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Institutional shareholder activism in Nigeria: An accountability perspective

ABSTRACT

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

Keywords: accountability theory; agency theory; institutional shareholders; Nigeria; shareholder activism; shareholders' associations.

I. INTRODUCTION

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

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

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

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

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

2. LITERATURE REVIEW AND THEORETICAL BACKGROUND

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

Academic studies show that both institutional and non-institutional shareholders play a key role in shareholder activism. Studies report that active institutional shareholders include pension funds, mutual funds and hedge funds with banks and insurance companies (Becht et al, 2008; Brav et al, 2008; Klein and Zur, 2009, Hendry et al, 2007; Song and. Szewczyk, 2003). A few of these studies have documented evidence of pension funds and hedge funds working in concert when targeting similar companies within their portfolio (Brav et al, 2008; Klein and Zur, 2009, Poulsen et al, 2010). They suggest that joint campaigns between different or similar institutional shareholders for example, hedge funds have produced more positive outcomes. This has led some authors to attribute success in shareholder activism to such relationships (Brav et al, 2008; Strickland et al, 1996). However, studies have also

revealed that some institutional shareholders are passive towards shareholder activism. Institutional shareholders may be unwilling to engage in shareholder activism because of short-termism, threat to business reputation, and governance costs (Partnoy and Thomas, 2007; Romano, 2001; Ryan and Schneider, 2002).

Non-institutional shareholders can be categorised into small individual shareholders in the form of shareholders' associations and large individual shareholders (Poulsen et al, 2010; Crespi and Renneboog, 2010; Song and Szewczyk, 2003). The difference between small and large individual shareholders is attributable to the size of their shareholdings which influences their approach to, and effectiveness of, shareholder activism (Connell et al, 2010; Crespi and Renneboog, 2010; Johnson et al, 2010). Small individual shareholders on their own face the disadvantage of having a weak influence over management because of their small voting rights. To overcome these constraints, small shareholders may temporarily increase the power of their votes by combining their votes with other shareholders when engaging in shareholder activism. Thus, coordination mitigates the need for large block holding. These small individual shareholders are able to co-ordinate their activities through organisations such as shareholders' associations. While they do not have a similar information advantage as the large individual shareholders, particularly insiders, small shareholders are able to influence corporate strategies and board nominations (Poulsen et al, 2010; Strickland et al, 1996). Strickland et al (1996) finds that the coordination between a shareholders' association and institutional shareholders has been beneficial in driving successful shareholder-initiated proposals in the USA. Institutional shareholders have voted in support of shareholder proposals sponsored by a shareholders' association.

2.2 Theoretical framework: Accountability and shareholder activism

This study employs accountability theory in the study of shareholder activism. It examines three areas of accountability that have implications for shareholder activism. The areas are (a) accountability as a dialectical activity (b) Independence in the accountant-accountee relationship and (c) conflicting agendas in accountability.

Accountability and Dialectical activity

Mulgan (2002) argues that accountability is seen as a dialectical activity. From this standpoint, accountability is considered to be an activity that requires the accountee to engage in "questioning, assessing and criticising" when holding the accountant to account (Mulgan, 2000, p. 569). The accountability process take the form of an open discussion and debate between the accountant and accountee. While the author, Mulgan (2000) did not directly explore the corporate environment, such behaviour have been confirmed as reflective of the accountability relationship between board members and management in corporate governance. Roberts et al (2005) identified a range of behaviours linked to accountability. They observe that "questioning, probing, discussing, informing and encouraging" were used by board members to hold management to account (Roberts et al, 2005, p.56).

Prior research has found that shareholder activism displays similar behavioural features. Institutional shareholders and shareholders' associations openly question, discuss and negotiate with management on strategic decisions at private meetings (Solomon and Darby, 2005; Roberts et al, 2006). Dialogues as a way of engagement with managers is particularly favoured by pension funds (Becht et al, 2008; Goranova and Ryan, 2014; Norli, et al, 2015, Poulsen et al, 2010; Strickland et al, 1996). Solomon and Darby (2005) find that companies gain from their dialogue with institutional shareholders on social, ethical and environmental issues (SEEs). The SEEs process helps to inform corporate disclosures aimed at the public.

However, importantly, the literature also suggests that shareholders' associations frequently use non-dialectical approaches such as protestation, media publicity campaigns and other confrontational tactics to hold management to account at AGMs forums (Amao and Amaeshi, 2008; Johed and Catasús, 2015).

