



Shareholder Activism and Market Value of Firms: A Moderated Mediation Model of Corporate Social Responsibility Disclosure and Dividend Policy

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Abstract

Firm financial performance has remained a focus for all firms. The findings of various studies on the relationship between shareholder activism and market value, dividend policy and market value and corporate social responsibility disclosure have conflicting results. Some findings show that there is a significant positive relationship. Others show that there is negative relationship. Others posited no relationship. These results are confounding necessitating further research to establish the relationship between Dividend policy and market value. The study objectives included to investigate the relationship between shareholder activism and market value, to determine the mediation effects of dividend policy on the relationship between shareholder activism and market value; and to determine the moderated mediation of corporate social responsibility disclosure on the relationship between shareholder activism and market value. The study adopted panel data design. The sample size was 54 firms listed at Nairobi Security Exchange (NSE). Data was gathered for the period between 2008 – 2017. Results revealed that dividend policy had no significant effect on market value, $b_1 = 3.6$, $p > .05$; shareholder activism had a positive and significant impact on market value, $C_1' = 14$, $p < 0.01$; CSR disclosure had a positive and significant effect on market value, $C_2' = 5.2$, $p < 0.01$; the interaction between shareholder activism and CSR disclosure had a negative and significant effect on market value, $C_3' = -17$, $p < 0.01$. The research concluded that CSR disclosure had a moderated mediation between shareholder activism and market value. It recommended that managers should implement policies which enhance shareholder activism. Capital structure proportion should be decided to control the nature of shareholder activism.

Keywords: Shareholder activism, Dividend policy, Market value, Corporate social responsibility disclosure

1. Introduction

Market value has remained an efficient method to gauge and eliminate uncertainty or ambiguity in determining the worth of a company's assets. Value creation is the principal goal that shareholders aim for when they make investments. Consequently, these shareholders perceive market value as the capital that assets can fetch in the market (Chen, 2018). In publicly traded companies, market value, often known as market capitalization or fair market value, relates to the product of outstanding shares and the current price per share (Siladjaja et al., 2021). This product reflects equity shares owned by businesses and sold or bought at the stock market. Shareholders as investors are keen to determine the market value of their companies in the belief that it will not only point to future business trends but will also act as indicators of the demand for assets (Ungwuanyi, 2012).

Several scholars have shown interest in the metrics for market value. Akgun et al. (2018), while concentrating on publicly traded companies, delineated market value ratios such as price-earnings, per-share earnings, and book value for every share held as the commonly used ratios. Through these ratios, listed companies will likely discern their financial capacity and predict future trends (Sulong et al., 2018). Other scholars have identified profitability as an indicator of market value (Machmuddah et al., 2020; Sungkar & Debora, 2021). Economic Value Addition (EVA) is also prominent in the existing market value discourse. Proponents of EVA posit that shareholders' aim is wealth maximization from increased rates of equity returns (Gravand, 2021; Sakawa & Watanabel, 2019).

Research on market value has attracted interest worldwide and across various contexts. For instance, scholars in the United States have focused on the market value of solar plants (Mills et al., 2021). Market value has also been explored in professional football (Metelski, 2021); energy efficiency (Kholodilin et al., 2017). From the Kenyan context, scholars have demonstrated that market value is a function of firm size and profitability (Mule et al., 2015). Despite the importance of market value in showing the worth of assets, it is increasingly volatile, leading to shareholder activism.

Shareholder activists use their stakes in publicly listed companies to pressure management to pursue their desired approaches (Khorana et al., 2017). Shareholder activism often addresses financial aspects like unlocking shareholder value and non-financial factors, including agitating for increased support for workers' rights, adopting environmentally-friendly policies, and keeping away from politically sensitive

countries (Kraik, 2019). Through the sizable stakes they acquire in companies, shareholder activists wield strong influence and can initiate changes to improve efficiency, reduce operational costs and maximize profits (Condon, 2020). Although shareholder activism primarily aims at supporting underperforming portfolio companies, emerging concerns point to the desire to exploit companies exemplified by hedge fund activists who purchase minority stakes, control management by exerting their strategies, and generate abnormal returns (Gantchev & Jotikasthira, 2018). Besides, shareholder activism has been associated with escalation in proxy fights which relate to contests to control shareholder votes of a company (Sawyer et al., 2018).

