

Shareholder Activism: A Multidisciplinary Review

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Shareholder activism has become a dynamic institutional force, and its associated, rapidly increasing body of scholarly literature affects numerous disciplines within the organization science academy. In addition to equivocal results concerning the impact of shareholder activism on corporate outcomes, the separation of prior research into financial and social activism has left unanswered questions critical for both the scholarly discourse on shareholder activism and the normative debate on shareholder empowerment. The heterogeneity of factors in shareholder activism, such as the firm, activist, and environmental characteristics that promote or inhibit activism, along with the breadth of activism's issues, methods, and processes, provide a plethora of theoretical and methodological opportunities and challenges for activism researchers. Our multidisciplinary review incorporates the financial and social activism streams and explores shareholder activism heterogeneity and controversy, seeking to provide an impetus for more cohesive conceptual and empirical work in the field.

Keywords: *shareholder activism; financial activism; social activism; multidisciplinary review*

The dawn of investor capitalism (Useem, 1996) has been marked by increased shareholder activism (Greenwood & Schor, 2009; Kahan & Rock, 2010; Renneboog & Szilagyi, 2011), ranging from investor confrontations with managers to express their dissatisfaction (David, Bloom, & Hillman, 2007; David, Hitt, & Gimeno, 2001) to formal interventions to change corporate strategy and performance (Song & Szewczyk, 2003; Westphal & Bednar,

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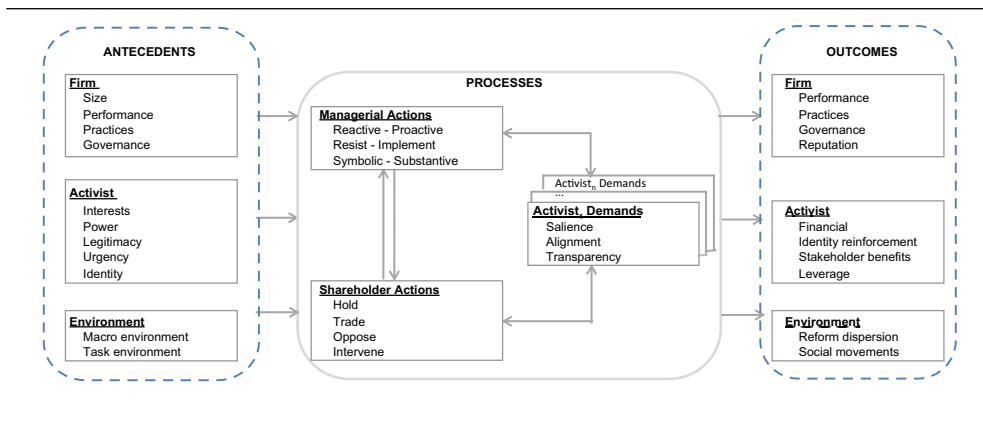
2008). Shareholder activism has targeted corporate governance and performance (Davis & Thompson, 1994; Dimitrov & Jain, 2011), as well as social, political, and environmental issues (Clark & Crawford, 2012; David et al., 2007; Reid & Toffel, 2009), causing an evolution from a market-based to a political model of corporate governance (Karpoff, Malatesta, & Walkling, 1996; Wahal, 1996). Some observers have proclaimed that “activists have captured the center ring and are directing the main event” (Duhigg, 2007: C1), while others have dubbed the era the “Shareholder Spring” (Farrell, 2012; Morphy, 2012). Such heightened legitimacy lies in stark contrast to earlier views of activism as a subversion of the annual shareholder meeting (Vogel, 1983) and “a waste of management’s time and the corporation’s money” (Cane, 1985: 70). Spawned by the fringe actions of corporate gadflies, shareholder activism has transitioned into a social movement that has changed the balance of power in modern corporations (Davis & Thompson, 1994; Kahan & Rock, 2010) and that embodies the promise of holding corporate managers accountable to their firms’ shareholders (Bebchuk, 2005; Thomas & Cotter, 2007) and stakeholders (Rehbein, Waddock, & Graves, 2004; Reid & Toffel, 2009).

Yet shareholder activism remains mired in controversy. Despite significant pro-shareholder regulatory changes over the past two decades (Anabtawi & Stout, 2008), some scholars call for greater managerial accountability to firm shareholders in order to improve firm performance (Bebchuk, 2005, 2007; Dimitrov & Jain, 2011). Others, however, denounce the view of corporations as bundles of assets that exist solely to line the pockets of shareholders (Welker & Wood, 2011) or warn that empowering shareholders will merely compound the problem of managerial self-serving with the problem of shareholder self-serving (Lan & Heracleous, 2010; Stout, 2007; Strine, 2006). The public debate on shareholder proxy access exemplifies this controversy: the SEC (2010) argued that allowing large investors to nominate directors would improve accountability and benefit all investors, while the Business Roundtable (2011) warned that the rule would benefit some shareholders at the expense of others.

Given the pivotal role of corporations in modern society, resolving such controversies has academic, normative, and practical implications. Research on shareholder activism, a relatively young and vibrant field, is uniquely positioned to address these issues, as it offers heterogeneous and at times conflicting perspectives on shareholder engagement. On one hand, the financial activism stream embraces shareholder primacy and treats activism that deviates from concerns with shareholder value or governance as irrelevant or frivolous (e.g., Gillan & Starks, 2007; Thomas & Cotter, 2007). On the other hand, the stakeholder-centered social activism stream (e.g., Sjostrom, 2008; Tkac, 2006) focuses on shareholder activists raising social issues in annual shareholder meetings and corporate boardrooms (Rehbein et al., 2004; Vogel, 2004). While financial activism traces its roots to the rise of agency theory as the dominant perspective on corporate control from the 1980s onward (Khurana, 2007; Zajac & Westphal, 1995), social activism is an ideological descendent of the 1960s civil rights movement (Reid & Toffel, 2009).

Despite the shared activism focus, the financial and social streams not only rely on different theoretical foundations and pose divergent research questions, but also reach different conclusions. While the two streams could be viewed as complementary, with both acting to deter or remedy managerial deficiencies, the issue of shareholder versus stakeholder primacy has generated its own debate (Freeman, Wicks, & Parmar, 2004; Sundaram & Inkpen, 2004a,

Figure 1
Shareholder Activism: Antecedents, Processes, and Outcomes



2004b). From this perspective, financial and social activism could be viewed as colliding, as social goals may not be shared by financially driven shareholders (Gillan & Starks, 2007). Alternatively, enhanced shareholder returns may be viewed by social-cause advocates as being captured at the expense of other stakeholders (Barnett & Salomon, 2012). Perhaps not surprisingly, even though the scholarly output on shareholder activism has doubled over the last five years, its insights remain equivocal (Chung & Talaulicar, 2010; Gillan & Starks, 2007).

We attempt to shed light on these controversies by undertaking a comprehensive multidisciplinary review of the shareholder activism literature and the conceptual and empirical development of the field. In this multidisciplinary review, we examine the financial and social activism research, contribute to the scholarly debate on the role of activism in modern society, and provide an impetus for more integrative conceptual and empirical work in the field. We offer a multilevel model to organize and synthesize prior research (Figure 1) and to critically analyze shareholder activism and directions for future research. Our goal is to inform organization science researchers about the current state of the shareholder activism literature, map directions for future scholarly work and promote commonality and clarity in activism research across disciplines. This review also has implications for the broader literature on ownership and shareholder empowerment.

To begin, we conducted a targeted search of the key terms “shareholder activism,” “investor activism,” and “shareholder influence” in ISI Web of Knowledge, JSTOR, and Science Direct. As we were striving for a multidisciplinary review, we considered articles published in top journals in the management, finance, and accounting fields. The broader field of corporate ownership has often equated ownership stake with propensity for shareholder activism (Dharwadkar, Goranova, Brandes, & Khan, 2008); however, the relationship between the two is not necessarily monotonic (Noe, 2002; Ryan & Schneider, 2002). Consequently, we delineated the boundaries of our search by defining “shareholder activism” as actions taken by shareholders with the explicit intention of influencing corporations’ policies and practices, rather than as latent intentions implicit in ownership stakes or trading behavior.

Furthermore, we distinguish shareholder activism from actions related to the market for corporate control; shareholder activists seek to influence corporate managers, but their goal is not to assume managerial duties by managing targeted companies themselves, thus undertaking responsibility for executive decision making. While we review conceptual work on activism below, we tabulate only empirical studies where activism is a dependent (Table 1) or an explanatory variable (Table 2).

Shareholder Activism: Proponents and Issues

The shareholder activism landscape has evolved dramatically over the last several decades. Between 1942, when shareholders were first granted the opportunity to submit shareholder resolutions (Reid & Toffel, 2009; SEC, 1942), and the 1970s, individual investors, dubbed “corporate gadflies” by the contemporary media, were the main actors on the shareholder activism stage (Gillan & Starks, 2007). In 1970, however, a lawsuit successfully challenged the SEC’s position that companies could omit social issue proposals from their proxy statements because they promoted actions improper for shareholder consideration (Proffitt & Spicer, 2006; Sjostrom, 2008). The court’s decision consequently spawned the social activism field, by paving the way for social, environmental, and political activism that seeks to pressure companies to change their business practices and, ultimately, their societal impact (Rehbein et al., 2004; Sjostrom, 2008, 2010; Tkac, 2006). The founding of the Interfaith Center on Corporate Responsibility in 1971 and the Investor Responsibility Research Center in 1972 led to a subsequent increase in social shareholder proposals (Proffitt & Spicer, 2006), sponsored by a variety of foundations, charities, religious and environmental organizations, and, more recently, socially responsible investment funds (Rehbein et al., 2004; Reid & Toffel, 2009; Sparkes & Cowton, 2004).

Financial activism, on the other hand, with its arguably more potent impact on firm outcomes (e.g., Gillan & Starks, 2007; Thomas & Cotter, 2007), was propelled by the rise of institutional ownership. Both Institutional Shareholder Services and the Council of Institutional Investors were founded in 1985, a watershed year for institutional activism (Davis & Thompson 1994; Lipton, 2007). At first mainly the domain of public pension funds (Gillan & Starks, 2007), the activism scene rapidly became more diverse. In the 1990s, labor union funds replaced public pension funds as the most prolific sponsors of governance proposals (Agrawal, 2012; Romano, 2001; Thomas & Martin, 1998), and, eventually, even traditionally restrained mutual funds jumped on the activism bandwagon (Brandes, Goranova, & Hall, 2008). These activists focused primarily on governance-based financial activism, seeking to improve governance structures and render managers more accountable to firm shareholders (Gillan & Starks, 2000, 2007).