Independence in the accountor-accountee relationship

Ryan and Schneider (2002) argue that in shareholder activism, the shareholder expects to exert a level of influence on the strategic outcome of the managerial decision in a company within their portfolio. Influence is easier where there is a level of independence between the activist and the management of the target company. This implicit assumption is observed in the analysis of the relationship between institutional shareholders and management in the study of shareholder activism (Becht et al, 2008; Crespi and Renneboog, 2010; Ingley and Van der Walt, 2001; Catasús and Johed, 2007; Johed and Catasús, 2015). Poulsen et al (2010) notes that in the Swedish corporate governance system, the small shareholders linked to shareholders' associations are able to have a voice independent of the board due to the corporate governance structure. This independent relationship allows shareholders to cooperate and increase their influence over management.

Research studies suggest that pressure-sensitive institutional shareholders lack independence from management. These type of investors prefer to protect their business interests or relationship by deferring to the preferences of management. Such behaviour is usually associated with passive institutional shareholders rather than active institutional shareholders (Almazan et al, 2005; Brickley et al, 1988; Marler and Faugère, 2010). Stratling (2012) argues that such a business relationship is absent in the dynamics between shareholders' associations and management. Therefore, shareholders' associations do not face similar problems. However, some studies report that financial benefits obtained outside business relationship may hamper independence between the accountor-accountee. They argue that shareholders' associations in Nigeria develop a cosy relationship with management when they receive personal financial incentives (Adegbite et al, 2012; Yakasai, 2001). The lack of independence between these shareholders and management prevents the former from holding the latter to account.

Conflicting agendas in accountability

At the centre of the accountability process are the agendas tabled by institutional shareholders. The agendas cover financial and non-financial issues. The popular issues range from financial performance, corporate governance, social, environmental to human rights issues (Crespi and Renneboog, 2010; McLaren, 2004; Ryan and Schneider, 2002; Solomon and Darby, 2005). While the agendas pursued by different shareholder groups might overlap, researchers point out that their interests and time horizons tend to differ (Goranova and Ryan, 2014; Ingley and Van der Walt, 2001). They suggest that institutional shareholders such as pension funds invest sizable stakes over a long-term period in comparison with smaller individual shareholders who invest smaller stakes over a short-term period. They argue that this difference in interest and time horizon generates conflict between the different shareholder groups. For example, Stratling (2012) notes that hedge funds are short-term oriented. Hedge funds have a stronger preference for short-term pay-outs. She points out that such actions has drawn criticism for shareholders' associations in Germany.

3. THE NIGERIAN CONTEXT

The prior literature suggest that institutional shareholders in Nigeria play a less prominent public role in shareholder activism compared to shareholders' associations, although the effectiveness of the latter has been questioned (Amao and Amaeshi, 2008; Okike, 2007; Yakasai, 2001). It has been reported that shareholders' associations through shareholder activism have resisted the fraudulent sale of corporate assets and played a role in sacking poorly performing corporate executives (Aderinokun, 2003; Chigbo, 2000). However, both shareholder groups are deemed to be important players in the implementation of corporate governance reforms. For instance, the Nigerian Securities and Exchange Commission (SEC) have openly encouraged institutional shareholders and organised shareholders' groups to take on a more active role in shareholder activism to help improve practices (SEC Code, 2003). This code was revised in 2011. The non-mandatory SEC Code (2003) encourages institutional shareholder activism. Section 10 (a) states:

“The company or board should not discourage shareholder activism whether by institutional shareholders or by organised shareholders' groups. Shareholders with large holdings (institutional and non-institutional) should act and influence the standard of corporate governance positively and thereby optimise stakeholder value”.

The SEC Code (2011) specifically requires “institutional shareholders and other shareholders with large holdings to seek to positively influence the standard of corporate governance in the companies in which they invest”. Institutional shareholders are expected to demand compliance and explanations for non-compliance. It is argued that while institutional shareholders are not there to usurp the role of monitoring agencies, they can pressurise companies to take shareholder accountability and interests more seriously (Chung and Talaulicar, 2010; Roberts et al, 2006). Roberts et al (2005; 2006) find that the demand for accountability by institutional shareholders, allows for better dialogue with corporate managers on matters that are intended to create better shareholder value. In Nigeria, institutional shareholders have an opportunity to pursue better governance practices given their previous public silence in the face of scandals, governance and accountability problems (Bakre, 2007; Ahunwan, 2002; CBN, 2006). Yakasai (2001) argues that institutional shareholders are in a better strategic position than small shareholders to engage with corporate managers. This group of investors is able to influence board nominations and bridge the communication gap with shareholders, and consequently play a crucial role in improving corporate governance practices, through dialogue with management (Ajogwu, 2007).

