THE NEXUS OF SHAREHOLDERS ACTIVISM AND ENVIRONMENTAL SOCIAL GOVERNANCE: DRIVING RESPONSIBLE CORPORATE BEHAVIOR

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Abstract

The study examined the nexus of shareholder activism, in conjunction with a growing emphasis on Environmental, Social, and Governance (ESG) factors, catalyzing a profound shift in corporate behaviour. Traditionally, shareholders have primarily focused on financial returns, but today, they wield their influence on champion corporate responsibility.
This change in basic assumptions stems from the realization that companies are not just profit-making entities but also have wide-reaching impacts on the environment, society, and governance structures. Shareholders, often institutional investors, are now leveraging their power to urge firms to adopt sustainable practices, reduce their carbon footprint, foster diversity and inclusivity, and enhance transparency in decision-making.
The methodology used in the study is the library research method. In this exploratory study we found out that this synergy between shareholder activism and ESG considerations is reshaping corporate strategies and instigating responsible business practices. Corporations are compelled to rethink their operations, aligning them with ESG principles to meet evolving investor and societal expectations and as such, allowing investors to make more informed decisions that align with their ethical and sustainability values.
Shareholder activism and ESG considerations have become catalysts for positive change, driving corporations towards behaviors that are not only profitable but also ethical, sustainable, and accountable to society.

Keywords: Shareholders Activism Sustainability, Environmental Social and Governance

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1. INTRODUCTION

In recent times, the interaction between the activism of shareholders and the sustainability of corporations has emerged as a crucial and dynamic force that shapes the landscape of contemporary business practices. Shareholders, equipped with an increasing awareness of environmental, social, and governance (ESG) factors, have undertaken the responsibility of advocating for corporate behavior that is more sustainable and accountable. Consequently, the activism of shareholders has become a powerful means of fostering positive transformation within companies, compelling them to adopt sustainable practices and align their strategies with broader societal and environmental objectives.

Environmental, social and governance (ESG) are elements in a corporate sustainability practice that covers aspects of resource scarcity, climate change, biodiversity, emissions, waste, water, and pollution. The social element of ESG focuses on a company's talent management, labor practices, data security, and product safety. Additionally, governance issues related to ESG encompass business ethics, executive compensation, and board diversity (Ulya et al., 2021). The practice of reporting on environmental, social, and governance factors is considered a means to achieve transparency regarding a company's performance and serves as a mode of communication to stakeholders, such as shareholders and investors. This reporting also plays a role in fostering strategic and instrumental accountability among enterprises (Chan & Welford, 2005).

The increasing worldwide apprehensions regarding climate change, depletion of resources, disparity in society, and ethical behavior in business have resulted in a fundamental change in the way corporations are perceived and assessed by both investors and stakeholders (Benton & You, 2019). The emphasis is no longer exclusively on financial achievements; now investors consider a company's sustainability measures, ESG performance, and its wider influence on the globe when deciding where to allocate their investments. In response, the phenomenon of shareholders' activism has emerged as a critical mechanism to directly confront these concerns, harnessing the power of collective action to impact corporate conduct and foster a more sustainable future (Goranova et al., 2017). This growing movement of shareholders' activism operates on various fronts, encompassing engaging in dialogues with corporate boards and management, presenting shareholder proposals, voting on resolutions related to environmental, social, and governance (ESG) factors, and divesting from companies that fail to meet sustainability criteria. Shareholders' activism serves as a potent means for investors to exert their influence as custodians of capital, compelling corporations to adopts more eco-friendly practices, prioritize social responsibility, and enhance governance standards (Chung & Talaulicar, 2010).

The concerns surrounding the environment have incited a desire among the general public for increased openness and responsibility from corporations (Goyal et al., 2015). As a consequence of this demand, organizations have endeavored to enhance their ability to sustainably operate at the forefront of corporate endeavors, alongside other stakeholders such as governments and local communities, thus earning the permission to continue their operations. Similarly, companies can bolster their reputation and augment the value of their brand by actively participating in activities related to environmental, social, and governance (ESG) matters (Fauzi, 2008). Social activists are now realizing the necessity for greater transparency in corporate practices pertaining to sustainability and acknowledging their influence not only on the environment, but also on society as a whole (Aziz et al., 2015).