The latest actors on the activism stage, hedge funds, entered the financial activism field in the late 1990s, and rapidly gained prominence as they accelerated their activism efforts (Greenwood & Schor, 2009). Using the newly dubbed “market for corporate influence” (Cheffins & Armour, 2011), activist hedge funds benefited both from the legacy of the 1980s’ market for corporate control and from the now widely accepted agenda of shareholder-value maximization. Unlike often reactive governance activism, where existing shareholders seek to improve firm performance by observing and reacting to governance deficiencies (Cheffins & Armour, 2011; Kahan & Rock, 2010), hedge fund activism focuses more specifically on

Table 1

Antecedents of Shareholder Activism

Authors	Journal	Activism Measure	Period	Firm Size	Firm Performance	CEO Incentives	Board Structure	Ownership	Main Findings
Karpoff, Malatesta, & Walking (1996)	JFE	Governance proposals	1986-1990	✓	✓	✓		✓	Firm size, leverage, and number of institutional owners are positively related to shareholder activism, while firm performance is negatively related to activism.
Smith (1996)	JF	CalPERS targets	1987-1993	✓	✓	✓		✓	Firm size and institutional ownership are positively related to shareholder activism.
Bizjak & Marquette (1998)	JFQA	Poison pill proposals	1987-1993	✓	✓	✓	✓	✓	Shareholder activism is positively related to institutional ownership, and negatively to insider and blockholder ownership, as well as to pill adoption-day abnormal returns.
Carleton, Nelson, & Weisbach (1998)	JF	TIAA-CREF proposals	1992-1996		✓	✓		✓	Institutional ownership and ownership by nonactivist institutions are positively related to TIAA-CREF activism, while insider ownership is negatively related.
Faleye (2004)	JF	Proxy contests	1988-2000		✓	✓		✓	Excess cash is positively related to proxy fights, while managerial ownership is negatively related.
Brav, Jiang, Partnoy, & Thomas (2008)	JF	Hedge fund activism	2001-2006	✓	✓			✓	Hedge fund targeting is negatively related to market value, Tobin's Q, and dividends, and positively related to institutional ownership and governance score.
Ferri & Sandino (2009)	TAR	Option expensing proposals	2003-2004	✓	✓	✓	✓	✓	CEOs with more stock options, managing high-tech and leveraged firms, are more likely to be targeted. Institutional ownership and option expense are negatively related to shareholder activism.

(continued)

Table 1 (continued)

Authors	Journal	Activism Measure	Period	Firm Size	Firm Performance	CEO Incentives	Board Structure	Ownership	Main Findings
Klein & Zur (2009)	JF	Hedge fund activism	1995-2005		✓				Profitability and cash holdings are positively related to hedge fund activism, while debt is negatively related.
Cai & Walkling (2011)	JFQA	Say-on-pay proposals	2006-2008	✓	✓	✓	✓	✓	Firm size, busy independent directors, independent institutional ownership, and pay-for-performance sensitivity are positively related to activism.
Ertimur, Ferri, & Muslu (2011)	RFS	"Vote no" campaigns, proposals	1997-2007	✓	✓	✓	✓	✓	CEO pay, firm size, and board independence are positively related to activism, while firm performance and entrenchment index are negatively related to activism.
Edmans, Fang, & Zur (2013)	RFS	Hedge fund activism	2005-2010	✓	✓				Firm liquidity, Tobin's Q, leverage, and R&D are negatively related to hedge-fund activism.

Table 2

Outcomes of Shareholder Activism

Authors	Journal	Activism Measure	Period	Market Reaction	Firm Performance	Approval/ Adoption	Governance	Firm Practices	Activist	Environment	Main Findings
Gordon & Pound (1993)	JF	Governance proposals	1989-1992			✓					Shareholder approval varies with the type of activist, proposal, ownership, governance, and performance.
Karpoff, Malatesta, & Walking (1996)	JFE	Governance proposals	1986-1990	✓	✓		✓				Weak negative market reaction on proxy mailing date. Target firms' sales grow slower than peers 1 to 3 years after activism.
Smith (1996)	JF	CalPERS proposals	1987-1993	✓		✓					Positive market reactions to adoption and for firms that settle with CalPERS; negative for firms that do not.
Strickland, Wiles, & Zenner (1996)	JFE	USA proposals	1986-1993	✓		✓					Insignificant market reaction, but positive for negotiated settlements. Shareholder approval is negatively related to firm performance and positively related to institutional ownership.
Wahal (1996)	JFQA	Pension fund proposals	1987-1993	✓	✓						Insignificant market reaction and lack of long-term improvement in firm operational and financial performance.
Bizjak & Marquette (1998)	JFQA	Poison pill proposals	1987-1993	✓		✓					Negative market reaction to proposals to rescind pills; pill revisions associated with increased shareholder wealth. Higher vote in poorly performing firms with more onerous pills.
Carleton, Nelson, & Weisbach (1998)	JF	TIAA-CREF proposals	1992-1996	✓		✓					Insignificant market reaction overall, positive for some proposals. The majority of proposals were negotiated and withdrawn prior to vote. Insider ownership is negatively related to private settlement.
Del Guercio & Hawkins (1999)	JFE	Pension fund proposals	1987-1993	✓	✓		✓			✓	Insignificant market reaction and long-term effect. Higher turnover and governance changes for targeted firms. Positively related to subsequent market for corporate control.

(continued)

Table 2 (continued)

Authors	Journal	Activism Measure	Period	Market Reaction	Firm Performance	Approval/Adoption	Governance	Firm Practices	Activist Environment	Main Findings
Rao & Sivakumar (1999)	OrgSci	Shareholder resolutions	1984-1995					✓		Shareholder resolutions are positively related to establishment of investor relations offices.
Gillan & Starks (2000)	JFE	Governance proposals	1987-1994	✓		✓				Insignificant market reaction to institutional activism, positive to individual activism. Higher shareholder approval for institutional sponsors and underperforming firms.
David, Hitt, & Grimenó (2001)	AMJ	Institutional activism	1987-1993		✓					Activism positively related to R&D inputs. R&D inputs mediate the effect of activism on R&D outputs.
Song & Szweczyk (2003)	JFQA	CII focus list	1991-1996	✓	✓				✓	Insignificant differences in returns, mergers, stock repurchases, institutional holdings, and analysts' forecast revisions.
Chen (2004)	JF	Pay proposals, focus lists	1994-1998				✓			Compensation proposals or focus-list targeting is not significantly related to repricing-restriction adoption. Focus-list targeting is positively related to abnormal returns on repricing restrictions.
Stevens, Steensma, Harrison, & Cochran (2005)	SMJ	Pressure from shareholders	2002					✓		Financial executives are more likely to integrate the company's ethics code into their decision making process if they perceive pressure from market stakeholders, including shareholders.
Neubaum & Zahra (2006)	JOM	Institutional activism	1995-2000					✓		Activism moderates positively the relationship between long-term ownership and CSP, but negatively short-term ownership and CSP.
Christoffersen, Geczy, Musto, & Reed (2007)	JF	Governance proposals	1998-1999			✓				Governance-related activism is positively related to stock borrowing. Vote trading is positively related to shareholder approval, especially for external (shareholder rights) proposals.

(continued)

Table 2 (continued)

Authors	Journal	Activism Measure	Period	Market Reaction	Firm Performance	Approval/Adoption	Governance	Firm Practices	Activist	Environment	Main Findings
David, Bloom, & Hillman (2007)	SMJ	Shareholder proposals	1992-1998			✓		✓			Proposals by shareholders with power, legitimacy, and urgency are more likely to be settled by the company. Negative impact on CSP.
Davis & Kim (2007)	JFE	Governance proposals	2001			✓					Mutual funds' business ties with targeted companies have negative impact on their votes for shareholder proposals. Positive market reaction to hedge-fund activism; positive impact on CEO turnover and pay-for-performance.
Brav, Jiang, Partnoy, & Thomas (2008)	JF	Hedge-fund activism	2001-2006	✓	✓		✓				Activists have heterogeneous objectives, and use a variety of tactics. Improved post-campaign performance. "Just vote no" campaigns are positively related to forced CEO turnover.
Del Guercio, Seery, & Woidtke (2008)	JFE	"Vote no" campaigns	1990-2003		✓		✓				Higher institutional ownership is positively related to CEO ingratiation behavior and persuasion attempts. CEO ingratiation and persuasion attempts are significantly mediated by the threat of activism by institutional investors.
Wesphal & Bednar (2008)	ASQ	Activism threat	2002					✓			Private engagement by the activist fund leads to superior performance of the fund. Insignificant market reaction, but positive effect for restructuring and board changes.
Becht, Franks, Mayer, & Rossi (2009)	RFS	Hermes UK Focus Fund activism	1998-2004	✓	✓				✓		Shareholder activism is positively related to CEO compensation; non-proxy-based activism is weakly negatively related to CEO pay. Activism is negatively related to CEO compensation. Higher shareholder approval is positively related to adoption. Activism at peer firms is positively related to voluntary expensing of options.
Chowdhury & Wang (2009)	JOM	Institutional activism	1996-2002				✓				
Ferri & Sandino (2009)	TAR	Option expensing proposals	2003-2004			✓	✓			✓	

(continued)

Table 2 (continued)

Authors	Journal	Activism Measure	Period	Market Reaction	Firm Performance	Approval/Adoption	Governance	Firm Practices	Activist	Environment	Main Findings
Greenwood & Schor (2009)	JFE	Hedge fund activism	1993-2006	✓	✓					✓	Targeted firms are more likely to be acquired. Positive returns to activism are largely due to subsequent acquisitions. Non-acquired targets reduce capital expenditures and increase leverage.
Klein & Zur (2009)	JF	Hedge fund activism	1995-2005	✓	✓						Positive market reaction to shareholder activism, particularly when the objective is board representation, buyout, or merger. Positive returns persist over the year, but operational performance declines.
Reid & Toffel (2009)	SMJ	Environmental proposals	2006-2007					✓		✓	Participation in Carbon Disclosure Project (CDP) is positively related to shareholder activism at the focal firm and at firm's competitors, especially for environmentally sensitive industries.
Alexander, Chen, Seppi, & Spatt (2010)	RFS	Proxy contests	1992-2005	✓		✓					Dissident win is positively related to ISS recommendation, CEO tenure, dissident and institutional ownership; negatively related to managerial ownership and CEO duality.
Cai & Walking (2011)	JFQA	Say-on-pay proposals	2006-2007	✓		✓					Positive market reaction to ISS recommendations, more so if in favor of the dissident.
Dimitrov & Jain (2011)	JAR	Governance proposals	1996-2005	✓							Insignificant market reaction to say-on-pay proposals, negative for union-sponsored proposals; effect moderated by abnormal CEO cash compensation. Governance, institutional ownership, and union sponsorship affect shareholder approval.
											Higher market returns for targeted firms before the annual shareholder meeting, particularly if their stock underperformed in prior year. Activism interacts positively with underperformance.