4. RESEARCH METHODS

Given the evolutionary state of shareholder activism in Nigeria, this study used qualitative research to provide necessary insights. We used interviews because this allowed us to capture insights into events associated with shareholder activism through the personal account of individuals' experiences (Hendry et al., 2007; Useem et al., 1993). Our data is drawn from two stages of in-depth interviews. Nineteen institutional shareholders were involved in the first stage of the interviews. The sample in the second stage included three institutional shareholders; two representatives of a shareholders' association and two representatives from regulatory bodies. Interview respondents included mainly high profile/senior managers of large asset management companies, pension funds, securities houses, an executive of a shareholder association, as well as representatives from the Securities and Exchange

Commission and Corporate Affairs Commission in Nigeria. Some information about the data respondents are provided in Table 1.

The interview respondents were key stakeholders in the Nigerian institutional shareholder activism system. This research thus benefited from their insider views on shareholder activism. The first round of interviews were conducted in the last quarter of 2008 at Lagos and Port Harcourt, both of which are major financial cities in Nigeria (following a pilot interview in March 2008). The second round of interviews was conducted in the second and last quarter of 2012. This involved a mix of both telephone and face to face interviews. This helped us to validate claims from prior interviews and gather further evidence on the themes that had emerged from the first round of interviews. For both stages, the face-to-face interviews were conducted at the corporate offices of the interviewees. The interviewees were given a form to complete to capture their demographic details and relevant information about their institutions. The interviews lasted from between 30mins and an hour. The interviewees were encouraged to speak freely.

The interviewees were promised anonymity, therefore, numerical codes have been used to conceal their identity. B1 – B23 for shareholders and R1 and R2 for regulators. The words ‘active’ or ‘passive’ is indicated besides the codes to highlight the stance of a financial institution or shareholders’ association towards shareholder activism. We have chosen to use only a few extracts from the interview with regulators where it is deemed appropriate. We have also drawn interview data from a separate study that explores shareholders’ associations’ participation in shareholder activism. Fourteen shareholders’ associations were represented in the sample. The data from the interviews with representatives of the various shareholders’ associations were used primarily to validate the findings from the interviews with the institutional shareholders. This is because the focus of our analysis is institutional shareholders’ perceptions of shareholders’ associations. For the interviews with institutional shareholders, a formal set of questions was followed. Questions also evolved during the interview process. Interviews were tape recorded and the data was later transcribed. Hand-written notes were used to support the data gathering process.

The interviewees were asked to comment on different aspects relating to institutional shareholder activism, including the concept, its existence in Nigeria, their engagement in shareholder activism, the impediments/challenges they faced, and their relationship with shareholders’ associations. The respondents were asked whether their financial institution adopted a passive or an active approach toward institutional shareholder activism. Certain themes emerged around the nature of shareholder activism from the interview questions and the transcribed text. A coding scheme was thereafter developed around these themes. This is highlighted in the empirical section. The interviews provided insights into the experiences and issues associated with institutional shareholders, shareholders’ associations and regulators. Nonetheless, interviews are prone to subjectivity and bias, as interviewees may fail fully to recount stories and may emphasise selected bits of their experience (Shotter and Gergen, 1994). This paper recognises this potential bias through an acknowledgement of areas of disagreement and consensus. Also, to add further validity to the research, findings in this research were corroborated after the interview: checks were made using documentary evidence from the public domain in the form of prospectuses and newspaper reports.

5. EMPIRICAL EVIDENCE: ANALYSIS AND DISCUSSION

The interviews revealed that only a few institutional shareholders participated in shareholder activism in Nigeria. The few active institutional shareholders identified during the interviews were private pension funds and asset management companies. The field was dominated by three out of the top five private pension funds ranked by asset size in Table 2. In Nigeria, the top three pension fund administrators controlled 46% while the top five controlled over 61%, of the pension market share as at 2011. The top three Pension fund assets (PFAs) are almost forty times the size of the bottom ten in terms of Pension assets (Pencom, first quarter report, 2010). This moves power to the domain of a few PFAs. This size differential is interesting because it suggests that the few large PFAs had the flexibility of working independently as activists or strategically cooperating with other groups. This section concentrates on institutional shareholders' perceptions of the shareholders' association engagement in shareholder activism in Nigeria. The findings suggest that there were cases of marked differences in opinion between the representatives of institutions adopting an active or passive approach to shareholder activism.

