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Institutional shareholder activism in Nigeria

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Abstract

Purpose – The purpose of this paper is to investigate institutional shareholder activism in Nigeria. It addresses the paucity of empirical research on institutional shareholder activism in sub-Saharan Africa.

Design/methodology/approach – This study uses agency theory to understand the institutional shareholder approach to shareholder activism in Nigeria. The data are collected through qualitative interviews with expert representatives from financial institutions.

Findings – The findings indicate evidence of low-level shareholder activism in Nigeria. The study provides empirical insight into the reasons why institutional shareholders might adopt an active or passive approach to shareholder activism. The findings suggest the pension structure involving two types of pension institutions affects the ability to engage in shareholder activism.

Research limitations/implications – The research study advances our understanding of the status quo of institutional shareholder activism in an African context such as Nigeria.

Practical implications – The paper makes a practical contribution by highlighting that regulators need to consider how the financial market conditions and characteristics affect effective promotion of better governance practices and performance through shareholder activism.

Originality/value – This study draws attention to the implication for shareholder activism of complexities associated with an institutional arrangement where two types of financial institutions are expected to operate and manage the private pension funds in a country.

Keywords Nigeria, Shareholder activism, Agency theory, Institutional shareholders

Paper type Research paper

1. Introduction

Shareholder activism is “the use of ownership position to actively influence company policy and practice” (Sjöström, 2008, p. 142). The literature on shareholder activism has identified institutional shareholders as either adopting an active or a passive approach to shareholder activism (Ghahramani, 2013; Goranova and Ryan, 2014; Yuan *et al.*, 2009). In this discourse, sub-Saharan African perspectives are frequently neglected. This study examines the Nigerian setting based on the following rationale: first, this setting provides an opportunity to examine a situation where shareholder activism in a country is dominated by the presence of shareholders’ associations rather than institutional shareholders. The setting allows us understand why academics have overlooked institutional shareholder participation in shareholder activism in Nigeria (Adegbite *et al.*, 2012; Amao and Amaeshi 2008), enabling us to move on from the normative claim by Yakasai (2001) that institutional shareholder activism does exist in the country. The second rationale is that academic research has shown the need for shareholders to participate actively in the promotion of good corporate governance, given reported cases of weak board oversight, audit scandal, corporate fraud and lack of transparency in Nigeria (Adegbite, 2012; Okike, 2007; Owolabi, 2007). Therefore, the Nigerian setting provides an opportunity to explore the role taken up by institutional shareholders in contributing towards this objective. Third, recent trends have shown

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that the pension industry in Nigeria is dominated by private pension funds rather than public pension funds. This context allows us explore the implications for shareholder activism.

Our central research question is to investigate the existence of institutional shareholder activism in Nigeria. Overall, our study first contributes to the broad literature on institutional shareholder activism. This has been overlooked in the prior literature on Nigeria which has largely concentrated on activist work by shareholders' associations (Adegbite *et al.*, 2012; Amao and Amaeshi 2008; Uche and Atkins, 2015). Second, our study contributes to the prior research on pension fund participation in institutional shareholder activism. The existing literature addresses public pension funds managed by a single type financial institution (Bainbridge, 2008; Carleton *et al.*, 1998; Cremers and Nair, 2005). By contrast, this study provides new insights into the complexities associated with an institutional arrangement where two types of financial institutions are expected to operate and manage the private pension funds in a country. The findings highlight the importance of coordination in shareholder activism between two financial institutions: pension fund administrators and pension fund custodians (PFCs). Third, the study makes a methodological contribution by using an interpretive approach to explore the view of institutional shareholders in shareholder activism. This differs from the prior literature which is dominated by positivist or normative approach (Brav *et al.*, 2008; Goranova and Ryan, 2014; Ryan and Schneider, 2002). The rest of the paper is organised as follows: a literature review followed by a section on the context, methodology, results and conclusions.