(continued)

Table 2 (continued)

Authors	Journal	Activism Measure	Period	Market Reaction	Firm Performance	Approval/Adoption	Governance	Firm Practices	Activist Environment	Main Findings
Ertimur, Ferri, & Muslu (2011)	RFS	"Vote no" campaigns, proposals	1997-2007			✓	✓			Vote no campaigns are related to reduction of excessive CEO pay. Pay, entrenchment, and institutional proponents are positively related to shareholder approval, while board independence is negatively related. Implementation is positively related to majority vote and negatively to executive ownership.
Klein & Zur (2011)	RFS	Hedge-fund activism	1994-2006		✓				✓	Hedge-fund activism reduces bondholders' wealth and is related to bond-rating downgrades, more so for confrontational activism.
Agrawal (2012)	RFS	AFL-CIO "Vote no" campaigns	2003-2006					✓	✓	AFL-CIO activism is associated with reductions in labor-union/management disputes. AFL-CIO is likely to vote against directors at represented firms with Unfair Labor Practice charges. Mutual funds that manage corporate retirement plans vote against shareholder proposals, particularly those related to executive pay. Fund families vote with management at client and non-client firms.
Ashraf, Jayaraman, & Ryan (2012)	JFQA	Pay proposals	2004-2006			✓				Mutual funds in the same educational network as the CEO are more likely to vote against proposals on executive compensation.
Butler & Gurun (2012)	RFS	Mutual fund voting	2004-2007			✓				Positive market reaction to proposals that pass. Higher returns for firms with concentrated ownership, antitakeover provisions, R&D, stronger pressure, and institutional proponents.
Cunat, Gine, & Guadalupe (2012)	JF	Governance proposals	1997-2007	✓			✓			Liquidity is positively related to hedge funds acquiring blocks, but hedge funds are less likely to use voice in liquid firms. 13-G filings are met with positive market reaction.
Edmans, Fang, & Zur (2013)	RFS	Hedge fund activism	1995-2010	✓						Escalation of activism campaign is positively related to expected benefits for the activist fund, and negatively related to the activist investment in the target and the number of ongoing campaigns.
Gantchev (2013)	JFE	Hedge fund activism	2000-2007						✓	

financial performance and seeks more immediate outcomes (Bratton, 2008), such as the redistribution of cash flows or asset-base restructuring by targeted firms (Brav et al., 2008; Klein & Zur, 2009). Unlike the market for corporate control, such improvements in shareholder value are pursued without seeking a transfer of control (Bratton, 2007). Akin to the market for corporate control, however, hedge fund activism is *ex-ante*, in the sense that promising targets are often identified before the fund takes a shareholder position (Cheffins & Armour, 2011; Gantchev, 2013). Hedge fund activism has rapidly emerged as both the most promising and the most potent form of activism (Brav et al., 2008; Klein & Zur, 2009), as well as the most controversial one (Schneider & Ryan, 2011), raising questions of whether activism creates, captures, or destroys corporate value (Lipton & Savitt, 2007; Macey, 2008).

Research on hedge fund and governance-related activism shares a largely unified theoretical foundation in agency theory (Brav et al., 2008; Chen, 2004; Edmans, Fang, & Zur, 2013; Gillan & Starks, 2007; Greenwood & Schor, 2009; Karpoff et al., 1996). It has as its basic tenets that shareholders (principals) need to monitor and provide incentives to managers (agents) so that they will maximize shareholder value (Alchian & Demsetz, 1972; Beatty & Zajac, 1994; Jensen & Meckling, 1976). From this perspective, activists are seen as expressing dissatisfaction with corporate governance or firm performance (Becht et al., 2009) or as demanding specific actions from corporate managers to improve shareholder value (Gantchev, 2013; Klein & Zur, 2011). While traditional governance activism seeks to reduce agency problems (Bizjak & Marquette, 1998; Chen, 2004) and raise the performance of institutional investors' portfolio firms by pursuing improvements in their governance structures or processes (Del Guercio & Hawkins, 1999; Gillan & Starks, 2007), activist hedge funds tend to seek a more direct and immediate impact on share price (Brav et al., 2008; Edmans et al., 2013; Gantchev, 2013; Greenwood & Schor, 2009; Klein & Zur, 2009, 2011). Although both governance and hedge fund activists ultimately seek to improve firm performance, they employ different methods and time horizons, as well as different perspectives on managerial decision-making prerogatives. Activist institutional investors have traditionally focused on improving performance through reforming corporate governance. Hedge fund activists, on the other hand, are more likely to seek direct influence on managerial actions (Brav et al., 2008; Klein & Zur, 2009).

As the primary theoretical lens of the activism literature, agency theory is five times more likely to be evoked than any competing theoretical framework. The activism field, nevertheless, enjoys a rich theoretical foundation geared to addressing the multidimensional nature of shareholder activism. Researchers have applied modern portfolio theory at the investor level to illuminate shareholders' motivation to become activists (Rubach & Sebor, 2009; Ryan & Schneider, 2002). Scholars have also examined the diffusion of activism and its impact on prevailing corporate frameworks through the lenses of institutional theory (David et al., 2007; Rao & Sivakumar, 1999; Reid & Toffel, 2009), social movement theory (Davis & Thompson, 1994; Rao & Sivakumar, 1999; Reid & Toffel, 2009), and network theory (Rao & Sivakumar, 1999). Construing firms as political adaptations, researchers have studied the managerial role in shareholder activism utilizing political theory (David et al., 2001; Davis & Thompson, 1994), social influence theory (Westphal & Bednar, 2008), reactance theory (David et al., 2007), and deterrence theory (Reid & Toffel, 2009). Stakeholder salience theory (Chowdhury & Wang, 2009; David et al., 2007; Neubaum & Zahra, 2006; Stevens et al., 2005) has also been widely used to study managers' propensity to accommodate demands

from the plethora of shareholder activists, while the theory of planned behavior (Stevens et al., 2005) has been applied to integrating stakeholder salience and managerial discretion and attitudes. Of these, the broader umbrella of stakeholder theory offers the most direct challenge to agency theory, by countering shareholder primacy with a view of the firm's overriding obligations to organizational stakeholders (Freeman et al., 2004) and the principal-agent conflict with the ethical principles of trust, trustworthiness, and cooperativeness (Jones, 1995).

As noted above, the activism literature has tended to emerge as two streams. On one hand, the majority of the literature focuses on financial activism, dealing with activists' concerns with shareholder value (Brav et al., 2008; Greenwood & Schor, 2009) or governance issues, such as executive pay (Cai & Walkling, 2011), boards of directors (Ertimur, Ferri, & Stubben, 2010), and shareholder rights (Bizjak & Marquette, 1998). On the other hand, the social activism stream explores activism's effect on broader corporate outcomes and stakeholder issues, such as the firm's environmental impact (Lee & Lounsbury, 2011; Reid & Toffel, 2009), corporate social performance (David et al., 2007; Rehbein et al., 2004), and political activity (Clark & Crawford, 2012). In practice, activists may raise both financial and social issues (O'Rourke, 2003), reflecting both shareholders' and stakeholders' concern for the triple bottom line of economic, social, and environmental performance. A broad range of activist identities, emerging from heterogeneous investor groups, such as individual investors, public pension funds, religious groups, social activists, labor union funds, private pension funds, mutual funds, and hedge funds (David et al., 2007; Renneboog & Szilagyi, 2001; Ryan & Schneider, 2002), could affect their preoccupation with financial (performance and governance) or social (stakeholder) issues. Below, we discuss the implications of this heterogeneity for activism's antecedents, processes, and outcomes.

Shareholder Activism: Antecedents

The antecedents of shareholder activism consist of those firm, activist, and environmental characteristics that trigger or facilitate activism events (Ryan & Schneider, 2002). Although we rely on this three-pronged approach to organize our review of the shareholder activism literature (see Figure 1), the vast majority of empirical research in this area has focused on firm-level drivers, typically studying U.S. firms and utilizing an agency theory framework (see Table 1).

Firm-Level Antecedents

The most consistently tested drivers of shareholder activism are, by far, firm size and performance. Activists generally focus on large companies (Cai & Walkling, 2011; Ertimur et al., 2011; Karpoff et al., 1996; Smith, 1996), although when specific types of demands are considered the results are more equivocal (Bizjak & Marquette, 1998; Ferri & Sandino, 2009). From the perspective of financial activism, shareholder activists could create more value by targeting large firms (Del Guercio & Hawkins, 1999; Strickland et al., 1996), as they are more difficult for shareholders to monitor effectively and thus are more prone to agency problems (Jensen & Meckling, 1976). An alternative explanation, offered by the social activism stream, is that large firms are more attractive to shareholder activists due to

their greater visibility (Rehbein et al., 2004). Activist campaigns with large firms have better chances of capturing public and media attention, thus facilitating spillover effects where nontargeted firms preemptively adopt the reforms demanded by shareholder activists at peer firms (Brandes et al., 2008; Ferri & Sandino, 2009). Furthermore, more visible targets could be more effective in attracting the public's support, thus solidifying the identity of the activist group (Rehbein et al., 2004; Rowley & Moldoveanu, 2003). Unlike traditional institutional activists, hedge funds are less likely to target larger firms (Brav et al., 2008; Klein & Zur, 2009), perhaps reflecting the difficulty of building a substantial block of shares in major companies (Edmans et al., 2013).

Consistent with agency theory, firms with better operating performance tend to be less attractive to shareholder activists (Ertimur et al., 2011; Karpoff et al., 1996; cf. Renneboog & Szilagyi, 2011); several studies, however, find an insignificant relationship between the two (Bizjak & Marquette, 1998; Cai & Walkling, 2011; Ferri & Sandino, 2009). Activists are also more likely to target firms whose stock market performance is suboptimal (Bradley et al., 2010; Brav et al., 2008; Ertimur et al., 2011; Renneboog & Szilagyi, 2011; cf. Smith, 1996), although studies also report a nonsignificant relationship between market performance and shareholder activism (Bizjak & Marquette, 1998; Carleton, Nelson, & Weisbach, 1998; Faleye, 2004; Ferri & Sandino, 2009; Karpoff et al., 1996; Klein & Zur, 2009). The agency problem of free cash flows posits that managers prefer to spend cash on value-decreasing investments rather than distributing it back to shareholders (Jensen, 1986). Unsurprisingly, firms' cash holdings draw activists' attention (Brav et al., 2008; Faleye 2004; Klein & Zur, 2009), particularly when they have lower distributions to their shareholders (Brav et al., 2008). In addition, higher levels of debt can enforce fiscal discipline and constrain managers' ability to engage in self-serving strategies (Hart, 1993), so less leveraged firms are more likely to be targets of hedge fund activism (Klein & Zur, 2009), although the reverse holds for governance-related activism (Ferri & Sandino, 2009; Karpoff et al., 1996). Again, hedge fund activism deviates from governance-oriented activism, as it tends to target more profitable and financially healthy firms (Brav et al., 2008; Klein & Zur, 2009).