Research also demonstrates that shareholder activism does influence dividend policy. Barros et al. (2021) used a mixed-methods approach to show that activist campaigns influenced the firm's decisions over dividend payment irrespective of whether it would cause high volatility in the level of the dividend and payout ratio. Similarly, Driver et al. (2020) argued that firms' preemptive actions to return excess cash through dividends resulted from board members, executives, and short-term focused investors applying pressure on the management leading to the agency problem. Although scholars have recently explored the direct effects of shareholder activism on market value (Guimaraes et al., 2018; Shingade et al., 2022), little or no interest has been extended to the indirect effect via dividend policy.

Listing in the Nairobi Securities Exchange (NSE) exposes companies to opportunities of enhancing their profiles and accessing long-hand investable funds through floatation of shares and debt securities. Yet, most firms listed at the NSE face the challenges of inadequate capital structure, insider trading, poor management, low-profit levels, improper corporate governance, agency problems, and insufficient information disclosure (Siekei, 2019). Corporate Social Responsibility (CSR), which relates to a self-regulating model aimed at having companies be socially accountable to themselves, stakeholders, and the public, is gaining popularity (Fahad & Nidheesh, 2020). Therefore, it is probable that further moderating the link between shareholder activism and dividend policy with CSR disclosure would increase the chances of shareholder activism influencing market value indirectly through dividend policy. Therefore, this study analyzed the moderated mediation model of CSR disclosure and dividend policy on the direct link between shareholder activism and the market value of firms listed at the NSE.

This study was anchored on four theories: dividend irrelevance, Gordon's, stakeholder management, and agency. Dividend irrelevance theory, popularized as the M-M theory, posits that dividend issuance is not a function of potential profits or stock price (Alau & Hossain, 2012). Essentially, the M-M theory contends that investors may not hesitate to sell some shares if their aim of high returns is not realized. Although the M-M theory has attracted several critics (Amollo, 2016; Anton, 2016; Chikwendu, 2008), the desire to join in the conversation about dividend policy and market value made it relevant to use this theory to underpin shareholder activism. Meanwhile, the role of Gordon's model in calculating share price and its assumptions on shareholders' risk-averse nature made it suitable to underpin market value.

The notion that stakeholder management is synonymous with Corporate Social Responsibility disclosure (Rusconi, 2019) justified anchoring CSR disclosure on stakeholder management theory. Stakeholder theory has gained recognition as an advocate of ethical value creation (Jones et al., 2017). Dividend policy as an avenue for poor corporate governance due to conflicts between business owners and managers informed the choice of agency theory to underpin the dividend policy construct. Suffice it to say that this theory posits that business owners entrust managers to run business in a manner that does not create conflicts between them.

Guimaraes et al. (2019) explored whether value creation in listed firms was a function of shareholder activism. They used panel data covering three years and targeted corporate governance in Brazil. Using bootstrap truncated regression, they determined a negative correlation between value creation and shareholder activism. Although the truncated regression used addressed the potential bias of OLS regression, the method may not have compared value creation across firms.

Bouaziz et al. (2020) focused on listed firms in France and panel data covering the time interval 2008 to 2012. Using shareholder proposals as a proxy of shareholder activism, they reported that shareholder activism positively impacted market performance. In essence, their findings contradicted the findings by Guimaraes et al. (2019). Considering that the study contexts in the two studies were different, this perhaps explains the contradictory results.

Bhagwat et al. (2020) analyzed the effect of activism of a corporate socio-political nature on market value. Using the US context, Bhagwat et al. (2020) sampled activism events in 149 companies spread in 39 industries to conclude that the various forms of shareholder activism impact market value positively.

However, if the design used by Ghagwat et al. (2020) did not factor in the time and firm variability, the findings may not have been robust enough. Considering the contradictory nature of results regarding shareholder activism and market value which may have been due to study context and design, the researcher postulated that

H01: Shareholder activism in firms listed at the NSE did not affect market value significantly.

Barros et al. (2021) probed whether activist shareholders had any influence on the decisions by managers on firms' dividend policy. They focused on the non-financial firms drawn from the US and targeted by shareholder activists over the period covering 2000 to 2017. Using a mix of qualitative and quantitative econometric techniques, they determined that shareholder activism influenced the payment of dividends.

Guizani (2014) focused on Tunisia's Stock Exchange to analyze the disciplinary role of dividends as a function of the quality of controlling shareholder activism. The research used a sample of 528 listed firms over the period 1998 – 2009 and empirically demonstrated that; the dividend payout ratio was determined by voting powers and positively related to payout ratios.