2. Theoretical background and literature review

2.1 Shareholder activism: an agency theory perspective

The literature suggests that agency problems reflect a conflict of interest between agents and principals. Several scholars have examined a variety of propositions on how to tackle agency problems. The suggestions include market control through takeovers, regulation, monitoring (directors and external auditors), managerial incentives, contracts and shareholder activism (Becht *et al.*, 2008; Cziraki *et al.*, 2010; Gillan and Starks, 2000; Rock, 1990). Shareholder activism has largely focused on shareholder intervention by institutional shareholders. They reveal that institutional shareholders either adopt an active or passive approach to shareholder activism (Gillan and Starks, 2000; Rock, 1990).

2.2 Active and passive approach to shareholder activism

2.2.1 Institutional shareholder activism: active approach. Most of the studies that explore shareholder activism are based on agency theory. They show that the field of institutional shareholder activism has been actively dominated by public pension funds, mutual funds and hedge funds with banks and insurance companies taking on a more passive role. For instance, the Teachers Insurance and Annuity Association-College Retirement Equities Fund and the California Public Employees' Retirement System, both in the USA, continue to spearhead shareholder activism (Carleton *et al.*, 1998; Brav *et al.*, 2008; Gillan and Starks, 2000; Ryan and Schneider, 2002; Smith, 1996). These groups engage in shareholder activism by negotiating at private meetings, voting, court filings and submission of proposals (Cziraki *et al.*, 2010; Ryan and Schneider, 2002; Goranova and Ryan, 2014). Research studies have argued that institutional shareholder activists have contributed to changes in corporate governance practices, social and financial agenda/performance in target companies. They do this through their investment strategies, confidential voting, corporate takeovers, poison pills, executive compensation, board nomination and independence (Bainbridge, 2006; Brav *et al.*, 2008; Rock, 1990; Romano, 2001; Partnoy and Thomas, 2007).

2.2.2 Institutional shareholder activism: passive approach.

Studies have found that some institutional shareholders adopt a passive approach to shareholder activism. The literature indicates that legal and regulatory barriers may hinder institutional shareholders from actively participating in shareholder activism (Bainbridge, 2006). For example, Bainbridge (2006) noted that the Securities and Exchange Commission rules on insider trading have made shareholders more cautious and also discouraged shareholder co-ordination and communication in the USA. The Netherlands faces similar regulatory obstacles, where only directors (and shareholder with up to a 1 per cent stake in the company) are allowed to sponsor proposals (Cziraki *et al.*, 2010). Research studies have also pointed out that some institutional shareholders prioritise the protection of their business relationships in the face of conflicting interest over activism. Institutional shareholders may be unwilling to engage in shareholder activism because of their pursuit of short-term profit. This is usually prevalent among private pension funds that wish to avoid potential damage to business reputation, governance cost and loss of competitive information advantage (Goranova and Ryan, 2014; Partnoy and Thomas, 2007; Romano, 2001; Ryan and Schneider, 2002). In sum, scholars have identified business interests, monitoring costs, free-rider problems, size of shareholdings and liquidity as important factors that are evaluated in strategic decision-making (Brickley *et al.*, 1988; Goranova and Ryan, 2014; Pound, 1988). In sum, it has been recognised that passive institutional shareholders are primarily driven by their internal opportunistic agenda (Bainbridge, 2006).

3. Pension funds as institutional shareholders in Nigeria

In Nigeria, most of the institutional shareholders have close relationships with banks. Banks usually have equity holdings in securities house, asset management companies and pension funds. A large proportion of mutual funds which are predominantly open-ended funds are operated by asset management companies established and controlled directly or indirectly by the banks in accordance with the Investment and Securities Act (1999) (Ibrahim, 2005; SEC, 2010). In January 2011, there were 43 mutual funds managed by 23 fund managers valued at N94.37 bn^[1] (US\$0.58 bn) (NSE, 2011). Banks in Nigeria have shareholding interest in subsidiaries that include pension fund administrators or pension funds custodians. For example, Guaranty Trust Bank is associated with asset & resource management company (ARM) pensions fund administrators, StanbicIbtc bank is associated with Stanbic pension fund administrators and Zenith Bank Plc is associated with Zenith PFCs. Before 2004, there was only one public pension body, Nigeria Social Insurance Trust Fund (NSITF) that provided pension funds services to a large proportion of the Nigeria. In 2004, the Nigerian Federal government introduced a pension fund reform which involved restructuring the pension fund model. As part of the reforms, private pension funds were created. Companies and their employees were encouraged to register with private pension funds rather than remain with the public pension fund body, NSITF.