Among corporate-governance oriented antecedents, the level of executive ownership, as a proxy for the extent of alignment between the interests of shareholders and managers (Ryan, Buchholtz, & Kolb, 2010), is the most often studied. Managers who have higher shareholdings are deemed to bear to a greater extent the consequences of their decision-making; consequently, firms with higher managerial ownership are less likely to attract shareholder activism (Bizjak & Marquette, 1998; Carleton et al., 1998; Faleye, 2004; cf. Prevost & Rao, 2000). In addition, misalignment between firm performance and executive compensation provokes shareholder discontent, as it represents a lost opportunity to alleviate the agency problem (Ertimur et al., 2011; Ferri & Sandino, 2009; cf. Cai & Walkling, 2011). Incentive compensation, however, may not be enough to resolve agency problems or may trigger new issues (Ferri & Sandino, 2009; Sanders & Hambrick, 2007), thus necessitating monitoring by both directors and shareholders.

More independent boards, not beholden to the CEO, may constrain agency problems (Beatty & Zajac, 1994; Fama & Jensen, 1983) and provide more objective oversight for shareholders' interests (e.g., Desai, Kroll, & Wright, 2005; Hayward & Hambrick, 1997). Interestingly, firms with more independent boards seem to attract shareholder activism (Ertimur et al., 2011; Prevost & Rao, 2000), although several studies report a lack of

relationship or an unclear one (Bizjak & Marquette, 1998; Cai & Walkling, 2011; Renneboog & Szilagyi, 2011). Prior research also reports that greater institutional ownership is positively related to shareholder activism (Bizjak & Marquette, 1998; Brav et al., 2009; Cai & Walkling, 2011; Carleton et al., 1998; Karpoff et al., 1996; Smith, 1996; cf. Ferri & Sandino, 2009; Renneboog & Szilagyi, 2011), and firms with large owners are more likely to be targeted by shareholder activists (Faleye, 2004; Prevost & Rao, 2000; cf. Bizjak & Marquette, 1998). The findings for monitoring by both boards and shareholders underscore a key ambiguity in the activism research: Does shareholder activism suggest governance deficiencies that drive shareholder discontent, or does it signal more vigilant shareholder monitoring? The equivocal findings of prior research, however, may also be a methodological artifact of the habitual aggregation of different shareholder demands by multiple types of investors utilizing divergent activism methods.

Activist-Level Antecedents

As Table 1 shows, most prior empirical research has focused on firm-level antecedents, thus treating firm traits as the central driving force of shareholder activism. Yet scholars also theorize that whether shareholders choose to engage in activism or not is largely determined by their own characteristics (David, Kochhar, & Levitas, 1998; Hoskisson et al., 2002; Ryan & Schneider, 2002; Sikavica & Hillman, 2008). Thus, focusing on target firms alone without considering the interests, identity, concerns, and considerations of the activists could paint a partial picture of shareholder activism, at best, and a misleading one, at worst.

First, activists' incentives to engage in activism may be decoupled from the target firm's financial and governance situation. Activism costs vary greatly, from shareholder resolutions that require a minimal \$2,000 investment in the firm and a resource commitment to the activism process (Cunat et al., 2012; Ertimur et al., 2011; SEC, 2001) to the hefty price tag of several millions for hedge fund activism (Gantchev, 2013). To justify activism costs, activists must either derive an adequate improvement in overall shareholder value or seek benefits that are not shared by all other shareholders (Chava, Kumar, & Warga, 2010; Choi, 2000; Kumar & Ramchand, 2008). Therefore, investors' ability and willingness to engage in activism may be affected by their investment portfolio characteristics and investment horizons (Rubach & Sebor, 2009; Ryan & Schneider, 2002), business relationship with targeted firms (Black 1998; Romano 2001), and discretion to devote resources to the focal firm (Carleton et al., 1998; Clifford, 2008).

Second, shareholders with a superior salience to corporate managers or ability to gain other shareholders' support may be more willing to engage in activism (Gifford, 2010; Kang & Sorensen, 1999), as they expect better returns on their activism investments. Such self-selection could imply that powerful investors with negotiating leverage relative to corporate managers (Alexander et al., 2010; Chandler, 2006; Ertimur et al., 2011; Greenwood & Schor, 2009) or shareholders with higher legitimacy who can more easily garner the support of other shareholders (Chowdhury & Wang, 2009; Neubaum & Zahra, 2006; Rehbein, Brammer, Logsdon, & Van Buren, 2009; Stevens et al., 2005) may be more likely to become activists. For example, proposals by institutional investors and coordinated groups have historically received much higher rates of shareholder support than those sponsored by individual investors (Gillan & Starks, 2000; Proffitt & Spicer, 2006). Shareholder activists' efforts are also

spurred on by the urgency inherent in their pursuit of financial or social goals. They must, however, be mindful of both the benefits and the costs of their activism efforts. Gantchev (2013), for example, finds that when higher benefits are expected, activist hedge funds are more likely to escalate their activism campaigns. However, they also seek to protect their bottom lines, so funds with bigger investment stakes, and, thus, more to lose, are less likely to use adversarial or hostile activism.

A third perspective posits that activists' social identity (Rowley & Moldoveanu, 2003), emotional makeup (Bundy, Shropshire, & Buchholtz, 2013), or moral legitimacy (den Hond & de Bakker, 2007) could explain why some activists advocate for seemingly lost causes. For instance, although most social issue proposals have little hope of gaining the approval of the shareholder majority (Thomas & Cotter, 2007), the number of social issue proposals has increased over time (Proffitt & Spicer, 2006; Rehbein et al., 2004; Vogel, 1983). Identity-based perspectives may explain why individual investors, whose proposals typically receive the lowest rates of voting approval by the target firm's shareholders (Gillan & Starks, 2000; Gordon & Pound, 1993), continue to be the most prolific shareholder activists (Gillan & Starks, 2007; Renneboog & Szilagyi, 2011). Activists, furthermore, could be motivated by a combination of the above factors or could apply different dominant logics, as their identification with targeted firms varies across their investment portfolios (Rehbein et al., 2004; Sikavica & Hillman, 2008).

Environmental Antecedents

The rise of activism and the shareholder empowerment movement underscores the importance of shareholder activism not only for individual firms and corporate managers, but also for the macro environment. The displacement of individual shareholders by institutional investors (O'Barr, Conley, & Brancato, 1992) has led to the reconcentration of shareholdings of U.S. corporations into the hands of fewer, larger investors (Davis, 2008, 2009; Hawley & Williams, 2007; Ryan, 2000). These better-informed and more powerful financial intermediaries (Del Guercio, 1996; Schnatterly, Shaw, & Jennings, 2008) should in theory be more capable of monitoring corporate executives, but may also carry more clout in changing societal structures and norms and in driving normative and mimetic changes in the institutional environment (Davis & Thompson, 1994; Zajac & Westphal, 1995). Perhaps unsurprisingly, the reconcentration of ownership has been accompanied by changes in the legal environment (Becht et al., 2009; Karpoff et al., 1996; Pound, 1992). In 1992, the SEC relaxed rules that prevented shareholders from communicating with one another, thus enhancing activists' ability to form alliances with other shareholders (Choi, 2000; Del Guercio & Hawkins, 1999). Normative changes seeking to render corporate managers more accountable to their firms' shareholders (Anabtawi & Stout, 2008; Kahan & Rock, 2010) have also affected shareholders' willingness to engage in activism. Concurrent technological changes further lowered its associated costs (Wessel, 2011).

Environmental trends have not only affected shareholder activism directly by influencing the legitimacy and the ease of engaging in activism, but also indirectly by affecting the behavior of corporate managers. Task environments have long been understood to affect the latitude of managerial action (Hambrick & Abrahamson, 1995), thus influencing the relationship between firm governance and shareholder activism (Giroud & Mueller, 2011).

Contemporary managers may find it easier to observe and react to shareholder activism at peer firms (Ferri & Sandino, 2009; Lee & Park, 2009; Useem, 1996), thus facilitating spillover effects and mimetic isomorphism. The shareholder activism field, however, has paid little attention to the distinct environments in which firms operate. Activism research could benefit from a more contextualized approach that considers how environmental factors affect activism itself, as well as the differences in costs, benefits, contingencies, and complementarities of activism.

Shareholder Activism: Processes

Despite the fact that activism outcomes are largely shaped by the actions of, reactions to, and interactions among activists and managers, research on activism processes is scarce. Below, we discuss the range of actions available to both corporate managers and shareholder activists.

Managerial Actions

One of the key premises in the activism literature is that shareholder activism addresses managerial deficiencies (Gillan & Starks, 2007; Greenwood & Schor, 2009; Rehbein et al., 2004). Although findings have been mixed concerning whether governance factors increase or reduce the odds of shareholder activism, as noted above, this lack of conclusive evidence may be due to the empirical modeling of firms as stationary targets of shareholder activism, rather than as active participants that proactively or reactively try to influence their environments. The financial and social activism streams take a somewhat different stance on the role of management in the shareholder activism process. The vast majority of the financial activism research views managers as largely inactive participants who ignore activists' attempts unless they are compelled to yield partially or fully to their demands. At the other extreme, however, is a view of managers who respond to shareholder pressures by courting new, more compliant investors (Williams & Ryan, 2007). More recent research portrays activism as an escalating process, with increasing financial investment by activists as they transition from more cooperative, private activism to more confrontational, public methods (Gantchev, 2013). By contrast, the social activism stream argues for a range of managerial behaviors, from reactive (Neubaum & Zahra, 2006) through interactive roles that establish the importance of dialogue (Logsdon & Van Buren, 2008; Sikavica & Hillman, 2008), to a proactive role, where managers shape their environments by co-opting existing shareholders (Westphal & Bednar, 2008).

Corporate managers, therefore, may react to shareholder activism only after relentless pestering by activists (The Economist, 1997; Proffitt & Spicer, 2006) or may take a more proactive stance by anticipating or even derailing potential shareholder demands. At one extreme, managers may be able to resist or adopt a "get lost" approach to activism (Carleton et al., 1998) due to the nature of the shareholder resolution process. Despite the fact that shareholder support for activists' proposals has grown over time (Gillan & Starks, 2007; Renneboog & Szilagyi, 2011), a significant number of proposals do not garner a majority vote by firm shareholders (Proffitt & Spicer, 2006; Sjostrom, 2008). Furthermore, although firms are increasingly likely to implement shareholder proposals that have received a

majority vote (Ertimur et al., 2010, 2011; Ferri & Sandino, 2009; Thomas & Cotter, 2007), most shareholder resolutions are precatory, and thus advisory rather than binding in nature (Brandes et al., 2008; Tkac, 2006). Due to their advisory nature, companies need not implement all proposals with a majority vote (Bizjak & Marquette, 1998; Smith, 1996), although the implementation rate is much higher for proposals that do than for those that do not (Ertimur et al., 2010).

