap + u_{it} \quad (2)$$

Where SHA stands for shareholder activism, this is the independent variable in the present study. Furthermore,  $\beta_0$  is the constant term, and  $\ln\_comp$  stands for comp. and represents the comp. level between the company, this is the independent variable.  $\ln\_ii$  denotes the institutional investor.  $i\_ln\_Comp * \ln\_ii$  represents the interacting term.  $\ln\_mcap$  is the log of market capitalization. It is used as the control variable in the calculation. Lastly,  $u_{it}$  considered to be an incorrect term. Within the Table. In this study, the variables are defined and employed.

Table 1: Variable.

Variables	Type	Definition	Citation
SHA	DV	The use of an ownership position to effect business policies and practices is known as shareholder activism.	Judge et al. (2010) and Rose and Sharfman (2014)
$\ln\_comp$	EV	The customer-focused approach of banks is always analyzed in terms of comp..	Karpoff et al. (1996)
$\ln\_ii$	MV	It signifies the investment made by the institutional investor	Anabtawi and Stout, (2007)
$\ln\_mcap$	CV	It is determined by multiplying the share's current market value by the number of the corporation's outstanding shares.	Shingade & Rastogi, (2020)
Note: Define the variable of study			

### 4 RESULTS

This section explains the descriptive statistics and multicollinearity issue of the variables. Additionally, the regression result is explained to understand the relationship between them.

#### 4.1 Descriptive Statistics and Correlation

Table 2 represents the descriptive statistics of the study. The mean value of SHA is 0.675, which somewhere lies between the min and max values. It implies a moderate level of shareholders are active in the company. The standard deviation is 0.066 implies that the variation in SHA-level activities between companies is very low.  $\ln\_comp$  average value is -1.571 lies more toward the max level implying a higher level of comp. between companies. The variation of comp. between companies is at a moderate level as the standard deviation of  $\ln\_comp$  is 1.442. the  $\ln\_ii$  mean value is 3.473 lies more toward the max level.

Table 3 comprehensive relationships between the independent and control variables are outlined in the correlation matrix. Interestingly, it is apparent that there are no examples of statistically insignificant correlations larger than 0.8. This discovery strongly implies that there are no problems with multicollinearity in the dataset.

Table 2: Descriptive Statistics.

Variable	Mean	Std.Dev.	Min	Max
SHA	0.675	0.066	0.459	0.810
ln_comp	-1.571	1.442	-7.844	1.456
ln_ii	3.473	0.390	1.964	4.374
i_ln_Comp*ln_ii	-5.514	5.218	-28.636	5.157
ln_mcap	10.933	0.935	8.890	13.832

Note: The terms mean, SD, Min, and Max refer to the mean, standard deviation, minimum, and maximum values, in that order.

Source: Python Outcome

Table 3: Correlation Matrix.

Variables	ln_com p	lnii	i_ln_Comp p*ln_ii	ln_mca p
ln_comp	1.000			
ln_ii	-0.093 (0.066)	1.000		
i_ln_Comp*ln_ii	0.989* (0.000)	-0.202* (0.000)	1.000	
ln_mcap	0.138* (0.006)	-0.123* (0.015)	0.137* (0.006)	1.000

Note: A significant correlation coefficient at 0.05 is indicated by the symbol \*

Source: Python Outcome

## 4.2 Endogeneity Results

The endogeneity test results are shown in Table 4. The base model the Durbin Chi-2 p-value is 0.7469, and the Wu-Hausman test produces a p-value of 0.7504. Both values are greater than the traditional significance level of 0.05, which suggests that endogeneity problems have been resolved and indicates that there are no statistically significant results. In the same way, the interaction term's Durbin Chi-2 p-value is 0.3789, and the Wu-Hausman test produces a p-value of 0.3884, both of which are higher than 0.05, confirming the results' lack of significance and proving there are no endogeneity issues.

Table 4: Endogeneity Results.

DV: SHA		
	lnComp	lnComp lnii
Durbin Chi-2	.104191 (0.7469)	.774415 (0.3789)
Wu-Hausman Test	.101587 (0.7504)	.748176 (0.3884)

Note: An asterisk (\*) denotes a statistically significant value at a significance level of 5%. The value enclosed in parentheses represents the p-value. In this context, SHA represents the endogenous variable.

Source: Python Outcome

## 4.3 Regression Results

Table 5. represent the base and interaction model. In the base model, the association between comp. and shareholder activism is seen. The robustness of the result is measured as the problem of heteroscedasticity is found as the Wald test is significant, having a p-value of 0.000. the problem of autocorrelation is insignificant as the p-value of the Woolridge test is 0.5745. the coefficient of ln\_comp is -0.004 having a p-value (<0.05) is statistically significant implying that the comp. is negatively associated with the SHA as an increase in the comp. leads to a rise in the SHA of the company. In the Interaction model, the coefficient of i\_ln\_Comp\*ln\_ii is 0.001, and having a p-value more than 0.05, it implies that there is no impact of moderator ii on the comp. and SHA of the company.

Table 5: Results of Regression.

DV: SHA	Base model	Interaction model
	Coef.	Coef.
ln_comp	-.004* (.001)	-.010 (.022)
ln_ii		.105* (.016)
i_ln_Comp*ln_ii		.001 (.006)
ln_mcap	.018* (.005)	.012** (.005)
Cons	.469* (.059)	.165** (.079)
BP-test (Random effect)	472.56 (0.000)	442.26 (0.000)
Hausman Test	0.53 (0.765)	30.46 (0.000)
F- test		22.53* (0.000)
Chi- square	18.82* (0.000)	
Wald test chi2	25689.01* (0.000)	35298.56* (0.000)
Wooldridge test	0.318 (0.574)	0.023 (0.880)

Notes: \* and \*\* indicates a significant value at a 5% and 10% respectively.

Source: Python Outcome



#### 4.4 Robustness of the Result

The results shown in Table 5 show that the outcomes from the two models are consistent with one another. Robustness tests were carried out to verify these findings.

The underlying model's autocorrelation turned out to be a problem, thus robustness tests were conducted to solve it. Furthermore, the interaction model demonstrated signs of heteroscedasticity and autocorrelation, requiring additional robustness testing to address these issues.

## 5 DISCUSSION

This study's main goal is to find out how comp. affects SHA. The foundational model's results are consistent with the first hypothesis (H1), which states that comp. and SHA are negatively correlated. This implies that increased shareholder action follows a rise in comp. On the other hand, the findings of the succeeding model show that moderator ii has no discernible impact on the association between SHA and comp., hence refuting the second hypothesis (H2). The findings are inconsistent with those of (Bauer et al., 2010) whose findings state that in the absence of fierce comp. in the industry, companies are more likely to be targeted by shareholders. This difference may be attributed to the studies being done in different nations, one being the developed and other being developing. The results of the study are consistent with the (Allen et al. 2007), which states that shareholders-driven firms benefit from the comp. This shows that the level of comp. not only increases the SHA but also positively affects the firm's value.

## 6 CONCLUSION

The prime objective of this paper is to evaluate the effect of comp. on SHA, which can highlight the dependence of SHA on comp. The study's two-dimensional goal has been achieved by adding ii as a moderating element. The study demonstrates how SHA, ii, and comp. are related. The limitation of the study is that the ii are used only as a single moderator, the impact of other moderators remains unobserved. Based on the study's findings we recommend more efforts be taken to strengthen the SHA in developing economies like India. Companies' management may not appreciate SHA, as they consider this as an

additional waste of time and money, but to implement CG in its true sense, SHA can play an important role.

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