In contemporary times, there has been an emergence of a pattern wherein shareholder's activists establish an extensive network with the aim of empowering shareholders and amplifying their opinions (Smith, 2011) in order to assert their demand for corporate responsibility, particularly in relation to the environment, social issues, and governance. The activities of large corporations have faced substantial criticism from social activists due to their detrimental impact on the surrounding environment (Dahlsrud, 2018) .It is no longer surprising that environmental issues are frequently cited as one of the main reasons for shareholder activism due to the growing awareness of climate change. Organizations are becoming more aware of the importance of environmental, social, and governance (ESG) matters (Van, 2003). Shareholders are increasingly concerned about the impact of ESG issues on the long-term sustainability of business models and are focusing on their ability to create value over time (Atan et al., 2018). The increased involvement of stakeholders has led to a rise in shareholder activism.

The motivation behind our research is based on the belief that there is a heightened demand for companies to demonstrate their commitment to ESG. Therefore, this study aims to investigate how shareholder activism drives responsible corporate behavior with regards to ESG matters.

Activist shareholders have been advocating for firms to enhance transparency and furnish more pertinent and timely information (Denes et al., 2017; Goranova & Ryan, 2014). Furthermore, they insist that managers undertake requisite actions and measures to ameliorate governance and generate a medium and long-term return (Bassen et al., 2019; Cundill et al.,2018; Gantchev, 2013). Shareholders are presently utilizing their ownership rights, whether through exercising their votes on shareholder proposals or engaging in direct discourse with the firm regarding specific concerns, in order to exert pressure on the firm to modify its corporate conduct (O'Rourke, 2003). In addition to the objective of enhancing the firm's performance, shareholder activists are also driven by the desire to advance the firm's social responsibility and augment its impact on the surrounding society (Guay et al., 2004). Consequently, there has been a substantial increase in the number of activist proposals (Anno, 2018).

2. CONCEPT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

The United Nations Global Compact initiated the request for companies to synchronize their strategies and operations with the universal principles regarding human rights, labor, environment, and anti-corruption in the year 2000. Subsequently, in 2006, the United Nations Principle of Responsible Investment (UNPRI) introduced the term "Environmental social and governance" (ESG) International Labor Organization (ILO), 2019. This phrase is often used interchangeably with socially responsible investment or responsible investing, as well as sustainability investing (Eccles and Viviers, 2011). ESG has emerged as a globally sustainable strategy and has experienced rapid growth (Global sustainable investment review (GSIR), 2018). The financial and non-financial drivers behind ESG have piqued the interest of researchers and scholars (Aboud & Diab, 2018, Brooks & Orkonomu, 2018).

ESG, which stands for Environmental Social and Governance, encompasses a set of criteria that various parties, including investors, corporations, and other stakeholders, employ to assess and gauge the level of sustainability and ethical consequences associated with an investment or business venture. This evaluation extends beyond conventional financial metrics, delving into the three distinctive aspects of environmental, social, and governance considerations. The environmental component, for instance, concentrates on a company's effect on the natural surroundings and its approach to handling its ecological footprint. It encompasses numerous factors, such as carbon emissions, energy efficiency, waste management, water consumption, pollution levels, and endeavors towards the integration of renewable sources of energy. Companies that prioritize environmentally responsible practices are perceived as more sustainable and appealing to investors who prioritize ESG factors.

The social dimension assesses the manner in which a corporation interacts with and influences its stakeholders, employees, customers, and the communities it operates within. Corporations are evaluated based on criteria such as workplace diversity, health and safety, labor practices, child labor, employee well-being, diversity and inclusion policies, community involvement, and product safety (Krug et al., 2008). A positive social influence is of utmost importance for cultivating robust relationships with stakeholders and upholding a favorable corporate reputation (Hahn et al., 2006).

ESG encompasses a collection of environmental, social, and governance factors utilized to appraise investments and corporate impacts that extend beyond conventional financial metrics. There has been a notable upswing in the interest exhibited by investors and other stakeholders towards environmental, social, and governance concerns. The current economic, public health, social justice, and climate change crises have also intensified the focus on these matters.