At the other extreme, managers may approach investors and implement their advice or solicit their approval, precluding the need for shareholder intervention (Rao & Sivakumar, 1999; Useem, 1996). Furthermore, CEOs could attempt to subvert shareholder activism by utilizing such techniques as ingratiation behavior and persuasion (Westphal & Bednar, 2008). While such tactics may simply delay implementation rather than derail shareholder demands, they may be sufficiently successful that they endure the tenure of a chief executive at the focal firm. Finally, in addition to monitoring the pulse of their influential shareholders, firms can keep tabs on successful or highly visible shareholder activism directed at peer firms, and preemptively implement new corporate practices in their own firm (Brandes et al., 2008; Ferri & Sandino, 2009). A vast continuum of compromise, dialogue, and negotiation lies between these extremes (Logsdon & Van Buren, 2008; Sikavica & Hillman, 2008).

In addition to resisting or implementing shareholder activists' demands, managers also influence the extent to which the espoused changes are implemented symbolically or substantively (David et al., 2007; Westphal & Zajac, 1994). Extensive decoupling may occur, where managers commit to a change but instead of addressing the problem at its core engage in impression management and window dressing activities (Hadani, Goranova, & Khan, 2011; Williams & Ryan, 2007). Decoupling, therefore, is counterproductive, as it diverts resources from the real activist goal (David et al., 2007; Dimitrov & Jain, 2011) or, worse, transfers undesirable practices to less visible subsidiaries (Surroca, Tribo, & Zahra, 2013). Corporate managers' response may be influenced both by managerial traits, such as managerial entrenchment (Carleton et al., 1998; Giroud & Mueller, 2011) or an inability to address heterogeneous shareholder demands (Bundy et al., 2013; Hadani et al., 2011), and by the characteristics of shareholder activists, such as their ability to monitor whether proposed changes are implemented substantively rather than symbolically (Brav et al., 2008; David et al., 2007; Zajac & Westphal, 1995).

Shareholder Actions

The choices available to shareholders have traditionally been understood as loyalty (hold), exit (trade), or voice (activism) (Davis & Thompson, 1994; Hirschman, 1970). Voting, as a fundamental right of corporate shareholders, allows them the opportunity to take sides, by either supporting management or opposing it. Such opposition can be exercised by voting against management (Ashraf et al., 2012; Butler & Gurun, 2012; Davis & Kim, 2007) or by supporting such activist undertakings as "just vote no" campaigns (Del Guercio et al., 2008; Ertimur et al., 2011), which prompt shareholders to vote against particular directors (Conyon & Sadler, 2010; Hillman, Shropshire, Certo, Dalton, & Dalton, 2011). Voting for activist proposals or voting against management proposals can play a critical role in shaping corporate practices, by facilitating the implementation of activists' demands (Ferri & Sandino, 2009; Thomas & Cotter, 2007) or by sending powerful signals to corporate managers and

influencing their actions (Hillman et al., 2011). Opposition through voting is the least costly action that shareholder activists can take, followed by filing shareholder resolutions and engaging in institutional investor activism (Black, 1998); both stand in stark contrast to activist hedge funds' spending on activism (Gantchev, 2013).

In addition to choosing whether and how much to invest in shareholder activism, shareholders may also utilize a variety of tactics ranging from public to private shareholder activism. Public activism includes such options as SEC rule 14a-8 shareholder resolutions (Dimitrov & Jain, 2011; Reid & Toffel, 2009); 13-D filings that are required for active investors with a 5 percent or greater stake in the company (Brav et al., 2008; Edmans et al., 2013; Klein & Zur, 2011); or publicized letters, focus lists, and media campaigns (Chowdhury & Wang, 2009; Hillman et al., 2011; Song & Szewczyk, 2003; Ward, Brown, & Graffin, 2009). Private activism, on the other hand, is typically unobservable to researchers and includes private negotiations (Becht et al., 2009; Carleton et al., 1998), behind-the-scenes consultations, letters, phone calls, meetings, and ongoing dialogues (Brandes et al., 2008; Logsdon & Van Buren, 2009). Private activism, sometimes referred to as "quiet diplomacy" (Hendry, Sanderson, Barker, & Roberts, 2006), is perceived to be the more powerful option of the two, as corporate executives and directors may be more responsive to activists' demands behind closed doors, in order to avoid public embarrassment and cost to their reputations (David et al., 2007; Hadani et al., 2011). Private activism, however, does not preclude the public form, as activists could take a public stance early on or after an initial quiet approach fails to yield satisfactory results (Brav et al., 2008; Cheffins & Armour, 2011; Del Guercio & Hawkins, 1999; Gantchev, 2013).

Private activism, where the very existence of negotiations between management and activist investors is private information, is estimated by researchers to be more prevalent than public activism (Becht et al., 2009; Carleton et al., 1998; Rubach & Sebora, 2009). Lack of transparency, however, may be a double-edged sword. On one hand, private activism, as both a more potent and a more collaborative tool, may be more effective in achieving the changes and reforms pursued by activists, and therefore could provide more lucrative benefits to the firm and its remaining shareholders. On the other hand, private activism could open the door to "rob Peter to pay Paul" scenarios (Anabtawi & Stout, 2008: 1280), as it is not subject to shareholder approval and, furthermore, could create information asymmetries between shareholder activists and other shareholders. Whether the impact of shareholder activism benefits all of the firm's shareholders or just a select few hinges on two critical factors: (1) the ability of the activist to solicit the desired response or an acceptable compromise from corporate managers and (2) the alignment of the interests of the influential activist with the interests of other shareholders.

Useem (1996) argues that, to be able to negotiate successfully, corporate activists need key resources, such as power and bargaining leverage, or they may have to rely on the threat of negative publicity. Stakeholder salience is the key theoretical framework that explains the differential ability of shareholder activists to attract managerial attention and influence managerial behavior. Facing heterogeneous or even competing shareholder claims, managers would give priority to more powerful activists, with legitimate and urgent demands (Chowdhury & Wang, 2009; Mitchell, Agle, & Wood, 1997; Neubaum & Zahra, 2006; Rehbein et al., 2009; Stevens et al., 2005). The salience framework could provide a theoretical explanation of the varying treatments of shareholder proposals. For example, as noted

above, a significant number of proposals that receive a majority vote are not implemented by the targeted companies, while a small number of shareholder proposals that fail to receive a majority vote are (Del Guercio & Hawkins, 1999; Ertimur et al., 2010, 2011; Telman, 2011). Furthermore, managers are more likely to settle proposals filed by more salient institutional investors or coordinated groups, rather than by individual shareholder activists (David et al., 2007; Gillan & Starks, 2000).

In order for the efforts of influential activists to be beneficial to the firm's remaining shareholders, the activist's interests must be aligned with theirs. A key, albeit implicit, assumption in the activism literature is that activism will benefit all firm shareholders, as focusing on share price will create value for the remaining shareholders (Cziraki et al., 2010; Karpoff et al., 1996). Modern corporations, however, are akin to political arenas (Pound, 1992), where heterogeneous and at times conflicting demands by different shareholder groups create challenges both for managerial action and for shareholder agreement on the appropriateness of an action. The growing literature on ownership heterogeneity points out that the interests of a particular firm's shareholders may differ on a number of dimensions, such as varying investment horizons (Bushee, 1998; Connelly, Tihanyi, Certo, & Hitt, 2010; Dikolli, Kulp, & Sedatole, 2009; Hoskisson et al., 2002; Tihanyi, Johnson, Hoskisson, & Hitt, 2003), business relationships with the firm (Brickley, Lease, & Smith, 1988; David et al., 1998; Davis & Kim, 2007; Kochhar & David, 1996), portfolio considerations (Davis & Kim, 2007; Goranova, Dharwadkar, & Brandes, 2010; Ryan & Schneider, 2002), or discrepancies between cash flow and voting rights (Anabtawi & Stout, 2008; Christoffersen et al., 2007; Hu & Black, 2006).

Free riding incentives present a deterrent to shareholder activism that raises the share price: while all of the firm's shareholders share in the benefits, the activist alone bears the costs. As noted above, however, shareholder activists could choose to pursue agendas unrelated to shareholder value: for instance, researchers in finance and accounting often exclude social-issue shareholder proposals as frivolous (Romano, 2001; Thomas & Cotter, 2007) or interpret weak voting support for such proposals as evidence of misalignment with the interests of the average firm shareholder (Gillan & Starks, 2007). Furthermore, some activists may bear the cost of activism privately in order to achieve private benefits that are not shared by other shareholders (van Essen, van Oosterhout, & Heugens, 2013). Examples abound of shareholder activism where the interests of activists deviate from firm value due to conflicts of interest. Union pension funds are argued to be more concerned with employee welfare than with the stock price of the targeted firm (Agrawal, 2012; Cai & Walkling, 2011). Public pension funds have been suspected of pursuing corporate social performance goals due to political pressure or the political ambitions of their administrators (Romano, 1993; Wahal, 1996; Woidtke, 2002). Finally, shareholder activists may face portfolio considerations or business relationships that interfere with a precise focus on shareholder value at the target firm (Ahmedjian & Robbins, 2005; Ashraf et al., 2012; Davis & Kim, 2007; Romano, 2001; Ryan & Schneider, 2002).

Shareholder Activism: Outcomes

Table 2 summarizes the research investigating the outcomes of shareholder activism. Again, we take a multilevel approach and examine outcomes at the firm, activist, and environmental level, and, again, the majority of empirical research focuses on firm outcomes.

Firm-Level Outcomes

The market reaction to shareholder activism is by far its most examined outcome, but the results exhibit significant variance. Scholars report positive (Brav et al., 2008; Cunat et al., 2012; Greenwood & Schor, 2009; Klein & Zur, 2009), negative (Bizjak & Marquette, 1998; Cai & Walkling, 2011; Karpoff et al., 1996), and insignificant market reactions to activism (Agrawal, 2012; Becht et al., 2009; Carleton et al., 1998; Del Guercio & Hawkins, 1999; Gillan & Starks, 2000; Strickland et al., 1996; Wahal, 1996). Two main factors could explain these equivocal findings. First, as noted above, many shareholder proposals are negotiated and withdrawn prior to their appearance in a proxy statement, so the appearance of an actual proposal may suggest that corporate managers were unresponsive to activists' private efforts (Chowdhury & Wang, 2009; Del Guercio & Hawkins, 1999). Second, the majority of the event studies examine shareholder proposals, which are advisory in nature, thus not necessarily resulting in changing the targeted company's practices. Prior research reports that the market reaction to shareholder activism is positively related to the proposals' implementation (Cai & Walkling, 2011; Smith, 1996). Other contextual factors that affect the market's reaction to shareholder activism include the type of shareholder activist (Cai & Walkling, 2011; Cunat et al., 2012; Gillan & Starks, 2000), the type of activism demands (Becht et al., 2009; Carleton et al., 1998; Del Guercio & Hawkins, 1999), whether the interests of the activist reflect the interests of other shareholders (Agrawal, 2012; Alexander et al., 2010; Cunat et al., 2012), the extent of agency problems at the focal firm (Cai & Walkling, 2011; Carleton et al., 1998), and the degree to which managers are willing to negotiate with shareholder activists (Smith, 1996; Strickland et al., 1996).