Accountability and [Non] Dialectical activity

The process of accountability as described in the literature involves dialectical activity. Dialectical activity represents a process of engagement where the accountee (shareholders' association) is involved in questioning, probing, discussing and criticising the accountor (management) in an accountability relationship (Mulgan, 2000, Roberts et al, 2005). The findings suggest that institutional shareholders did not view shareholders' associations as keen on using dialectical activities in shareholder activism when holding management to account. Shareholders' associations approach to engagement with management was dominated by non-dialectical activities. The use of this strategic approach to shareholder activism was recognised by both representatives of active and passive institutional shareholders. However, both types of institutional shareholders had different views on the preference for non-dialectical approaches by shareholders' associations. The respondents representing passive institutional shareholders presented shareholders' associations' non-dialectical approach in a positive tone as seen in the excerpts below.

“They [shareholders' associations] call their meetings and start to address the press on issues that actually border on their investments' return... They are ready to go to court sometimes to drive home their point... they are very potent” [B19-*Passive*]

“In situations where individual shareholders or an association of shareholders are aggrieved, they go to AGMs where they have the power to change the board and to change policies. They ensure that they get to the AGM venue and if they are not allowed in, they block the entrance of the AGM, thus attracting [media] attention. They make noise to attract people's attention. They go to the press and embarrass the company and call on the company to discuss with them in order that they are able to air their views....” [B11-*Passive*]

The respondents representing passive institutional shareholders were, however, supportive of the non-dialectical approach adopted by shareholders' associations. They explained that the presence of shareholders' associations in the corporate space was beneficial because it meant that some institutional shareholders could afford to sit on the side lines. “A lot of institutional investors do not engage in activism; they allow individuals and associations to fight their cause” [B12-*Passive*]. The general perception was that shareholders' associations'

engagement was beneficial to the interest of passive institutional shareholders. As a respondent notes, “they are the ones making noise but they are protecting our interest too... there is no regulation curtailing them, or restricting them from going to the media to accuse managers of expropriation and fraud” [B13-*Passive*]. This interpretation of the behaviour of shareholders’ associations by representatives of small passive institutional shareholders was different from those of the larger active institutional shareholders. The latter described the tactics of shareholders’ associations as noisemaking or unionism. The description appeared to be framed in a negative light.

“They come together and make sure they make so much noise at AGM.” [B20-*Active*]

“Most activism lies at the level of individual shareholder activism that runs in a way that is not too dissimilar to how unions are formed. Some of the tactics (referring to shareholder activism by shareholders’ associations in Nigeria) are not too far from the Japanese ones where they rely on public embarrassment...They have a practice which is akin to unionism in Nigeria. It is not obvious to me a lot of the times that some of the things shareholders are pushing for are in the best interest of the company and themselves.” [B3-*Active*]

The excerpts above suggest that the confrontational tactics reported to have been used by shareholders’ associations were quite different from the tactic preferred by active institutional shareholders. The strategic emphasis on non-dialectical activity was considered problematic by respondents from active institutional shareholders. One possible explanation is that dialogues held privately with management are highly favoured by institutional shareholders particularly pension funds. They were deemed to be a more powerful option (Becht et al, 2008; Goranova and Ryan, 2014). Goranova and Ryan (2014) describe this approach as synonymous with private activism where activities linked to shareholder activism are typically unobservable by researchers.

Independence in the accountant-accountee relationship

The issue of independence between shareholders’ associations and management was addressed by only one respondent from an institution that was deemed to adopt a passive approach to shareholder activism. However, the responses from representatives of active institutional shareholder suggest that shareholders’ associations were seen as being influenced by management. They accused shareholders’ associations’ of forming alliance, and praising management in return for perks. In one of the interviews, a respondent representing an active institutional shareholders recounted an incident in which he felt that some shareholders’ associations were influenced by, and colluded with, management.

“During the banking consolidation in December 2005, I was at a shareholders’ meeting to discuss a potential merger and acquisition bid for Bank 'A', which we believe was not in the company’s interest...When we got to the meeting, the president of shareholders’ association [Y] in Nigeria, “I am sure that he had colluded with management and was already influenced”. He stood up and said that we have to give in and join the alliance; some people were like 'No! No! No! No!' and before we knew what was happening, members of the shareholders’ associations all voted in support of the agenda. They counted their votes and it was all over” [B8-*Active*]

Respondent [B8- *Active*] described the shock he experienced concerning the non-transparent manner in which shareholders' associations agreed to management's plan to merge with another bank without a thorough consultation process. He argued like some other respondents that shareholders' obtained personal benefits because of their support of management. For example, [B20-*Active*], uses the word "settle" which is a Nigerian slang for paying off (bribing) a party.