ESG metrics evaluate the intangible consequences associated with specific investments and companies, thereby presenting a diverse array of business and investment prospects. As a response to this, consumers and investors are actively engaging in sustainability reporting, broadening their ESG disclosures within their yearly reports, furnishing pertinent information to ESG rating agencies, and publicly communicating their ESG commitments. In light of the principles of sustainability, corporations are expected to surpass mere profit generation and prioritizing the interests of their shareholders. In the 21st century, the emphasis lies in cultivating enduring value for all stakeholders while simultaneously addressing the multifaceted challenges of climate change, social inequality, fairness, and poverty. By doing so, both the business and society at large can achieve mutual prosperity and sustainability (Walker, 2019). ESG is a subset of subset of sustainability. The World commission on environment and development (WCED) in 1987 provided a definition of sustainability that entails the fulfillment of our own requirements while safeguarding the capacity of subsequent generations to fulfill their own requirements. As the quest to assess the sustainability of businesses intensifies, ESG data is becoming progressively significant for investors, regulators, stakeholders, and customers. The present concern of reducing carbon footprint through the adoption of more environmentally friendly practices is now a topic of utmost importance in every board room.

ESG aims to quantify and assess the manner in which corporations engage with their surroundings, individuals, and governance. It gauges an organization's dedication to the well-being of the planet and people, thereby bolstering profitable expansion and long-term prospects. Corporations face exposure to various risks, including climate change, social inequality, unfavorable labor conditions, and governance challenges such as accountability, transparency, and executive remuneration. Consequently, companies that effectively address these risks through the implementation and adoption of ESG practices enjoy a competitive edge over those that do not.

The impetus for ESG has been driven by a shift in the demand for greater long-term financial value and a desire for closer alignment with one's principles. In the pursuit of transitioning towards environmentally friendly, low-carbon economies, corporations in both developed and emerging economies are actively working towards incorporating ESG reporting and practices into their responsibilities, such as reserve management and supervisory practices, including stress testing.

2.1. SHAREHOLDERS' ACTIVISM

Historically, shareholders were often perceived as passive participants in the corporate world, primarily interested in maximizing financial returns on their investments. However, the emergence of shareholder activism in the latter part of the 20th century challenged this notion (Weiner & Weber, 2015). Shareholder activists recognized that owning shares in a company granted them a stake in its success and thus the responsibility to advocate for responsible corporate practices.

Eisenhofer and Barry (2005) suggested that the involvement of shareholders in activism has become an inevitable force in driving changes to the policies and strategies of corporations, with more influential activists at play and significant issues at stake. To begin with, there is now a greater amount of assets being managed by shareholder activists, as well as increased accessibility to resources, which enhances their capacity to exert pressure on firms to make changes. Additionally, despite a low level of support, shareholder activism can still have a considerable impact on corporate policies, such as those related to environmental, social, and governance (ESG) matters, due to its non-binding nature. Seidman (2007) maintained that, overall, shareholders' activism demonstrates that it has evolved to exert its unfolding influences on firms.

Goranova and Ryan (2014) define shareholder activism as the deliberate actions taken by shareholders with the explicit aim of influencing the policies and practices of corporations. Shareholder activism pertains to the proactive participation of shareholders in the process of making decisions within a company, advocating for modifications that coincide with their economic, environmental, social, and governance concerns. It commonly involves engaging with the management of the company, submitting proposals as shareholders, attending meetings held for shareholders, and collaborating with other stakeholders in order to drive positive changes within the corporation (Armour & Cheffins, 2011).

In developed economies such as the United States and Europe, shareholder activism can manifest in various forms, ranging from constructive involvement with the management and board members of the company to submitting proposals as shareholders and voting on important matters during annual meetings (Jodyl et al., 2016). Shareholders’ activism exert influence over the processes of decision-making, the structures of governance, and the behavior of corporations in manners that are aligned with their values and long-term interests. The realm of activism encompasses a wide range of concerns, including the compensation of executives, the promotion of diversity and inclusion, the protection of human rights, the impact on the environment, and the adherence to principles of ethical business conduct.

Nowadays, shareholder activism is more diverse than ever before. There exists a variety of activism (Filatotchev & Dotsenko, 2015), each, with distinct motives for advancing a proposal. These forms include composing a written correspondence, engaging in dialogue with the executive team, posing inquiries during the shareholder gathering, and submitting official shareholder proposals (Sjostrom, 2008). Shareholder proposals, in comparison to other manifestations, are considered an assertive manifestation of shareholder activism, as these proposals are openly accessible on the internet. Activists who seek to influence corporate behavior have been drawn to shareholder resolutions. Since the waning of corporate takeover activity in the late 1980s, shareholder resolutions have served as a platform for instigating changes by both the board of directors and top management. These resolutions have evolved into a viable instrument for activists to assert their demands upon management regarding alterations in corporate practices (Graves et al., 2001). The changes sought by shareholders who engage in activism can encompass a wide array of concerns, including the performance of management, matters pertaining to governance, and societal matters. Instances of societal issues that are tackled include matters relating to human rights, abstaining from participating in military contracts, and alterations to the remuneration of top-level executives (Graves et al., 2001).