In addition to investigating share price changes following shareholder activism events, activism research has examined its relationship with operating performance. Little evidence exists that traditional activism directed toward governance changes is related to significant improvements in operating performance. Some report performance improvements (Del Guercio et al., 2008), while others find underperformance (Karpoff et al., 1996; Prevost & Rao, 2000) or a lack of performance improvement (Del Guercio & Hawkins, 1999; Song & Szweczyk, 2003; Wahal, 1996). Findings that shareholder activism is unrelated to firm performance (e.g., Black, 1998; Gillan & Starks, 2007; Yermack, 2010) are perhaps unsurprising, given that the empirical research focuses primarily on governance-related shareholder activism, and the governance literature, in turn, reports an equivocal relationship between governance structures and firm performance (Daily, Dalton, & Cannella, 2003; Dalton, Daily, Ellstrand, & Johnson, 1998). In contrast, the impact of hedge fund activism on subsequent performance is predominantly positive (Becht et al., 2009; Brav et al., 2008; Greenwood & Schor, 2009; Klein & Zur, 2009; cf. Klein & Zur, 2011), although the resulting benefits may be due to subsequent acquisitions of targeted firms (Greenwood & Schor, 2009) or to reduced value for bondholders (Klein & Zur, 2011).

In addition to influencing firms' financial performance, shareholder activism can affect firms' political, environmental, or corporate social performance (CSP) (Clark & Crawford, 2012; David et al., 2007; Guay, Doh, & Sinclair, 2004; Rehbein et al., 2004; Reid & Toffel, 2009). Neubaum and Zahra (2006) find that activism's impact on CSP depends on the shareholders' temporal horizon; activism interacts positively with long-term ownership, but negatively with short-term ownership. David and his colleagues (2007) test two competing hypotheses for shareholder activism and CSP: on one hand, activism could discipline

managers (Johnson & Greening, 1999) or, on the other hand, it could signal CSP deficiencies (Prevost & Rao, 2000). Interestingly, they find that both challenged and settled proposals are negatively related to subsequent CSP. Stevens and his colleagues (2005) find that shareholder activism is related to the adoption and internalization of ethics codes by financial executives. Reid and Toffel (2009) also find that firms are more likely to participate in the Carbon Disclosure Project if they are targeted by environmental shareholder proposals; this effect is more pronounced when the firm operates in an environmentally sensitive industry and when a threat of regulation exists. Agrawal (2012) reports an even more direct effect for organizational stakeholders, finding that activism by the AFL-CIO is associated with reductions in labor union/management disputes.

Although shareholder activism's effect on targeted firms' performance, whether performance is broadly or narrowly defined, is fairly equivocal, shareholder activists have been increasingly successful in influencing firms' corporate governance (Ertimur et al., 2010; Thomas & Cotter, 2007). Earlier investigations of CEO turnover found little impact of shareholder activism (Del Guercio & Hawkins, 1999; Karpoff et al., 1996; Smith, 1996), but more recent research documents that activism enforces managerial discipline and raises the likelihood that the CEOs of targeted firms will lose their jobs (Brav et al., 2008; Del Guercio et al., 2008). Furthermore, by reducing managerial entrenchment, activism could precipitate activity in the market for corporate control. Activism related to shareholder rights issues, such as rescinding poison pills (Bizjak & Marquette, 1998) or declassifying boards of directors (Guo, Kruse, & Nohel, 2008), for example, could make firms more attractive takeover targets. Firms that are consistently targeted for their anti-takeover provisions are subsequently more likely to be acquired (Del Guercio & Hawkins, 1999; Greenwood & Schor, 2009).

No other governance issue has attracted as much research attention as executive compensation. Ertimur and his colleagues (2011) find that executive pay proposals and "vote no" campaigns are related to a reduction in excessive executive pay. Say-on-pay activism, however, is a contentious arena, where corporate executives are more likely to obtain support from mutual funds that manage corporate retirement plans (Ashraf et al., 2012; Davis & Kim, 2007) or whose managers share the educational network of the focal CEO (Butler & Gurun, 2012). Chen (2004) finds that, while activism does not affect executives' ability to reprice stock options, firms that voluntarily restrict option repricing improve their stock performance, particularly if they are listed on the Council of Institutional Investors (CII) focus list of underperforming firms. Ferri and Sandino (2009) find that firms that are targeted with proposals to expense stock options are more likely to announce voluntary expensing. Furthermore, shareholder activism constrains CEO pay increases, particularly when proposals receive a shareholder majority vote. Brav and his colleagues (2008) also report that hedge fund activism has a positive impact on pay-for-performance, while Klein and Zur (2009) find that hedge funds rarely demand reductions in CEO compensation, but often succeed at gaining board representation.

Activist-Level Outcomes

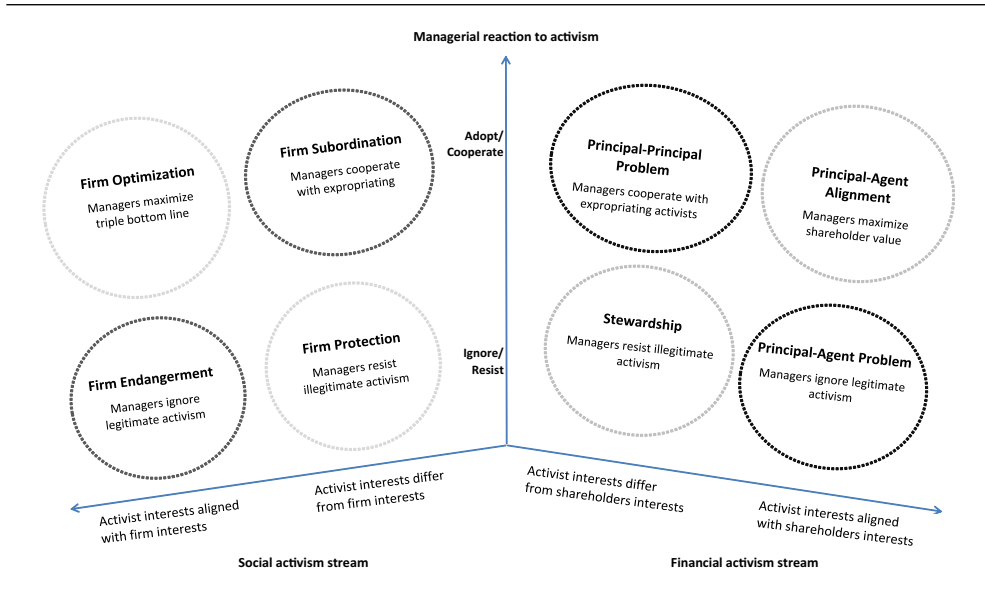
Empirical research on the outcomes of shareholder activism for the activists themselves is rare, perhaps due to the assumption that activists will benefit financially from their activism efforts as targeted firms' share prices improve. Becht and his colleagues (2009) find

substantial benefits from private engagement activism by the HUKFF fund, while Ganchev (2013), in examining activist blockholders' returns to activism, finds that, on average, the returns are insignificant. He notes, however, that shareholder activists differ tremendously in their ability to capture financial benefits, and that some activists reap significant financial benefits for their efforts. Beyond shareholder value, activists could realize benefits for the activist group, such as reinforcement of the activist's identity (Rehbein et al., 2004; Rowley & Moldoveanu, 2003), or benefits for corporate stakeholders, such as employees (Aggrawal, 2012) or community members, through improved corporate social responsibility (David et al., 2007; Neubaum & Zahra, 2006), environmental performance and disclosure (Reid & Toffel, 2009), or political activity (Clark & Crawford, 2012). Public benefits could also include widespread spillover effects of activism (Brandes et al., 2008; Ferri & Sandino, 2009). As Richard Koppes, the former chief counsel of CalPERS notes: "It makes sense for us to try to raise the ocean in order to lift our boat" (Del Guercio & Hawkins, 1999: 294). Shareholders could seek such benefits by directly communicating governance expectations to portfolio firms (Rubach & Sebor, 2009; Ryan & Schneider, 2002; Vanguard, 2002), developing shareholder voting guidelines (Clark & Van Buren, 2013), or using situations where shareholder consent is required as a "pressure point" to encourage substantive changes in corporate behavior (Holland, 1998: 259). In addition to public benefits, which offer positive externalities for other shareholders or organizational stakeholders, shareholder activists may also seek private benefits that are unshared with other shareholders (Bainbridge, 2012; Chava et al., 2010; Choi, 2000; Kumar & Ramchand, 2008). The practical odds of powerful activists being able to generate private benefits at the expense of other firm shareholders have been questioned by some (Bebchuk & Jackson, 2012; Briggs, 2007) and vigorously debated by others (Business Roundtable and Chamber of Commerce v. SEC, 2011; SEC 2005, 2010).

Environmental Outcomes

Shareholder activism can trigger changes in the focal firm's task environment, as well as in its institutional and legal context (CII, 2011). First, even if a particular firm is not an activism target, itself, dialogues with its shareholders or screening of activism events at peer firms could facilitate the spread of particular reforms throughout the organizational network (Brandes et al., 2008; Rao & Sivakumar, 1999; Useem, 1996). For example, Ferri and Sandino (2009) find evidence of an industry spillover effect: firms are likely to respond to shareholder activism at their competitors, even when they themselves are not directly targeted. Second, social movement theory is often invoked to explain activism's transformational role in challenging prevailing organizational frames and prompting corporate executives to consider alternatives (Reid & Toffel, 2009). While Reid and Toffel explain the spread of stakeholder-friendly environmental practices, Davis and Thompson (1994) utilize the social movement perspective to examine the shift to a dominant view of the firm as an entity owned by shareholders and devoted to the purpose of maximizing shareholder value. In addition to positioning shareholder value as a pivotal point for the attention of corporate executives and directors (Rao & Sivakumar, 1999), this social movement has also been successful in influencing regulatory reforms that facilitate shareholder monitoring and executives' accountability to firm shareholders (Bainbridge, 2006; Davis & Kim, 2007; Davis & Thompson, 1994).

Figure 2
Shareholder Activism: Shareholders, Stakeholders, and Managers



Implications and Directions for Future Research

The preceding sections have presented an integrated, multilevel review of the shareholder activism literature that incorporates insights from both the financial and the social activism streams. In this final section, we present a synthesized model of these two streams (see Figure 2) and develop a multilevel research agenda to stimulate investigations into shareholder activism as well as integrative multitheoretical research (see Table 3). We organize our discussion into methodological, theoretical, and practical challenges for activism research.