The pension reform encouraged a substantial shift in the warehousing of, and growth in, pension funds in the Nigerian market (Pencom Annual Report, 2008, 2011). The pension reform has led to the domination of the market by the private pension funds in contrast to USA where the public pension fund is the dominant player in the pension market (Bainbridge, 2008; Carleton *et al.*, 1998; Pencom Annual Report, 2011). The reformed pension sector model is a mirror of the Chilean model based on a private scheme for funding pensions. A significant aspect of the 2004 reform is the creation of two separate financial institutions, PFC and pension funds administrators (PFAs) to run the pension fund schemes. PFC and PFAs have different functions. The PFAs collect pension fund contributions from clients. PFAs also provide advice on pension investment. The pension funds collected from clients by PFAs are warehoused with the PFCs. The PFCs view their role as primarily providing investment services on behalf of the PFAs. The PFAs and PFCs are expected to collaborate in overseeing pension funds. PFCs receive proxy voting rights

on behalf of PFAs and cannot act without explicit instruction of PFAs (Pencom Annual Report, 2008, 2011). This makes co-ordination and communication important in their relationship due to the separation of roles.

Another unique feature of the Nigerian pension fund environment is the concentration of equity holdings in a handful of PFAs. The top three pension fund administrators controlled 46 per cent, while the top five controlled over 61 per cent of the pension market share as at 2011. The top three PFAs are almost 40 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 skewness in size is interesting as we have the opportunity to study large and small pension funds that have the ability to act independently or strategically cooperate with other groups. We point out that the equity market investment for pension fund is highly regulated in contrast to other types of institutional shareholders in Nigeria. Pension funds can only invest in companies that meet the approved credit rating as advised by the Pension funds regulator, the Nigerian Pension Commission (Pension Reform Act, 2004). Under the Pension Reform Act of 2004, pension funds are prohibited from allocating more than 25 per cent of their pension asset in the equities market (Pension Reform Act, 2004). As a result, PFAs limit their investment in quoted stocks to below 25 per cent.

4. Research methods

This study uses a qualitative research method to provide necessary insights into the institutional shareholder activism context in Nigeria. We used qualitative interviews because this allowed us capture insights into events associated with shareholder activism through the personal account of individuals' experiences (Adegbite *et al.*, 2012; Hendry *et al.*, 2007). Our data are drawn from two stages of in-depth interviews. The interview sample included 22 respondents representing different institutional shareholders. Interview respondents included mainly high profile/senior managers of large asset management companies, pension funds and securities houses in Nigeria. Although a large part of the respondents were from private pension funds. The first sets of interviews were conducted in the last quarter of 2008 at Lagos and Port Harcourt, both of which are major financial cities in Nigeria. The second stage of interviews was conducted in the second and last quarter of 2012. This involved a mix of both telephone and face-to-face interviews. We did not find any substantial change in the interviewees' views between these two periods. Thus, the different sets of interviews helped us to validate claims and gather further evidence on the themes that had emerged from the first 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 interviewees were promised anonymity. Therefore, numerical codes have been used to conceal the institutional shareholders' identity (B1–B23). The interviews lasted between 30 min and an hour.

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 and the impediments/challenges faced. The respondents were asked whether their financial institution adopted a passive or an active approach toward institutional shareholder activism (Table I). The interviewees were encouraged to speak freely. They were also promised anonymity. For institutional shareholders, a formal set of questions was followed during the course of the interviews. Questions also evolved during the interview process. Interviewees were encouraged to speak exhaustively on the topics. Interviews were tape recorded, and the data were later transcribed. Hand-written notes were used to support the data-gathering process. Certain themes emerged around the nature of institutional 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. Interviews proved appropriate in investigating how institutional shareholders perform their functions and the impediments they face as activists.

