



Institutional shareholder activism in Nigeria: An accountability perspective



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ABSTRACT

Research has identified institutional shareholders and shareholders' associations as separate groups that are able to interact and promote accountability through shareholder activism. This study employs a qualitative methodology to critically evaluate how institutional shareholders perceive the participation of Nigerian shareholders' associations in shareholder activism. We examine three features of accountability that are vital in shareholder activism; dialectical activity, independence and agenda. We contribute to the accountability literature by showing how these three features shape institutional shareholders' perception of shareholders' associations as shareholder activists. Our findings show distinct differences between the views of representatives from active and passive institutional shareholders.

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1. Introduction

This study is concerned with shareholder activism in Nigeria. According to [Sjöström \(2008, p. 142\)](#), shareholder activism is “the use of ownership position to actively influence company policy and practice”. More specifically, our paper explores the perceived value of shareholders' associations' engagement in shareholder activism. Shareholders' associations are a registered group consisting largely of small individual shareholders.¹ We know from prior literature on developed countries that shareholders' associations have benefited from institutional shareholders' collaborative participation in shareholder activism. Shareholders' associations engaged in shareholder activism have recorded successful campaigns with the help of institutional shareholders that use their proxy votes to support shareholder proposals ([Gillan & Starks, 2000](#); [Strickland, Wiles, & Zenner, 1996](#)). However, there is little empirical work in either developed or developing setting which explores whether institutional shareholders value shareholders' associations' participation in shareholder activism. It is not clear whether activist work by shareholders' associations' is perceived in a positive light by institutional shareholders. Therefore,

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¹ Shareholders' associations are a group of small individual shareholders formed into a body of shareholders. The associations requires individuals to officially apply for membership status to join the body.

we lack an understanding of the effect of participation by shareholders' associations in shareholder activism on institutional shareholders.

This study aims to bring more clarity to this issue by investigating the context of Nigeria, a developing country setting. Nigeria offers a unique and relevant context to explore the extent to which shareholders' associations participation in shareholder activism is deemed in a positive light by institutional shareholders. Firstly, the Nigerian setting is unique as it hosts over thirty shareholders' associations compared to other countries where there is usually only one shareholders' association participating in shareholder activism (Adegbite, Amaeshi, & Amao, 2012; Amao & Amaeshi, 2008; Carrington & Johed, 2007; Manry & Stangeland, 2003; Poulsen, Rose, Strand, & Thomsen, 2010). Secondly, this setting is relevant because of the similarities in the pattern of shareholders' associations' membership compared to some developed countries. In Nigeria, the membership of shareholders' associations consists of only small individual investors. This arrangement is similar to countries like New Zealand, South Africa, Sweden and the UK (Bailey, 2005; Catasús & Johed, 2007; Hasenfuss, 2006; Morrall, 2011). This feature is key in understanding the strategies employed, and the nature of shareholder influence over corporate managers in shareholder activism.

This study intends critically to evaluate how active and passive institutional shareholders perceive the value of shareholders' associations' participation in shareholder activism. In our interview results, where feasible, we make a distinction between the views of representatives from active and passive institutional shareholders. This is because prior research has already established that institutional shareholders adopt different approaches towards shareholder activism. The different approaches enable institutional shareholders to benefit in different ways from the actions of other activists. For example, active institutional shareholders have benefited from co-ordinated voting with other institutional shareholders. However, passive institutional shareholders avoid direct participation in campaigns led by other activists. However, they benefit from the efforts of other institutional shareholder engaged in activism thereby free-riding (Brav, Jiang, Partnoy, & Thomas, 2008; Norli, Ostergaard, & Schindele, 2015; Poulsen et al., 2010). Our results are analysed using accountability theory rather than the traditional dominant theoretical framework of agency theory. Agency theory directs our attention to agency problem in understanding the rationale for shareholder engagement in shareholder activism (Goranova & Ryan, 2014; Yakasai, 2001; Yuan, Xiao, Milonas, & Zou, 2009). However, this theory is limited in its capture of the behavioural dynamics associated with the process of shareholder activism.

On the other hand, accountability theory provides a different dimension by focusing on the how agents behave in relation to management (see Roberts, McNulty, & Stiles, 2005). More importantly, this theory assumes that in giving an account, there is an expectation of dialectical activity between the independent bodies: the accountant and accountee (Mulgan, 2000). This paper shares the view that shareholder activism is a form of accountability mechanism that requires institutional shareholders to step into an accountant–accountee relationship and demand accounts from management. In a corporate accountability process, the accountees are able to exert influence by challenging and/or supporting the accountant's decision on accounts relating to corporate practices and policies (see Roberts et al., 2005). This process of accountability has been observed in the relations between shareholders and management. Scholars report that management (accountants) are influenced through dialogue on corporate strategic decisions and performance by institutional shareholders (accountees) (Roberts, Sanderson, Barker, & Hendry, 2006; Solomon & Darby, 2005; Yuan et al., 2009). Interestingly, while these studies acknowledge the notion of accountability in shareholder–management relations, they do not use accountability theory in theorisation. Instead, the few researchers that have employed this theory concentrate largely on the study of stakeholder activism (Laufer, 2003; O'Connell, Stephens, Betz, Shepard, & Hendry, 2005). Our study employs accountability theory to study shareholder activism.

Overall, this study makes a theoretical contribution to both the accountability and shareholder literature by deploying accountability theory in the study of shareholder activism. The explicit adoption of accountability theory has been largely omitted in prior research on shareholder activism (Brav et al., 2008; Goranova & Ryan, 2014; Marler & Faugère, 2010; Norli et al., 2015). We explore three areas of accountability that have implications for shareholder activism: dialectical activity, independence and agenda. Second, this study makes an empirical contribution to the study on institutional shareholder activism by highlighting, where feasible, the difference between the views of representatives from active and passive institutional shareholders in relation to shareholders' associations' participation in shareholder activism. The findings highlight the difference in perceptions of representatives from active and passive institutional shareholders on shareholders' associations' participation in shareholder activism. Third, our study contributes to the literature by addressing the role of shareholders' associations in shareholder activism (Johed & Catasús, 2015; Strickland et al., 1996; Uche & Atkins, 2015). However, it provides a different perspective by largely exploring and emphasising the view of institutional shareholders. The rest of the paper is organised as follows: the next sections are the literature review and theoretical background. This is followed by a review of the context and the research method. Next, we discuss our empirical evidence and present our conclusion.

2. Literature review and theoretical background

2.1. Institutional shareholders and shareholders' associations as a participants in shareholder activism

Academic studies show that both institutional and non-institutional shareholders play a key role in shareholder activism. Studies report that active institutional shareholders include pension funds, mutual funds and hedge funds with banks and insurance companies (Becht, Franks, Mayer, & Rossi, 2008; Brav et al., 2008; Hendry, Sanderson, Barker, & Roberts, 2007;

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