Methodological Challenges

Our review of the activism literature identified a number of methodological challenges. First, prior research has addressed the heterogeneity of activists, interests, and issues in two ways: by focusing on a particular type of activism, thus ignoring other types of shareholder demands, or by applying a generic treatment to activism, where different activists and demands are aggregated and treated as equivalent (Tables 1 and 2). Both of these approaches could contribute to the equivocal findings in the activism field. Focusing on a partial picture of activism comes with the risk of omitting important factors and mistakenly attributing the results to one form of activism, when they are instead driven by another. Treating activism generically, on the other hand, may encourage confounding interpretations by aggregating activism forms that have varying levels of salience to corporate managers. For instance, mixing less and more salient forms of activism could lead to weak results, even if the salient forms are successful in generating corporate change. Future research, therefore, should

Table 3
Future Research Agenda

Level	Types of Shareholder Activism	Benefits and Challenges of Activism	Dynamic Implications
Firm	<p>How do different types of shareholder activism affect firm performance?</p> <p>Who are activist shareholders? Do their concerns reflect the interests of most shareholders?</p> <p>How does shareholder activism affect shareholder-stakeholder relationships? Are other shareholders and/or stakeholders ignored when activist investors become more influential?</p> <p>When does activism signal agency problems vs. shareholder or stakeholder expropriation?</p>	<p>What is the role of managers and the board of directors when dealing with shareholder activism?</p> <p>How do managerial traits affect the costs and benefits of shareholder activism?</p> <p>Under what boundary conditions does shareholder activism lead to the solution of agency problems, substitution of agency problems with principal problems, and complementary principal and agency problems?</p> <p>How do multiple or conflicting shareholder demands affect the cost-benefit balance of shareholder activism?</p>	<p>Is shareholder activism more effective than traditional governance mechanisms and formal rules and regulations?</p> <p>How do firm characteristics and managerial traits affect the dynamic impact of shareholder activism?</p> <p>Are there dynamic trade-offs of shareholder activism? Is shareholder activism that is beneficial in the short run beneficial, detrimental, or value-neutral in the long run, and vice versa?</p> <p>How does experiential and vicarious learning at targeted firms affect corporate responses to activism over time?</p>
Activist	<p>What makes some shareholders but not others become shareholder activists? How do shareholders' interests and identities affect activism propensity, methods, and success rate?</p> <p>How do shareholder activists decide which issues to pursue and what methods to use?</p> <p>How do activists collaborate, form alliances, and share information with other shareholders, stakeholders, and noninvestor activists?</p> <p>What are the dominant logics used by activists to build support from other shareholders and organizational stakeholders?</p>	<p>How do activists' interests, identities, and methods affect the distribution of value between the activist and the targeted firm? How do managers' and directors' actions affect this distribution?</p> <p>What are the fiduciary duties of activist investors?</p> <p>How do shareholder activists construe the value of shareholder activism? What is the role of their interests and identities for the assessment of activism value?</p> <p>How does shareholders' cost-benefit assessment of activism affect their decision to engage in shareholder activism?</p>	<p>How do shareholder activists decide on the sequence of actions when approaching corporate managers and directors? What is the role of path dependency in shareholder activism?</p> <p>What are the temporal spans of shareholder activism campaigns? What is the role of temporal persistence?</p> <p>How do shareholder activists form, maintain, and dissolve alliances and coalitions?</p> <p>What shareholder and activist characteristics explain the diffusion of shareholder activism over time? What are key factors that explain activism contagion?</p>

(continued)

Table 3 (continued)

Level	Types of Shareholder Activism	Benefits and Challenges of Activism	Dynamic Implications
Environment	What is the impact of shareholder activism on prevailing managerial frameworks and practices?	How does the environment affect the impact of activism on corporate governance climate and corporate myopia?	How do the broader social, environmental, normative, and political factors affect shareholder activism trends?
	Is shareholder activism related to the entry and exit rates of publicly traded corporations?	How prevalent is shareholder activism among firms with different ownership and governance profiles?	What environmental factors contribute to the global diffusion of shareholder activism?
	How do different types of shareholder activism affect firms' institutional and task environments?	Is shareholder activism a private or public good?	How do environmental factors affect the short-term vs. long-term effects of shareholder activism?
	How do environmental trends affect the composition of shareholder activists?	How are the benefits and costs of shareholder activism affected by the social, cultural, and normative contexts in which the firms and activists operate?	What is the relationship between shareholder activism and other forms of noninvestor activism? What is the impact of shareholder activism on civil society?
Multilevel	How do firm, activist, and managerial characteristics affect the relationship between activism types and performance?	How does the interplay between shareholder activists, corporate managers and directors, and firms' strategies affect the cost-benefit dynamics of shareholder activism?	How do organizational contexts and the actions of activists and managers affect the dynamic profile of shareholder activism?
	How do multilevel factors affect financial and social activism trends?	Can multilevel modeling of activism improve our understanding of shareholder activism?	How do managers and activists' dynamic interactions affect future activist campaigns?

empirically address the heterogeneity of shareholder activism and the potential interrelations among different types of activism. Scholarly work both on the theoretical advancement of the field and on the development of a strong nomological framework that organizes activism diversity could offer invaluable guidance for such empirical work. Future advances in the field could increase the degree of commonality in empirical studies and reduce potential underspecification of research models.

The problem of activism heterogeneity is further compounded by prior research's tendency to simply model the presence or absence of "shareholder activism" (see Table 1), thereby not only treating shareholder activism as monolithic, but also ignoring the fact that the heterogeneity of demands may affect corporate executives' response to activism. Discriminating between firms that receive one or two shareholder proposals and those that literally attract their shareholders' wrath may also provide a stronger test of whether shareholder activism is indeed driven by managerial and governance deficiencies (Gillan & Starks, 2007; Klein & Zur, 2009) or by growing rifts between shareholder and stakeholder groups (Barnett & Salomon, 2012; Klein & Zur, 2011). While in the first case, shareholder activism could constrain managerial problems, in the latter, managers' pursuit of shareholder value maximization could come at a price to stakeholders, or, alternatively, the corporate pursuit of social and environmental performance could detract from shareholder wealth. Cross-sectional models would be inadequate in either case. On one hand, shareholder activism could involve a multiyear undertaking and have a path-dependency effect on corporate executives and directors. On the other hand, stakeholder/shareholder value dynamics may change over time. For example, if actions beneficial to shareholders are harmful to firm stakeholders, the resulting withdrawal of stakeholder contributions to the firm may eventually harm shareholder value in the longer run (Donaldson & Preston, 1995; Freeman, 1984). Longitudinal designs and analyses, therefore, could allow activism researchers to study how shareholder activism unfolds over time and the dynamics of the value-creating or value-distributing effects of activism. Furthermore, by controlling for time-invariant sources of unobserved heterogeneity, panel data methods could also constrain problems of biased or misleading parameter estimation.

Another issue that becomes apparent when examining Tables 1 and 2, and the commonality of variables used both as drivers and outcomes of shareholder activism, is the potential for endogeneity concerns. Empirically addressing this issue could strengthen readers' confidence in activism research findings, by reducing the likelihood that the causes and consequences of activism are confounded. Furthermore, researchers comparing targeted and nontargeted firms could find little difference between the two, if nontargeted firms responded preemptively to activism at peer firms or, alternatively, were targeted by activists only privately, unobserved by researchers. While scholars have suggested that private activism is pervasive (Becht et al., 2009; Carleton et al., 1998; Rubach & Sebora, 2009), prior research has not addressed this concern empirically. If shareholder activism is a substantially path-dependent and evolving process, where public activism is undertaken only after the failure of private activism, then empirical research, and our review, by extension, may be biased toward describing only the tip of the iceberg. Research models, however, rarely, if ever, address this issue, possibly sacrificing data relevance for data availability. Yet, studying both public and private activism could enrich our understanding of activism processes and outcomes, and could address the relationship between activism transparency and the value-creation/value-transfer impact of activism.

Finally, despite the fact that activism theory suggests multilevel antecedents and outcomes of shareholder activism, empirical research has focused on cross-sectional, single-level analyses. Shareholder activism involves relationships, actions, and interactions among at least two and often more parties (Figure 1). At the firm level, qualitative and process-driven studies could enrich our understanding of how CEOs and directors perceive, react, anticipate, and deal with different types of shareholder activism, different activists, and different demands. At the activist level, we need to understand what drives some shareholders but not others to become activists, how widespread shareholder activism is among shareholders, and whether activism reflects all shareholders' interests or just those of a small but vocal minority. Future research, therefore, should investigate how various activist groups construe and approach activism: how they perceive firm value and the benefits of their activism efforts, how they decide which issues to address, and how they build alliances and garner support from other shareholders. For future research to be most informative, it will need to include variables from more than one level of analysis. Multi-level models could further advance our understanding of how firm, activist, and environmental characteristics affect the processes and outcomes of activism, and may be crucial in distinguishing fashions and fads in activism from substantive corporate reforms.

Theoretical Implications

The bifurcation of prior research into financial and social activism presents unsolved puzzles both within the two theoretical frameworks and between them. We address these in turn.

Shareholder activism and agency theory. The homogeneity of shareholder interests, a key premise of agency theory, is often invoked to reaffirm the primacy of shareholders relative to heterogeneous organizational stakeholders (Jensen, 2001). Critics of stakeholder theory similarly argue that it is not possible to manage on behalf of multiple constituencies when their goals are in conflict (Sundaram & Inkpen, 2004a, 2004b). Yet prior literature provides ample evidence that shareholders have heterogeneous and at times even conflicting interests (e.g., Hoskisson et al., 2002; Tihanyi et al., 2003), exemplified by the stratification of activism research into financial and social activism. Shareholder interests are influenced not only by their holdings in the focal firm, but also by their social identities, business relationships, portfolio considerations, cash-flow versus voting-rights discrepancies, and investment horizons. Such heterogeneity presents challenges to agency theorists, whose strong belief in shareholder monitoring is based on the assumption that shareholder interests are homogeneous and therefore the interests of the activist shareholder are aligned with the interests of the remaining shareholders.

Shareholder heterogeneity, however, undermines the odds that the interests of a given shareholder activist will be aligned with the interests of the firm's remaining shareholders. While at one extreme, shareholder activists could increase the wealth of other fellow shareholders (Brav et al., 2008; Klein & Zur, 2009), at the other, they could realize benefits that are not shared with the "free-riding" shareholders (Chava et al., 2010; Kumar & Ramchand, 2008). As noted above, shareholder activism costs vary greatly, although the more costly forms of activism have been argued to be more effective (Brav et al., 2008; Gantchev, 2013). Activists, therefore, may seek to balance their activism costs either with higher financial

benefits from share price improvements in the focal firm (Choi, 2000) or with private benefits resulting from self-dealing transactions, insider trading, or other unshared modes of return (Bratton, 2008; Heflin & Shaw, 2000). Although critics counter that self-serving shareholders are unlikely to obtain private benefits from their activism activities, as they will find it challenging to obtain the support of other shareholders (Bebchuk & Jackson, 2012; Briggs, 2007), findings of the widespread role of private activism render this position less tenable. If private shareholder activism constitutes the bulk of the iceberg (Becht et al., 2009; Carleton et al., 1998; Rubach & Sebor, 2009), then the success of self-serving shareholders rests in the hands of corporate managers. That fact leads to the paradox of relying on corporate managers, as self-serving agents, to also serve as gatekeepers to potentially self-serving principals.

