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

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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

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