"Unfortunately, these shareholders' associations' activities have been abused. ...The management of companies know they are going to give a lot of trouble and since they are in Nigeria, they know that they are going to settle them outside. Those people, their shareholder activism is for their personally gain and not for the collective interest of investors." [B20-*Active*]

A respondent representing a passive institutional shareholder made an accusation against shareholders' associations. He reported that they,

"Long to get personal favours when they go for board meeting. They get the company to pay for their transport to the AGM and their hotel bills where they lodge. In some stances, some are given directorship or their relative to compensate them. They compromise their independence." [B24-*Passive*]

The findings suggest that active institutional shareholders viewed personal gains as a factor hampering shareholders' associations from criticising and questioning management at AGMs. Interviewees believed that consistent 'praise singers', 'story tellers' (i.e. focusing on the trivial and irrelevant) and supporters of management at AGMs were culprits in this process. Some shareholders became cautious in their criticism of management in a bid to gain financial favour and thus raise funds from the corporations that they were supposed to monitor.

"....there are those of them that are professional praise singers because of what they want to get or what they have received" (B25).

".....a lot of people come to the floor to tell stories instead of talking about the accounts...[For example,] I met your father fifteen years ago - that has nothing to do with what is written in the accounts". (B26)

The findings suggest that there was a lack of independence between some shareholders' associations and management. This contrasts with the assumption of prior literature where activist groups are deemed to act independently in pursuit of accountability (Becht et al, 2008; Crespi and Renneboog, 2010; Johed and Catasús, 2015; Poulsen et al, 2010). The study finds that comments from the respondents and the media suggested that some representatives of shareholders' associations may have been influenced through gifts and perks to support the interests of management. There have been occasional accusations of collusions between representatives of shareholders' associations and management of companies. For example, a media house quotes a chairman of a shareholders' association as stating that,

"I have attended meetings where companies gave gift items and there have been situations where they gave cash for transport, which I count as mutual understanding between the company and the shareholders. It is not all companies which call for pre-AGMs that give gifts, it is all about understanding each other" (February 11, Vanguard, 2014)

The influence of corporate managers over some shareholders' associations was also observed by the regulators. This was attributed to monetary sponsorship. "Some of them are taken over by company management, and are sponsored..." [R1]. Another regulator argues that shareholders' associations are failing in their duties to enforce good governance in companies through their membership of audit committees, "...For example, looking at the requirements of the audit committee... They can require investigation into the internal and external audit. But most of them don't do this....We know the companies are sponsoring them and using them to evade compliance with some regulatory provisions" [R2]. This problem of influence has been raised in an academic paper by Adegbite et al (2012, p. 397). The authors note that "executive members of many of the shareholder associations now maintain close and personal relationships with the executives of the firms they are meant to check." In sum, the shareholders' associations appeared to have earned a poor reputation amongst some respondents representing active institutional shareholders and regulators. The representatives of the active institutional shareholders viewed the lack of independence between shareholders' associations and management as obstructive to genuine engagement in shareholder activism.

Conflicting agenda in accountability

The findings suggest that representatives from active institutional shareholders perceived a conflict between their agenda and the agenda promoted by shareholders' associations. Respondents representing active institutional shareholders were of the opinion that shareholders' associations focused more on short term benefits like dividends rather than long term benefits that emphasised corporate survival. This is confirmed by a representative of the regulatory institution that noted, that "the main attraction is dividends; they are not interested in even the company remaining a 'going concern'..." [R2]. A representative from the passive institutional shareholders points out that shareholders' associations ask about dividend payment, "if they are not going to pay a dividend?", The companies are asked "why they are not paying dividend or if they [the company] are supposed to give out bonus, and say 'no', the shareholders' associations will ask why?" [B10-*Passive*]. He was emphatic in stating that the companies respond to shareholder' associations' pressure, "Yes....They do consider shareholders' concerns. The interest of shareholders' associations appeared to be consistent with that of passive institutional shareholders. Comments from representatives of passive institutional shareholders indicated their institution was largely interested in dividend payouts. For example, a respondent noted,

They [passive institutional shareholders] are looking at the return on their investment that is what is key to them any other thing is secondary. They want to ensure that they are getting their dividend and the company is making profit [B4-*Passive*]

Representatives of the active institutional shareholders noted that the problem they had with shareholders' associations demand for dividend payment was its effect on the long-term prospects of the target company. They viewed the demand for immediate dividend payment (a short term goal) as conflicting with their support for the company's long-term goals (for example, investment).