Table I Local institutional investors' profiles

<i>Codes</i>	<i>Position</i>	<i>Type</i>	<i>Status as a financial institution</i>	<i>Approach to shareholder activism</i>
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	
B23	Head of Investment	Investment company	Bank subsidiary	Active

Note: ^aCoding for B22 was not used for institutional shareholders

This paper recognises that while the interviews were insightful, they are prone to subjectivity and bias (Shotter and Gergen, 1994). 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. The empirical results suggest that the financial institutions that were identified by their representatives during the interviews as active institutional shareholders included a mix of private closed and open pension funds and asset management companies. Their participation was confirmed by other interviewees when respondents were asked to list active institutional shareholders. Altogether, the key players included ARM Pension Company (including their asset company), American International Insurance Company (AIICO) (pension) and StanbicBTC[2]. The active institutional shareholders mentioned, but not interviewed due to access problems, included Actis and Shell Pension and Asset Company (SAMCo). The interviewees that explicitly stated that their institution actively participated in shareholder activism were three of the top five public pension funds mentioned in Table II[3].

Table II Rank of PFA by asset size

<i>PFA rank</i>	<i>Q3: 2010</i>		<i>Q4: 2010</i>		<i>Q1: 2011</i>	
	<i>Amount (N'Million)</i>	<i>% of total pension assets</i>	<i>Amount (N'Million)</i>	<i>% of total pension assets</i>	<i>Amount (N'Million)</i>	<i>% of total pension assets</i>
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: Pecom Annual Report (2011)

5. Empirical evidence: analysis and discussion

The empirical section examines the state of shareholder activism in Nigeria. It reviews the institutional shareholder approach towards activism. Evidence suggested that institutional shareholders either adopted an active or passive approach to shareholder activism.

5.1 Institutional shareholder activism: active approach

The findings suggest that some private pension funds were part of the institutional shareholders in Nigeria that took an active role in shareholder activism. However, there was no evidence to suggest that the public pension funds engaged in shareholder activism. Overall, this result shows that private pension funds in a developing country like Nigeria participate in shareholder activism. This contrasts with the findings from prior studies on developed countries which show that public pensions are key players in shareholder activism (Gillan and Stark, 2000; Ryan and Schneider, 2002).

5.1.1 Improving business productivity. We find that the respondents considered the use of their influence over management through dialogue and resources as an important means of strategically improving business productivity as reflected in these statements. “Most times they will go into discussions with some members of the board [. . .] try to sell the idea to some members of the board to see reasons” [B11]. Another respondent stated:

[. . .] we might want to influence management, we might want to influence the decision of the company, we might want to be influential in bringing top executives that will enhance productivity [B6].

The interviewees suggested that the build-up of large controlling shares in the companies provided an incentive for institutional shareholders, for example, in the case of Actis and SAMCo. A respondent stated that “[Shell], their pension arms [. . .] because of their stake in such organisations, they try to influence some of the decisions taken by these companies” [B11]. The findings indicate that the active institutional shareholders were willing to contribute resources to turn around underperforming companies. Respondent B7 noted that his institution contributed financial resources:

There are companies that are underperforming with abundant opportunities [. . .] when we target them we put in some investment there and restructure and later sell [B7].

Meanwhile, B3 pointed out that his institution contributed knowledge expertise as seen in the quote below:

We basically work with the company and its management; we try and bring in technical expertise or whatever it is to assist them to turn around [the company]. We are very proud to have done this successfully in a number of cases including companies such as RT Brisco. Before ARM invested in R.T Brisco about six or so years ago, it was definitely nowhere, but now it is the darling of the stock exchange. We did this similarly with UTC [B3].

In the last excerpt, a respondent explains the strategy of his institution which includes providing technical skill, financial advice and other relevant resources. The responses suggested that institutional shareholders appeared interested in long-term business growth. B18 summarises this claim, “we are interested in growth”. It was pointed out that institutional shareholder activism was seen as a way of “protecting their investment” [B11]. Yakasai (2001, p. 241) asserted that institutional investors in Nigeria are able to influence the board:

[. . .] if several of them collude or act in congruence”. We provide empirical support for this argument. We find that the process of shareholder activism involved solo efforts as well as collaboration with other institutional shareholders.