Driver et al. (2020) examined investor pressure's role in dividend policy. By critiquing the agency narrative of investor pressure, they determined that the higher dividend policy adopted across firms was to ward off takeover bids. Besides, transit investors out to maximize current profits contributed to an increase in the dividend paid out. Meanwhile, Cao et al. (2022) demonstrated that investors undertook soft activism in the form of site visits in the Chinese context to threaten managers with exit and increase dividend payout.

Memon et al. (2017) used the Pakistan context to show that dividend policy had a negative but significant effect on market value. This finding was replicated by Sadiyah (2018), who found a negative effect, but was non-significant. The negative impact of dividend policy on market value was also reported by other scholars (Kanakriya, 2020; Khadija et al., 2017; Lunapow & Tumiwa, 2017; Setiawaty et al., 2018). The findings among these scholars were contradictory in significance, perhaps due to the differences in proxies for measuring dividend policy and market value. Moreover, none of the studies showed whether dividend policy offered an indirect route between shareholder activism and market value. Therefore, the researcher presupposed that:

H02: Dividend policy does not mediate the relationship between shareholder activism and market value.

Ali et al. (2019) examined whether CSR moderated corporate governance's effect on Chinese firms' financial performance. Using observations of firms listed on the Shanghai Stock Exchange (SSE) for the period 2009 to 2018, they determined that firm performance improved as a function of female board members. They further established that CSR moderated the relationship between females being on the board and firm performance. Although female board members may have represented some form of activism, the study failed to focus the moderation on shareholder activism and market value.

Yang et al. (2017) investigated the effect of shareholder activism measured through shareholder proposals on CSR disclosure. They used a sample of 1500 companies drawn from the US S & P and data for the period 2006 – 2014. Using panel data models, they determined that shareholder activism had no significant effect on CSR disclosure. A lack of direct effects was perhaps a recipe to try moderation.

Grewal et al. (2016) examined the effect of shareholder activism on sustainability issues. By classifying 2,665 shareholder proposals as proxies of shareholder activism, they demonstrated that shareholder proposal filling positively influenced company performance. In another study, Gold and Taib (2022) examined the role investor activism plays in corporate governance's influence on corporate sustainability. Using probit regression based on panel order to analyze data for 368 companies from 2016 to 2019, they established that activism drives extensive sustainability.

Meanwhile, Sahasranamam et al. (2020) surveyed Indian firms from 2008 to 2015 to show that using multiple lenses positively affected CSR in emerging markets. The reviewed studies failed to directly show the conditional direct effect of shareholder activism and the market value offered by CSR. Therefore, the researchers posited that

H03: CSR disclosure did not moderate the mediated relationships between shareholder activism and market value via dividend policy.

2. Method

The sample for this study included 54 listed firms drawn from the Nairobi Securities Exchange (NSE). Data were gathered for the period 2008 – 2017. Overall, the respective firms' annual audited financial reports were the data sources for this study. The research adopted the panel data design that addressed the firm

and time variations. Six variables were conceptualized for this study: a dependent variable, an independent variable, a mediating variable, a moderating variable, and two control variables.

The market value was conceptualized as the dependent variable. Although various ratios are used to measure a firm's market value, this research employed Tobin's Q, popularized by James Tobin and invented by Nicholas Kaldor in 1966 (Badri Shah, 2021). This ratio which is the quotient of the total market value of a firm to total asset value has been a common measure among scholars (Almeida & Pereira, 2015; Guizani, 2014).

Shareholder activism was conceptualized as the independent variable. Various measures have been used to measure shareholder activism, including block holders (Haigh & Guthrie, 2010), proxy contests (Faleye, 2004), and say on pay proposals (Cai & Walking, 2011), among others. Therefore, this research employed the value of three-block shareholders, which has been preferred in recent years (Bhandari & Arora, 2017; Kuhlmann, 2017; Fukuda, 2020). Under this measure, the ratio of three major shareholder capital values to the total value of share capital was computed and used in the analyses.

Dividend policy was conceptualized as the mediator between shareholder activism and market value. Two ratios have mainly been employed to measure dividend policy. The dividend payout ratio relates to total dividends divided by net income, while dividend yield is the annual dividend paid per share ratio to the market price per share (Harris et al., 2015). In this study, the dividend yield was used, having worked in other studies (Adefila et al., 2004; Almeida & Pereira, 2015; Guizani, 2014).