Rather than debating whether agency or stakeholder theory is more suitable to the corporate objective function, we believe that future research should instead embrace shareholder heterogeneity and seek to leverage the strengths of both theories, such as the powerful normative stance of the former and the recognition of diverse and competing claims of the latter. Building on the shareholder activism literature, we argue that whether shareholder activism is beneficial or not for corporate shareholders and stakeholders depends not only on managerial actions and the extent to which managers accommodate activists' demands, but also on the extent to which these demands are in the interests of remaining firm shareholders and stakeholders. The right side of Figure 2 plots managerial reactions to activism, relative to the extent of alignment between the interests of shareholder activists and remaining shareholders. In the worst-case scenarios, corporate managers ignore legitimate, value-creating activism (the classic principal-agent problem) or yield to self-serving demands from influential shareholders (a principal-principal problem). In the best-case scenarios, managers act as stewards, resisting self-serving or value-destroying activism (stewardship) and adopting value-creating shareholder demands (principal-agent alignment). As stakeholder theory questions whether shareholder value is equivalent to firm value, the left side of the figure contrasts the interests of the activists with the interests of the firm as a going concern. While managers as stewards engage in firm protection and firm optimization, managerial deficiencies could lead to firm subordination to expropriating activists or to firm endangerment with inadequate corporate policies and practices. We offer this figure as a starting point to dialogue, as doubtless both social and financial activism research, as well as the agency and stakeholder camps, could offer relevant insights on the subject.

Shareholder activism and stakeholder theory. Although numerous theories have been utilized in the social activism stream, stakeholder theory has emerged as a dominant paradigm in corporate social responsibility (CSR) (McWilliams & Siegel, 2001) and, unsurprisingly, has had the most traction in the social activism stream. Just as is the case with agency theory, however, the social activism literature offers more questions than confirmation. First, the evidence is mixed concerning whether, and to what extent, companies pay attention to stakeholders and stakeholder issues. Empirically, some scholars find that stakeholders benefit from social activism (Agrawal, 2012; Reid & Toffel, 2009), while others caution that managers respond mainly with window dressing that misplaces resources (David et al., 2007; Hadani et al., 2011). Second, while instrumental stakeholder theorists posit a positive relationship between social and financial performance (Donaldson & Preston, 1995; Freeman,

1984; Orlitzky, Schmidt, & Rynes, 2003), few shareholders seem to share this view. Despite the rise of social activism and the significant increase in shareholder support over recent years, Thomas and Cotter (2007) report that none of the 403 social and environmental shareholder proposals in their sample garnered shareholder approval and that, consequently, very few were implemented by management. By contrast, a significant number of governance-related proposals have received majority votes by shareholders in recent years (Cunat et al., 2012; Ertimur et al., 2010).

Third, the application of the normative aspect of stakeholder theory, with its more liberal interpretation of the moral management of corporations (Donaldson and Preston, 1995), is currently unclear in the activism literature. Stakeholder theory highlights the input/output relationships between the firm and its numerous constituencies, such as employees, customers, suppliers, investors, and communities (Donaldson & Preston, 1995; Freeman, 1984). On one hand, the social activism stream's focus on social, political, and environmental stakeholders' impact largely reflects this diversity. On the other hand, the application of the stakeholder salience framework in the social activism field often points to the importance of ownership stakes and shifts the focus back to the centrality of shareholders as the key stakeholder (Mitchell et al., 1997). Thus, despite the opposing ideological stances of stakeholder theory and agency theory and the related emphasis on stakeholder versus shareholder primacy, both shareholder activism streams reach similar conclusions: managers give precedence to the demands of large, powerful shareholders whose claims for improved shareholder value are both urgent and legitimate. Although the similarities may end there, this intersection presents a paradox for normative stakeholder theory, whose ideological foundation is based on managing for stakeholders; addressing this point, therefore, presents a valuable opportunity for future research.

Shareholders versus stakeholders: Value for whom? Value when? These questions seem to play a central role in the juxtaposition of stakeholder and agency theories and the social and financial activism research streams. On one hand, social and financial activism could be complementary by correcting managerial deficiencies. From this perspective, value creation for firm shareholders will ultimately benefit firm stakeholders and vice versa (Waddock & Graves, 1997; Hillman & Keim, 2001). On the other hand, the social and financial streams could be colliding, as value created for shareholders could come at the expense of stakeholders and vice versa (Agrawal, 2012; Freeman et al., 2004; Neubaum & Zahra, 2006). The question of value creation versus value transfer, however, is inherently dynamic, as the transfer of value could occur both across stakeholders and across temporal horizons, with managers potentially increasing current profits at the expense of future profits (Miller & Rock, 1985; Stein, 1989). Despite the fact that suspicions concerning social activism and its ability to create shareholder value have been voiced in the finance activism literature, both the social and financial streams fail to offer conclusive evidence on the question of value creation versus value transfer. This ambiguity may be driven, in part, by uncertainty about what firm value is. While the stakeholder tradition may not offer a clear, quantifiable view of firm value, agency theorists may have focused on one that is too narrow. For the financial stream, the firm is a nexus of contracts whose terminal obligation is to the firm's shareholders, thus shareholder value is tantamount to firm value (Jensen & Meckling, 1976). Aside from the locus of control issue, or the extent to which stock price is driven by managerial actions rather than by market participants, shareholder value may be limited in representing

firm value if unscrupulous managers can “create” shareholder value by “borrowing” it from other organizational stakeholders or future shareholders. The shareholder activism research, however, has not addressed the issues of for which shareholders and for what time frame value should be maximized.

While stakeholder theory may be better equipped than agency theory to deal with the inherent heterogeneity of activists’ interests, demands, and identities (Bundy et al., 2013) and, thus, to differentiate between value-creating and value-capturing activism (e.g., Mitchell et al., 1997: 874), it has failed so far to offer a convincing alternative to shareholder value. This shortcoming has, in turn, left it open to criticisms that self-serving managers will use the more ambiguous terminal goals inherent in the stakeholder framework to camouflage self-serving behavior (Jensen, 2001). Thus, despite the broader scope of stakeholder theory, both theories fail to bridge dyadic relationships, such as principal-agent (shareholders-managers) or a series of such relationships (stakeholders-managers), and elevate them to the firm level. While we agree that focusing on dyadic relationships is a powerful theory-building tool, we believe that research on an overarching paradigm of firm value, one that incorporates these dyads and aggregates them at the firm level, will have a critical impact not only for theory, but also for practice.

Implications for Practice

Research on shareholder activism has crucial implications for the normative debate on shareholder empowerment and whether further shareholder empowerment could be expected to solve or increase governance problems. Given the importance and ubiquity of publicly traded firms in contemporary societies, two key governance questions remain. What is the purpose of the corporation (Sundaram & Inkpen, 2004a, 2004b)? and, In whose interest should the public corporations be managed (Fiss & Zajac, 2004)? While the market for corporate control has declined in recent years, the importance of shareholder activism and the “market for corporate influence” has escalated (Gillan & Starks, 2007; Greenwood & Schor, 2009; Karpoff et al., 1996). Critics, however, have pointed out that, as shareholders do not owe a fiduciary duty to their portfolio firms (Anabtawi & Stout, 2008; Lan & Heracleous, 2010), shareholder activism may be decoupled from responsibility. To address whether further shareholder empowerment is desirable, therefore, we need to better understand the broader value implications of shareholder activism: (1) whether activism creates or destroys overall firm value and (2) how this value (or cost) is distributed among different shareholder and stakeholder groups. Future research should address this issue by focusing on an aggregate understanding of firm value (rather than a benefit to a particular constituency), as well as by studying the dynamic implications of activism, for example, when activism creates value in the short-run by “borrowing” value from the long-run and when activism promotes the corporation’s long-term viability.

For the time being, the shareholder activism literature fails to offer strong support for the classical agency theory assumption that shareholder monitoring will improve firm performance, despite findings of improvements in corporate governance (see Table 2). The activism literature, furthermore, raises several questions regarding the feasibility of this central tenet. As shareholders encompass a broad range of interests and identities, shareholder activism could cost as well as benefit firms’ shareholders. In addition to creating overall firm

value, shareholder activism could instead create short-term shareholder value by transferring value away from firm stakeholders or from long-term shareholders. Alternatively it could transfer value to stakeholders by detracting from shareholder wealth. Furthermore, activism could destroy overall firm value, while still generating benefits for the activist group. For instance, short-term shareholders could benefit from holding corporate executives accountable and aligning their compensation to short-term performance; a focus on short-term shareholder interests, however, may aggravate the problem of managerial myopia (Freeman et al., 2004; Neubaum & Zahra, 2006). Finally, the shareholder activism literature is unclear concerning what renders activists more informed or knowledgeable about appropriate corporate actions and strategies than corporate managers themselves or what renders institutional investor executives immune to the same set of agency problems (e.g., Coffee, 1991; Jin & Scherbina, 2011) widely believed to afflict corporate executives. In Table 3, we present these and other research questions across the multiple levels of analysis that we employed throughout the article, as well as proposing an integrative approach across social and financial activism. We also point out the need for an open-systems approach that studies the cost and benefit dynamics of shareholder activism, not only at the firm level but also for the organizational population. The substantial decline in the number of public corporations in the U.S. (Davis, 2011), which many blame on drastic increases in corporate regulation, has largely coincided with growing shareholder empowerment, highlighting the urgency for research on the systemic benefits and costs of shareholder activism.

Conclusion

Shareholder activism has become a dynamic institutional force, and its associated, rapidly increasing body of scholarly literature affects numerous disciplines within the organization science academy. Previous research has made substantial contributions toward understanding the complex nature of shareholder activism. The heterogeneity of factors in shareholder activism, however, such as firm, activist, and environmental antecedents; the variety of activism methods and processes; and varying outcomes leads to a plethora of theoretical and methodological challenges for activism researchers. Furthermore, the separation of prior research into financial and social activism streams has left critical questions unanswered. Our goals here were to illuminate these disparate studies and to examine possible areas of integration across academic silos, in order to facilitate more cohesive and enlightening future research. The intent of this analysis is to inform scholars of the current state of the shareholder activism literature and to provide a useful model of the eclectic issues that affect the relationships among investors, business, and society. In the process of investigating the activism literature, we attempted to identify critical points of contention that future scholarly work could inform. This examination is intended to help researchers deal with the theoretical and methodological challenges, and to provide an impetus for further theoretical and empirical study. We believe that the management field, with its smaller but theoretically richer foothold in the activism literature, is well positioned to make a substantial contribution to activism research.

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