For [B23], “it is largely more of a solo effort rather than collaboration with other institutional shareholders”. [B21] stated “If it is an issue we feel strongly about, we come together [. . .] we do not have many instance where we come together”. Another respondent commented:

When there is a move and the company writes, we then talk to each other and probably discuss it further; [. . .] Even beyond the AGM and EGM we still meet and talk [B18].

Another respondent noted, “My tactic will be to identify similar affected shareholders and try to create a group” [B3]. He also stated:

The way we work is essentially to use activism in the context of going in there singularly or together with selective investors to form a sizeable stake in order to influence and work with management to improve things [B3].

In sum, the interviews showed that there was strategic collaboration between institutional shareholders as well as other major shareholders.

5.1.2 Demand for accountability as a result of inadequate information. The interviews revealed that inadequate information in the market was a challenge to institutional investors. For example, B9 notes that “a major challenge that we have is lack of information”. This information gap had driven institutional shareholders to demand greater transparency and accountability from management in order to ensure better decision-making and improved financial performance:

For issues we feel strongly about, we attend [the AGM] [. . .] It is usually business related [. . .] Company A recently went into this transaction with Company B which is South African. They were going to sell the food component of their business [. . .] They wanted shareholders to approve it [. . .] We said we needed to know the details of the transactions for us to tell the company to go ahead. We felt that information was required. We voted against that resolution. We voiced our displeasure [. . .]. Coincidentally, two of us were big institutional shareholders, the other was institution B [Name removed] [. . .] So what they said that we should put down our names and they would get back to us [. . .]. We had a right to demand for information we consider necessary [. . .] [B21].

This quote is about an incident involving a representative of an active institutional shareholders that felt inadequately informed about the company’s strategic decision. Two top active institutional shareholders were reported as expressing their displeasure about the adequacy of the information provided by voting against the company’s resolutions. The interviews showed that active institutional shareholders expected management to be accountable:

[Today], management are made to realise that it is not business as usual. They need to increase their level of accountability. It is more of a situation where investors are pushing for more information in the company. [. . .] we are able to get information from the companies because we have a substantial stake. Small shareholders cannot get it [. . .]. [B23]

Despite these reports, the interviewees indicated that few institutional shareholders participated in shareholder activism in Nigeria. The level of engagement in institutional shareholder activism was considered low. “Institutional investor activism in Nigeria is still not very pronounced” (B12). “If you look across the industry and the potential for institutional shareholder activism [. . .] there is very little activism going on” (B1).

5.2 Institutional shareholder activism: passive approach

Most of the respondents that represented mainly small institutional shareholders indicated that their institution adopted a passive approach to shareholder activism. The rationale provided is grouped under two themes: profit maximization, threat of business relationship as well as the regulation and structure of the pension funds.

5.2.1 Profit maximization. Some of the interviewees commented on the eagerness of institutional shareholders to dispose of their stock when companies were found to be under performing. They pointed out that the passive institutional shareholders preference for liquidating their investment rather than investing resources to help improve the company was motivated by their self-interest. The passive institutional shareholders’ main focus was on prioritising the protection of their business interests over the interest of the company within their portfolio. A respondent describes this observed behaviour:

They watch their investment very closely, instead of them putting in corrective measures, when they sense something [is wrong], their own proactive approach is to divest [B4].

Responses showed that this was quite a prevalent practice:

Once we detect the company is not doing well, we merely liquidate [. . .] if we find out that a company is not doing well we start reducing our position in that company if it involves us liquidating 100 per cent we move out of the company [B10].

The position usual is to liquidate our investment [. . .]. I will say, we are more passive than active [B19].

The aim of this strategy was to protect the profit and cash flow of the financial institution. Another respondent stated that the “year-end” of an institution influences its drive for profitability. He noted that liquidating their investment in poorly performing firms meant that:

- it will be recorded that you made significant profit from your investment; and
- you will have less cash flow that is tied down in stock in your investment portfolio (B12).