CSR disclosure was conceptualized as a moderator between shareholder activism and market value in the mediated relationship involving dividend policy. CSR disclosure index based on the Global Reporting Index (GRI) standards were used to measure CSR disclosure. Under this measure, the disclosure index ratio took cognizance of six dimensions, including mission and vision, products and service, employee commitment, debtors, dedication to society, and charity and benevolence as adopted from Mallin et al. (2014).

Previous studies have identified firm size and growth in sales as factors that may confound relationships involving market value (Jung et al., 2017; Odalo et al., 2016). Consequently, firm size measured using the natural logarithm of total assets (Michelon et al., 2020) and growth in sales measured using annual sales

increment (Odaló et al., 2016) were conceptualized as control variables to examine the robustness of the findings. Andrew Hayes's model 5, whose conceptual diagram is displayed in Fig. 1, was the suitable model for the desired moderated mediation.

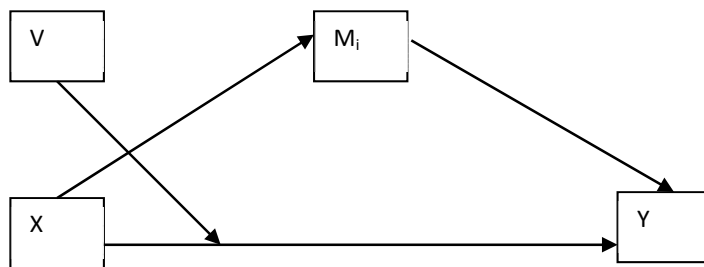


Figure 1. Conceptual diagram

Where X-Shareholder activism; Y-Market Value; M_i -Dividend Policy; and V-CSR disclosure. The associated statistical diagram is presented in Fig 2.

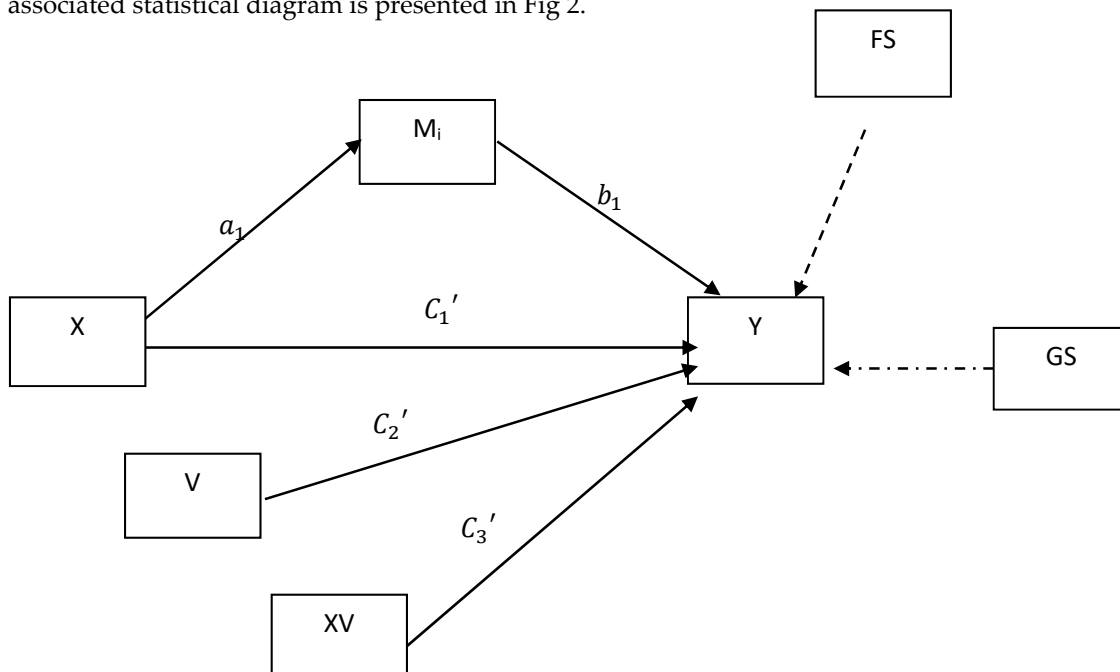


Figure 2. Statistical diagram

GS	Overall	.125	.533	-2.01	8.54
	Between		.216	-.319	1.27
	Within		.489	-1.57	7.40
FS	Overall	.0085	.062	-.518	1
	Between		.018	-.037	.119
	Within		.059	-.482	.890

Results indicate that market value had a mean ratio above 1, indicating that most firms had undervalued stocks. Shareholder activism was not significantly different between firms, and the low mean dividend payout was an indicator of earning re-investment in most firms. The over 60% CSR disclosure implied participation in activities for social development in listed firms.