"We have to deal with them often, in a case where sometimes we are large holders in companies...It may be that the company which has great growth prospects may needs to retain the cash to drive those growth prospects. It is very

difficult to explain something like that and gain cooperation from shareholder associations because they want more immediate gratification in terms of dividends upfront and so on.... In term of activism, we find it easier to identify sizable shareholders; institutions or individual shareholders, and go and deal with them” [B3- *Active*].

“What you find is that they keep clamouring for dividend payment. They want bonuses and they might not want to understand from the company’s perspective. If for example, the company is undergoing restructuring, investing in new projects, the shareholders’ associations would only think about payment of dividend, irrespective of anything that might be happening. Institutional shareholders’ do not take that sort of position. They take a more informed position.” [B20- *Active*].

These quotes show that the representatives of active institutional shareholders considered the shareholders’ associations’ demand for dividend payment as sometimes detrimental to the corporate objectives. They were unhappy with situations where shareholders’ associations were more interested in a target company using its cash for dividend payment instead of for strategic investments. One respondent representing an active institutional shareholder warned that shareholders’ associations, “need to be educated, they should not be interested in their dividend and bonus alone they should come up and really see themselves as part owners of the company [B18-*Active*]. In sum, the members of the top five large pension funds were not enthusiastic about co-operating with shareholders’ associations because of the latter’s attitude towards dividend payments which appeared to be driven by self-interest. This approach had not gone unnoticed by the shareholders’ associations. A representative of a shareholders’ association pointed out that cooperating with one of these top financial institutions is challenging because of the communication barriers instituted by their executive director.

Any communication is only by phone...Anything he wants to do is by proxy because he represents a majority investor...He does not discuss with small shareholders. He is not supportive of small shareholders’ associations.... [B22-*Active*]

In prior literature, scholars argue that shareholder groups use shareholder activism to promote their agenda (Crespi and Renneboog, 2010; Ingley and Van der Walt, 2001). In this case, the time horizon on returns was an important source of conflict between shareholder groups. The pursuits of short term objectives by shareholders’ associations was reported as conflicting with the interest of active institutional shareholders. In general, our findings suggest that representatives from the active institutional shareholders were not complimentary about the work of shareholders’ associations. Their views can be summed up in this quote by a respondent from the group; “shareholders’ association have not been effective in promoting corporate governance.” [B23-*Active*]. Our findings suggest that institutional shareholders had given consideration to shareholders’ associations’ participation in shareholder activism.

6. Discussion and Conclusion

Our study critically evaluated how active and passive institutional shareholders perceive shareholders' associations' participation in shareholder activism. The findings revealed that shareholders' associations de-emphasised dialogue in their interaction with management. This contrasts with the dialectical approach preferred by active institutional shareholders who have the advantage of large shareholdings. It could be argued that given members of shareholders' associations hold small equity in companies, they are forced into an unequal relationship (Poulson et al, 2010). The passive institutional shareholders face a similar challenge. This might explain why the respondents representing passive institutional shareholders did not express any form of displeasure regarding shareholders' associations' preference for coercive force to pressure management at public forums. Instead, it drew their support. On the other hand, the representatives of active institutional shareholders did not appreciate the non-dialectical approach used by shareholders' associations. They viewed the shareholder' associations' approach as a form of noisemaking that was really not as effective as the active institutional shareholders' preferred approach which is dialogue with management. The findings suggest that the decision to use mainly dialogue to enforce accountability might shape an activist appreciation of the work of another activist group.

Another important finding is that most of the respondents from passive institutional shareholders failed to mention the problem of independence in the accountor-accountee relationship between shareholders' associations and management. On the other hand, the respondents representing active institutional shareholders viewed the accountor-accountee relationship between shareholders' associations and management as lacking independence. The respondents attributed the lack of independence in their relationship as well as shareholder sensitivity to management to the desire of shareholders' associations' members for personal gains from management. Their observations were collaborated by interviews with representatives from the regulatory sector. Thus, our findings shed new light on how active institutional shareholders might perceive the actions of shareholders' associations that are deemed to be pressure-sensitive. It highlights the issue of pressure-sensitivity among shareholders' associations, a different category of shareholders that seek to promote their personal interests. This differs from prior studies that focus on the lack of independence by pressure-sensitive institutional shareholders (Almazan et al, 2005; Brickley et al, 1988; Marler and Faugère, 2010).