This situation reflects the dominance of short-termism. Institutional shareholders are more interested in profit maximization and are less concerned about the long-term prospects of the target company. Hansen and Hill (1991) argue that this condition is reflected in the performance measures applied by institutional shareholders which are usually short-sighted, emphasising mainly profitability. Incurring large cost through shareholder activism was viewed as reducing the prospective profit of the financial institution. The discussion highlighted that governance cost was considered a barrier to engagement in activism. This was mentioned by one respondent: “Why we do not have pronounced institutional shareholder activism is because of the huge capital involvement” (B12). This is consistent with previous studies (Pozen, 1994; Romano, 2001). In the case of a poorly performing company, the exit option (selling their stakes) was used to avoid incurring governance cost.

5.2.2 Threat to business relationship. The interviews revealed that the relationship between financial institutions and their clients in Nigeria had implication for shareholder activism. This was because some clients had business relationship with related divisions of banks. These banks held ownership interest in asset management companies and pension fund which served the same client. The potential for conflicting interest arises when clients have business relationship with banks and their subsidiaries, for example private pension funds. These same clients also have significant shares in the banks:

Some clients participate in all parts of the business in the banks. Some have banking relationship, they invested in them though the pension arm, then they have asset management facilities through the asset management arm of this group, therefore we have to keep it separate, it is a requirement for this group [B1].

The small pension and mutual funds that were in a dependent relationship faced a conflict of interest in their business relationship. Cremers and Nair (2005) explain that the commercial network of firms place private pensions and banks under pressure to support management. They cite an example of proxy voting. We find that the conflict of interests extends to pension reports on target investment as shown in the excerpt below:

We face conflict of interest, most of the fund management companies are actually owned by banks, and so what you find is that I cannot report badly about a company that my parent company is managing. In our case, we are a subsidiary of a bank [. . .] some specific companies which they manage instead of giving an opinion, we rather not give an opinion [. . .]. In 2008, somebody wrote about another company, he was fired [. . .] [B21].

The interviews revealed that actions that portrayed institutional shareholders in a negative light before management were considered a threat to their business interest. Thus, shareholder activism was seen as damaging to their brand, reputation and customer base, which can have eventual consequences on their financial returns. “We look at it [shareholder activism] as an act of indiscipline to engage in such activities” [B19].

[. . .] You look at the brand [referring to the impact]. Activism connotes more of a gladiatorship. You see, you want to protect you name. There is a network. No organisation operates within a vacuum. There is interdependency. If you push yourself to the forefront and you try to fight a cause without looking at the consequences, other companies may be watching and it may be reported in the paper that you pioneered such a fight, and it may make you lose your brand reputation or patronage [. . .] [B12]

Some of the representatives of the institutional shareholders in our sample regarded shareholder activism as a hostile activity. They were of the view that direct confrontation with management was detrimental to their negative public image:

Institutional shareholder activism is not very attractive, it is seen as hostile. People resist it. We do not think it is worthwhile with our little shareholding to go and start prompting these managerial changes, and even if we do, remember the first reason why we were able to make the investment is because we believe in the management and what is going on in that place [. . .] [B4].

In our interviews, more evidence of institutional shareholders paying particular attention to their business interests and relationships is highlighted in these two quotes: “Our positions are purely investment. We are not cut out for remaining in a company for such activities as shareholder activism” [B11]. In this excerpt, the respondent notes that shareholder activism was distracting. This activity was not considered part of the normal business activities. This same sentiment is expressed in the next quote:

Except you do not have any other business and you are just intent on taking over companies [. . .] we have our business to do, we have returns to give, we have a business, we have to pay pensions [B4].

The interviewees expressed an inclination to remain profitable as a business by maintaining sustainable business networks and relationships, and for a lot of these investors, shareholder activism was perceived as conflicting with this objective.