Correlation Matrix

The correlation matrix in Table 2 indicates that the study variables had no high correlation except in the case of dividend policy and shareholder activism, $r=.847$, $p<0.01$. However, this correlation was below 0.9, showing that multicollinearity was not an issue among the variables.

Table 2. Correlations

	MV	SA	DP	CSR	FS	GS
MV	1.000					
SA	0.236	1.000				
DP	0.221**	0.847**	1.000			
CSR	-0.006	0.0792	0.096	1.000		
FS	-0.366**	-0.052	-0.065	0.048	1.000	
GS	0.125	0.010	0.001	0.091	-0.020	1.000

Panel Data Analysis

Panel data analysis results presented in Table 3 indicated that shareholder activism directly impacted dividend policy, $b=0.099$, $p<0.01$. The resulting regression model was as shown in equation 3.

$$DP_{it} = 0.013 + 0.099SA_{it} \dots \dots \dots \text{eqn 3}$$

Table 3. Model results

M	Coef	Oim Std. Err	z	p>z
X	.0990486	.0026756	37.02	0.000
cons	.0125363	.0044619	2.81	0.005
Y				
M	3.563734	2.715198	1.31	0.189
X	13.8983	1.300278	10.69	0.000
V	5.201784	1.398854	3.72	0.000
XV	-17.34312	1.663294	-10.43	0.000
_cons	-3.413499	.9279409	-3.68	0.000
var(e.M)	.009613	.000585		
var(e.Y)	38.14189	2.321242		

Results for the moderated mediated model revealed the following: dividend policy had no significant effect on market value, $b_1 = 3.6$, $p > .05$; shareholder activism had a positive and significant impact on market value, $C_1' = 14$, $p < 0.01$; CSR disclosure had a positive and significant effect on market value, $C_2' = 5.2$, $p < 0.01$; the interaction between shareholder activism and CSR disclosure had a negative and significant effect on market value, $C_3' = -17$, $p < 0.01$. The resulting model was as shown in equation 4.

$$MV_{it} = -3.41 + 3.6DP_{it} + 14SA_{it} + 5.2 CSR_{it} - 17SA * CSR_{it} \dots \dots \dots 4$$

Since dividend policy had no significant effect on market value, the conditional indirect effect of shareholder activism on market value through dividend policy was impossible. However, the conditional direct effect of shareholder activism on market value was enabled by the moderation of CSR. Thus the conditional direct effect was given by equation 5.

$$\text{Conditional direct effect} = 14 - 17CSR \dots \dots \dots 5$$

Robustness Tests

Robustness tests were conducted on the fixed effects model with a time dummy to examine the model's strength. This test involved bringing the control variables into the model and determining how the key constructs' significance changed. Table 4 indicates that with the inclusion of both firm size and growth in sales, the significance of dividend policy, shareholder activism, CSR, and the interaction term did not change. Therefore, the model was deemed to have been robust enough.

Table 4. Robustness check

Y	Coef.	Std. Err	t	p>t
M	.9454502	2.753562	0.34	0.731
X	9.560624	1.436932	6.65	0.000
V	5.245808	2.026445	2.59	0.010
XV	-12.47339	1.752376	-7.12	0.000
Year				
2009	.9876242	1.061611	0.93	0.353
2010	-.6197874	1.062718	-0.58	0.560
2011	.3929502	1.094311	0.36	0.720
2012	-.242648	1.081796	-0.22	0.823
2013	-.2685006	1.085427	-0.25	0.805
2014	-.4718854	1.078091	-0.44	0.662
2015	-.6630089	1.081634	-0.61	0.540
2016	-1.167972	1.083839	-0.08	0.282
2017	.2498116	1.09774	0.23	0.820
FirmSize	-33.54518	4.074426	-8.23	0.000
Growthinsales	1.089107	.4906014	2.22	0.027
_cons	-2.309839	1.320404	-1.75	0.081
sigma_u	2.9637514			
sigma-e	5.4600568			
rho	.22758349			

4. Discussions

This research confirms that despite dividend policy not impacting significantly on market value, CSR disclosure initiates a conditional direct effect between shareholder activism and market value that decreases with increasing CSR disclosure. Such a finding implies that when listed firms become proactive in corporate social responsibility, managers focus more on other stakeholders at the expense of stockholders, which diminishes the direct influence of shareholder activism. Besides, this finding is consistent with stakeholder theory that recommends equity in taking care of all stakeholder interests. Although the direct effect of shareholder activism on market value indicates the potential inherent in shareholder activism when seeking to remain competitive, the ability of CSR disclosure to initiate a conditional direct effect demonstrates the importance of diversity in stakeholders in listed firms.