Prior literature shows that shareholders engaged in shareholder activism have a defined set of agenda (Goranova and Ryan, 2014; Ryan and Schneider, 2002; Stratling, 2012). Our findings supports this idea. However, it builds on this idea by uncovering potential conflict between shareholders' associations and active institutional shareholders in the study of shareholder activism. Thus, the third findings suggest that representatives from active institutional shareholders view their agenda as conflicting with that of shareholders' associations. However, the agenda of the latter was not reported as conflicting with that of passive institutional shareholders. In this vein, our findings draw attention to the need for future research to explore the strategic implications of such conflicting agenda that are linked to differences in shareholder expectations. However, it is vital to point out that differences in shareholder expectations are not easily captured in research that separately addresses the work of shareholders' associations or active institutional shareholders as demonstrated in prior studies (Becht et al, 2008; Brav et al, 2008; Johed and Catasús, 2015; Strickland et al, 1996)

The study makes a theoretical contribution to both the accountability and shareholder literature by deploying accountability theory in the study of shareholder activism. The explicit adoption of accountability theory has been largely omitted in prior research on shareholder activism (Brav et al, 2008; Goranova, and Ryan, 2014; Marler and Faugère, 2010; Norli, 2015). This study provides empirical support of the usefulness of an accountability perspective in the study of shareholder activism. To achieve this, we develop a simple theoretical framework that allows us employ the theory of accountability in the study of shareholder activism. In this paper, we explore three areas of accountability that have implications for shareholder activism; dialectical activity, independence and agenda. The focus on these three key areas allow us capture the richness in the data analysis which is otherwise difficult to capture by solely adopting agency theory. Moreover, our findings illustrate how accountability practices are implicated in shareholder activism in the context of Nigeria.

Second, this study makes an empirical contribution to the study on institutional shareholder activism by highlighting the difference between the views of representatives from active and passive institutional shareholders in relation to shareholders' associations' participation in shareholder activism. The findings highlight the difference in the perceptions of representatives from active and passive institutional shareholders of shareholders' associations' participation in shareholder activism. We know from past research that shareholders' associations may form a temporary strategic alliance with institutional shareholders to enhance their activist campaigns (Strickland et al, 1996). Our findings add to this prior research by explaining why active institutional shareholders may decide to avoid strategic collaborations with shareholders' associations in shareholder activism. We show that the perceived non-dialectical approach to activism, lack of independence and conflict of interest might play a potentially significant role in defining such decision. However, findings suggest that passive institutional shareholders' were supportive of the work of shareholders associations because of the perceived gains from free riding. Third, our study contributes to the literature addressing the role of shareholders' associations in shareholder activism (Johed and Catasús, 2015; Strickland et al, 1996; Uche and Atkins, 2015). However, it provides different perspective by largely exploring and emphasising the view of institutional shareholders. In our case study, we find evidence of the alignment of interest and understanding between shareholders' associations and passive institutional shareholders.

This study have several practical implications. First, the study indicates that the drive for corporate accountability through shareholder activism cannot work effectively without paying attention to all relevant active actors in an accountability relationship. The case findings suggest that the activities of shareholders' associations have implications for both active and passive institutional shareholders. For example, the results show that the work of shareholders' associations has the potential to shape the expected outcome desired by active institutional shareholders. Second, our study indicates that shareholders' associations are not only considered to have some influence over management but that they can be seen as subject to management influence in shareholder activism. Shareholders' associations' co-operation with management has been seen as frustrating to the agenda of active institutional shareholders. It brings to light the issue of how managerial influence of small shareholder groups can impact on the outcomes of meetings between institutional shareholder and management. Therefore, in our case setting, there is a need to evaluate how trust and co-ordination between active institutional shareholders and shareholders associations can be restored. This might require re-evaluating how corporate governance systems could be used to improve shareholder independence. Poulson et al (2010) reveals that the arrangement of

Swedish corporate governance system ensures independence between the board and small shareholders. This enables shareholders' associations independently to influence management.