5.2.3 The regulation and structure of the pension funds. According to Johnson *et al.* (2010, p. 1,593), “Institutional owners face different forms of regulatory and normative pressures depending on their legal classification”. In Nigeria, evidence from this research suggests that the pension sector faced its own unique set of regulatory constraints. The restrictions on investments did not incentivise pension funds to hold large proportion of shares in companies. Such holdings were considered by respondents as crucial to effective shareholder activism. The interviewees disclosed that the pension regulation restricted the size of shareholdings in companies. Furthermore, pension funds were required to invest in equities companies that had achieved specific credit ratings:

Pension funds managers are not allowed to invest in all stocks [. . .] they have selected stocks that they can invest in [B12].

[. . .] the investment guideline allows up to 25 per cent. This relatively low exposure to the stock market, in my view, is therefore one of the reasons that there has been a delay in the take-off of significant level of shareholder activism [B21].

The maximum you can hold is 25 per cent in equities and this is in itself quite negligible [. . .] in the sense that you could not actually influence nor effectively monitor things [B1].

The excerpts show that the pension funds faced legal restrictions on the proportion of investment that could be made in equities of companies. The PFAs were faced with an investment opportunity of only 25 per cent in the capital market out of the total pension funds under their management. This restriction meant that the PFAs faced a significant reduction in the volume of equities that were potentially available for purchase in companies. Hence, a recurring issue in the interviews was that regulation limited the ability of private pension funds to increase their portfolio holdings beyond the legal limit of 25 per cent in equities. This was compounded by the small quantity of pension fund assets at the disposal of most pension funds except for the top three.

Respondents further indicated that the structure of the pension fund did not help the development of institutional shareholder activism. Specific reference was made to the separation of PFC and PFAs functions. While PFAs warehouse their clients' funds with PFCs and advise on investment patterns (Pension, 2008), PFCs viewed their role as primarily providing investment services for PFAs as shown in this quote, "we are [Pension] custodians. We are not directly involved in investment portfolio, what we do are investment services" [B4]. Interviews revealed that the PFCs were expected to receive the proxy voting right on behalf of the PFA and vote at AGMs. Attendance at AGMs is viewed as driven by the desire to comply with regulations rather than to be involved in governance activities. A PFA representative commented:

For AGMs and other meetings called by Companies, PFAs are mostly represented by PFCs (subsidiaries of banks that have the responsibility of holding all Pension assets in Custody) as proxies. This also reduces the level of shareholder activism that is expected as they only attend for administrative and regulatory purposes only [. . .]. One of their responsibilities is to attend the AGM as proxies on behalf of the PFA [. . .]. [B21]

The respondent continues:

We have PFAs with insignificantly levels of equities, they are not giving it as much commitment as an institution that has a lot more at stake [. . .] there is a major skew in the market [. . .] my company is one of them creating the skew [. . .] we and another PFAs have the highest allocation of equity [. . .]. [B21]

The skewed nature of the market where most PFAs had small shareholdings did not encourage shareholder activism. Most of the PFCs represented small PFAs. In Table III, we identified Zenith PFC as having the biggest pension funds in the Nigerian market. Zenith PFC had all three active institutional shareholders as PFAs. The general opinion was that PFAs with small investments were not in a favourable position in terms of voting. This may explain why most PFCs that serve small PFAs exhibit a lacklustre attitude towards activism:

Our business is peculiar in the sense that while we are the fund managers, there is a custodian, Zenith Pension Custodian or First Pension Custodian. They are the ones that actually deal with the investment we make to that extent. We ought to advise them and indicate how we wish to vote in term of management decision. We have not been very active. Passive approach! Basically, because we really do not have sufficient stake in the company because of our regulation. [B1]

Pension fund companies that are supposed to be very vocal in the affairs of the company do not seem to take interest in affairs of the company since they can't be influential as [they would have] desired [B4].

Overall, the interviews revealed that there was a passive attitude on the part of most PFAs in advising PFC on the voting pattern on management agenda at AGM meetings.

