Influences of Efficiency on Shareholder Activism using ROA as a moderator?

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Abstract— **The effect of efficiency on shareholder activism (SHA) with the moderating effect of Return on Assets (ROA) has been studied by this research study. This analysis uses data about corporate firms from the CMIE Prowess database. This data spans over 4 years from 2016 to 2020. Static panel data are used to propose the two models (base model and the interaction model). The application of PDR models from this study shows that Efficiency impacts SHA negatively. The influences of efficiency on shareholder activism are multifaceted and dynamic. The association of shareholder activism and the efficiency of the organization is not significantly influenced by the moderating variable which is the return on assets for the selected dataset of this study. As the chosen data represents a significant segment of the Indian corporate landscape, this study offers a better understanding of how efficiency relates to SHA within corporates in the Indian context. The results of this study can provide guidelines for strategy preparations to proactively demeanor the issues of shareholder activism in the context of fast fast-changing technology landscape and its use by new age activist.**

Keywords: Shareholder Activism, Return on Assets, Efficiency, Corporate Governance, ICT

I. Introduction

The attempt by shareholders to communicate the need for change in a company's policies or management is referred to as shareholder activism (SHA) [1]. Shareholders make this decision based on their ownership rights. It is typically used to correct a business gaffe or to effect a significant change in corporate policies if the management is not responsive, having inefficient operations resulting in poor financial performance. The efficiency of any business in all aspects of its operations and management can have significant consequences on its responsiveness to SHA [2]. Inefficient methods, poor financial performance, and regulatory difficulties may attract activist investors who are eager to implement changes that they believe could boost shareholder value and overall firm efficiency. The efficiency of a company's response to regulatory and legal challenges can also influence shareholder activism. Companies should be aware of such potential impacts and address any areas where they may be exposed to activism as soon as possible.

Data Envelopment Analysis (DEA) is a very current tool that permits the measurement of the comparative efficiency of an organization. The DEA technique is often used in research projects to assess an organization's economic efficiency using data from its financial statements [3]. DEA augments ratios to create, implement, and evaluate a benchmarking plan aimed at improving performance that benefits a broader group of stakeholders. The return on assets (ROA) ratio is also very effective and reflects the utilization of its assets by the firm. It is one of the important financial tools that assess a firm's effectiveness in making revenues from its assets. It is calculated by dividing a corporation's net income by its total assets. ROA can act as a moderator in the context of SHA by affecting the influences of numerous variables [4]. A moderator is a variable that modifies the strength or way of an association that exists between variables. In this ailment, ROA can operate as a buffer between many factors and the possibility or level of shareholder agitation. The ROA can provide valuable insight into asset utilization to produce profits. A higher ROA specifies that the firm is making more revenue for each dollar of assets it has invested. Companies with a high ROA often make good use of their assets to produce sales and profitability. A low ROA, on the other hand, could indicate that the business has too many assets compared to its income generation, or that the assets are not being used properly. The influence of ROA on SHA may be minimized by financial performance, or by the quality of corporate governance which can include board independence and executive compensation [5]. Some researchers also argued company's policy about ESG metrics and its influence on SHA. Inadequate financial performance can have a greater impact on activism when a firm's ROA is low, since shareholders may be more inclined to advocate for reforms to enhance efficiency and profitability.

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