Like all papers, this paper has some limitations. First, the sample was restricted to only one, albeit economically important, African country. Caution must be exercised in drawing generalisable conclusions. We recognise the benefits of opening this research to multiple country perspectives, inculcating significant cultural and legal dimensions. Second, in this study we focus solely on examining institutional shareholders' account of their experiences. There is an opportunity for future research to incorporate the views of other market participants including management. Third, an ethnographic study may be conducted as part of future research. The method is useful in providing deep insight into the process of accountability in institutional shareholder activism by capturing activities behind the scenes. Lastly, we argue that there is a need to further examine the issue of independence. This has been overlooked in normative and empirical studies that assume an independent relationship between activists and management (Brav et al, 2008; Johed and Catasús, 2015; Ryan and Schneider; 2002; Stratling, 2012).

Notes

1. Shareholders' associations are a group of small individual shareholders formed into a body of shareholders. The associations requires individuals to officially apply for membership status to join the body.
2. The 2003 Securities and Exchange Commissions' Code on Corporate Governance (SEC Code) also provides for shareholders owning 20% stake to have at least one representative on the board
3. As of the 20th Januay 2016, 1.00 US dollar = 199 Nigerian naira
4. The National Pension commission officially published its annual reports only up to 2011 on its website.
5. One asset company requested anonymity.

Table 1. Local Institutional investors' profiles

| CODES | Position | Type | Status as a financial institution | Approach to shareholder activism |
|-------|---------------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| B1 | Head of Investment-Executive Director | Pensions | Bank subsidiary | Passive |
| B2 | Assistant banking Officer | Investment company | Bank subsidiary | Active |
| B3 | Managing Director Investment banking | Investment company | Bank subsidiary | Active |
| B4 | Area Business Manager | Pensions Custodians | Independent | Passive |
| B5 | Assistant Vice President | Pension Custodians | Bank subsidiary | Active |
| B6 | Vice President | Investment company | Independent | Active |
| B7 | Research Associate | Investment company | Independent | Active |
| B8 | Investment Analyst | Investment company | Independent | Active |
| B9 | Head of Operations | Investment company | Independent | Passive |
| B10 | Head of Investment | Pensions | Bank subsidiary | Passive |
| B11 | Fund Manager | Pensions | Independent | Passive |
| B12 | Chief Operating Officer | Securities | Bank subsidiary | Passive |
| B13 | Research Analyst | Securities | Bank subsidiary | Passive |
| B14 | Group Head Investment | Pension | Bank subsidiary | Passive |
| B15 | Research Analyst | Securities | Bank subsidiary | Passive |
| B16 | Research Analyst | Securities | Bank subsidiary | Passive |
| B17 | Research Analyst | Securities | Bank subsidiary | Passive |
| B18 | Head Investment | Pension | Independent | Active |
| B19 | Fund Manager | Investment company | Bank subsidiary | Passive |
| B20 | Research Analyst | Securities | Bank subsidiary | Active |
| B21 | Fund Manager | Pensions | Bank subsidiary | |
| B22 | Executive | Shareholders' Association | N/A | Active |
| B23 | Head of Investment | Investment company | Bank subsidiary | Active |
| B24 | Fund Manager | Investment company | Bank subsidiary | Passive |
| B25 | Executive | Shareholders' Association | N/A | Active |
| B26 | Executive | Shareholders' Association | N/A | Active |
| R1 | Representative | Corporate Affairs Commission | N/A | Not applicable |
| R2 | Representatives | Securities & Exchange Commission | N/A | Not applicable |

Table 2 Rank of Pension fund asset (PFA) by Asset Size

| PFA rank | Q3: 2010 | | Q4: 2010 | | Q1: 2011 | |
|-----------|--------------------|---------------------------|--------------------|---------------------------|--------------------|---------------------------|
| | Amount (N'Million) | % of Total Pension Assets | Amount (N'Million) | % of Total Pension Assets | Amount (N'Million) | % of Total Pension Assets |
| Top 3 | 399.42 | 55.63 | 448.10 | 54.85 | 483.64 | 55.35 |
| Top 5 | 504.42 | 70.26 | 563.19 | 68.93 | 601.92 | 68.88 |
| Top 10 | 664.25 | 92.52 | 744.86 | 91.17 | 797.02 | 91.21 |
| Bottom 3 | 0.83 | 0.11 | 0.91 | 0.11 | 0.96 | 0.11 |
| Bottom 5 | 2.00 | 0.28 | 2.38 | 0.29 | 2.50 | 0.29 |
| Bottom 10 | 14.08 | 1.96 | 16.95 | 2.08 | 18.70 | 2.14 |

Source: Pencom Annual report, 2011

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