Table III PFCs appointed for management of RSA funds

(S/n)/PFC	First custodian	UBA custodian	Diamond custodian	Zenith custodian
1	Premium	Pensure	Royal Trust	IBTC
2	First Guarantee	Sigma		ARM
3	NLPC	Pensions Alliance		Trustfund
4	Crusade	Legacy		
5	AIICO	PENMAN		
6	Oak	Anchor		
7	Amana	Evergreen		
8	FUG			
9	APT Pension			
10	Fidelity Pension			
11	CRIB Pension			
12	Standard Alliance			
13	IGI			

Source: Pencom Annual Report (2011)

6. Discussion and conclusion

Our research investigated the existence of institutional shareholder activism in Nigeria. The study makes several contributions. First, it contributes to prior literature by providing new empirical evidence on institutional shareholder activism in Nigeria. This has been overlooked in prior research literature which has largely concentrated on activist work by shareholders' associations (Adegbite *et al.*, 2012; Amao and Amaeshi 2008; Uche and Atkins, 2015). The study provided evidence of low-levels of institutional shareholder activism in Nigeria. The findings suggest that the few active institutional shareholders used shareholder activism to openly express concern for improved business productivity and demand better transparency and accountability. They were willing to use their holdings as a way of influencing corporations. However, the findings revealed that most institutional shareholders in Nigeria adopt a passive approach to shareholder activism. The study shows that institutional shareholders representing small private pension, securities and mutual funds avoid shareholder activism to protect their business relationships, to maximize profit and to avoid governance cost. They are also constrained by their small shareholdings. These rationales are consistent with prior literature (David and Kochhar, 1996; Roman, 2001). However, there were some findings that are considered unique to the Nigerian setting. We found that regulation was a key driver in impeding institutional shareholder participation in shareholder activism. Regulation requires pension funds to limit the size of investment to 25 per cent in highly rated equities. This means that institutional shareholders faced restrictions in investment opportunities, and as a consequence, their controlling influence is limited.

Second, the study contributes to prior literature which addresses pension fund participation in institutional shareholder activism. The existing literature addresses public pension funds managed by a single type of financial institution (Bainbridge, 2008; Carleton *et al.*, 1998; Cremers and Nair, 2005). By contrast, this study provides new insights into the complexities associated with an institutional arrangement where two types of financial institutions are expected to operate and manage the private pension funds in a country. Thus, our findings have important implications for the pension fund industry. Our findings suggest that the current separation between PFCs and PFAs functions appeared to discourage direct engagement with corporate managers. We note that the PFAs interviewed acknowledged that they were responsible for communicating institutional shareholder displeasure by advising the PFCs on how to vote at meetings. However, only two pension funds belonging to the top five stated that they had gone as far as collecting their proxies and voting. They noted that this was not a regular practice. David *et al.* (2001, p. 146) documented that proxy-based institutional shareholders are more effective in "extracting the appropriate response from managers". However, our findings suggest that proxies are only effective under two conditions. First, institutional shareholders need to have easier access to proxies to enable them vote. Second, where a secondary institution legally receives the proxies on behalf of another institution, both parties need to show a level of interest in shareholder activism to increase coordination between both institutions.

Third, the study makes a methodological contribution by using an interpretive approach in exploring the view of institutional shareholders on shareholder activism. This differs from prior literature which is dominated by positivist or normative approaches (Brav *et al.*, 2008; Goranova and Ryan, 2014; Ryan and Schneider, 2002). The paper makes a practical contribution by highlighting that regulators need to consider the trade-off associated with a skewed market of small institutional shareholders and the conditions that promote better governance practices and performance. This paper identifies some limitations and directions for future research. For example, the findings, while insightful, are based on qualitative data in one country. Caution needs to be exercised in understanding the implications in other country settings. Also, stakeholder accountability theory can be used to explore how a stakeholder engages with management, in future research. Overall, this paper advances an important new discourse, documenting new evidence of levels of

shareholder activism in a country within the sub-Saharan African region. Some of the insights provided in this paper may explain the minimal impact of institutional shareholder activism in the corporate environment of developing market economies.

Notes

1. As of the 15 June 2015, US\$1.00 = 198.85 Nigerian naira.
2. The National Pension commission officially published its annual reports only up to 2011 on its website.
3. One asset company requested anonymity.

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