Recent research reveals that shareholder activism has been growing steadily (Bowley, 2019; Jefferies, 2019). Though positive to the market value within listed firms, this increase in shareholder activism also spells danger. Most firms have found themselves under the control of major shareholders. This control has exacerbated the agency problem. Under this problem, managers, in serving different stakeholders of the firm, find their interests conflicting. Therefore the conditional direct effect showing a decrease in major shareholder influence as CSR disclosure grows is likely to eliminate such agency problems. Indeed, the agent plays a critical role in the firm balancing interests of all stakeholders, as postulated in the agency theory (Khan, 2016). The theory expects managers to audit the different needs of diverse stakeholders and incorporate them into firm policies (Ibrahim et al., 2010).

Interestingly, the study determined that dividend policy did not offer an indirect link between shareholder activism and market value in the context of firms listed at the NSE. This finding contradicts the finding by Ofori-Sasu et al. (2019), showing that independent directors and the quality of the CEO were significant factors in reducing shareholders' market value through dividend payout decisions. Suffice it to say, the study by Ofori-Sasu focused on CEOs and may have been an avenue to the agency problem. Perhaps the lack of significant effect of dividend policy on market value could be explained by the knowledge that both are financial performance indicators. This presumption is vindicated by the significant influence of shareholder activism on both variables. Besides, the finding showing that dividend policy did not offer an indirect path is consistent with Modigliani and Miller's dividend irrelevance theory that argues against dividend issuance by posting that issuance of dividends has no impact on potential profitability or share price (Alan & Hossain, 2012).

By finding that dividend policy did not mediate the link between shareholder activism and market value, the study suggests that CSR disclosure does not initiate a conditional indirect effect on the link between shareholder activism and market value. However, the study shows that CSR disclosure and its interaction with shareholder activism significantly impact market value. Therefore, firms are compelled to spend much money to fund CSR activities, leaving fewer profits to support dividend payout.

5. Conclusions and Suggestions

5.1. Conclusions

This study has summarized the moderated mediation effect of corporate social responsibility disclosure on the relationship between shareholder activism and market value via dividend policy. It is concluded from the study that shareholder activism in listed firms have an influence on market value. Major shareholders wield powers to influence decisions, forcing managers to adopt good corporate governance. Such governance increases market value. Through activism, major shareholders are rewarded in the form of dividends. Consequently, shareholder activists who are risk-takers are likely to influence dividend policy decisions. Dividend policy and market value as financial performance indicators have no significant relationship. Consequently, CSR disclosure does not initiate a conditional indirect effect between shareholder activism and market value through dividend policy. However, CSR disclosure initiates a conditional direct effect between shareholder activism and market value such that the strength of shareholder activism diminishes with increasing CSR activities.

5.2. Suggestions

The hypothesized model examining the conditional indirect effect of CSR disclosure on the relationship between shareholder activism and market value through dividend policy was conceivably proved to be possible. Listed firms should implement policies that encourage shareholder activism through which they can improve corporate governance resulting in increased financial performance. Despite the possibility of the agency problem, firms should open room for shareholder activism's ability to influence dividend decisions. The management of firms should guide decisions regarding capital structure to strike a consensus between the various categories of shareholders. The data used in this study covers the years 2008-2017. The years 2008-2017 were selected because during this period the global economy was calm and Kenya's economy was growing steadily at a growth rate of 6 percent between 2008-2017 (World Bank, 2017). However, after 2017 there was global recession and increase in political activities which would have been difficult to hold constant. During this period Kenya's economy was ranked 3rd largest economy in Sub-Saharan Africa after Nigeria and South Africa. For the subsequent years, (2018-2020), there were extreme cases of economic instability and a result of shocks attributed to political temperatures, Covid-19 pandemic and Russia - Ukraine war. The study therefore suggests a further study to be conducted incorporating the

years 2018 – 2022 to compliment the current study. Other future studies should seek to examine whether the conditional indirect effect of shareholder activism on the relationship between capital structure and market value through CSR disclosure would remain significant and robust.

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