2..2 MOTIVATIONS FOR SHAREHOLDER ACTIVISM

According to Judge et al. (2010), there are two primary forms of motivation for shareholder action: financially-driven activism and socially-driven activism. In the former case, activist investors apply pressure on managers and/or directors to address specific issues that appear to be mismanaged by the firm. Typically, these activists target businesses that demonstrate low shareholder returns or poor profitability and margins, especially when compared to their industry peers. The proposals arising from this type of motivation aim to maximize shareholder value and often revolve around concerns such as excessive executive compensation, inadequate dividend payments, and alterations to the capital structure. As a result, shareholders may seek to propose solutions and implement changes in order to fully exploit the firm's potential.

The proposed solutions have the potential to focus on reducing costs, optimizing cash flow and capital utilization, and generating value through unexplored avenues to enhance profits and gains. In the second scenario, socially-driven activist shareholders are primarily motivated by social concerns, including recurring apprehensions about the environment, human rights, and employee well-being. When considering socially-driven activism, sustainability is emerging as a significant business phenomenon that may gradually fade away from public consciousness over extended periods of time (Graves et al., 2001).

The phenomenon of climate change has resulted in an escalation of pressure exerted by shareholders who are willing to exercise their rights in order to exert influence over the operational practices of companies. This compels companies to modify their approaches in response to prevailing concerns regarding safety and the environment. As a result, this action serves as a countermeasure against the potential harm to the long-term reputation and visibility of companies that are under scrutiny for their environmental practices. Various studies (Cundill et al., 2018; Fisher & Nasrin, 2021) have addressed this issue. Moreover, there exists a considerable amount of support for proposals falling within the realms of both corporate social responsibility and corporate governance (Chung & Talaulicar, 2010). These proposals can collectively be categorized using the ESG terminology, which encompasses environmental, social, and governance factors.

Filing resolutions related to the environment by activist shareholders primarily focuses on industries that have environmental performance that is less than satisfactory (Rehbein et al., 2004). In contrast, activist hedge funds may view corporate social responsibility as wasteful endeavors that limit shareholder value in the short term (DesJardine et al., 2021). The catalyst for shareholders to become involved in activism is linked to the level of "exposure," which considers the motivation of the activists, the nature of the company, and the national context (Judge et al., 2010). According to Rehbein et al., (2004), activists submit filings with corporations to increase the external attention they receive, which may explain why they prefer to target larger firms, even if smaller firms have just as many issues. This phenomenon may arise from the fact that larger corporations are more conspicuous and have a greater social presence (Sjostrom, 2008). Put differently, activist shareholders may submit resolutions solely in order to pursue their personal objectives (Judge et al., 2010; Smith, 1996). Additionally, the repercussions of herding behavior exhibited by activist investors are more pronounced in industries that are experiencing rapid growth or decline (Boehner and Gold, 2014).

2.3 SHAREHOLDER ACTIVISM STRATEGY

Shareholder activism is now a new normal that shareholders use as a cause of action to influence corporate governance. Hence, they employ different strategies by utilizing their ownership privilege. Through proxy voting, shareholder activists can exercise their voting power during annual general meetings or special meetings by casting their votes in favor of certain resolutions or against management's proposals. By voting on issues related to executive pay, board composition, and other critical matters, activists seek to influence corporate decisions (Levit et al., 2011).

Shareholder activists utilize shareholder resolutions to proffer resolutions on diverse matters, encompassing environmental sustainability, diversity and inclusion, executive compensation, and governance reforms (Hillman et al., 2001). Although these resolutions may not invariably attain approval, they have the potential to effectively convey investor apprehensions to the company and fellow shareholders. Directly engaging with company executives and board members, engagement with management and the board enables shareholder activists to articulate their concerns, proffer recommendations for enhancement, and acquire insight into the company's strategic approach and decision-making process (Doh & Guay., 2006).

Shareholder activists implement collaborative endeavors to form alliances with other investors, advocacy groups, and stakeholders in order to enhance their influence and advocate for common goals. Collaborative endeavors have the potential to augment the visibility and effectiveness of shareholder activism endeavors (Dhir, 2012).

Public Advocacy: Activists frequently utilize public platforms, such as media interviews and press releases, to raise awareness regarding the issues they are addressing and exert pressure on the company to take appropriate measures.

2.4 SHAREHOLDERS ACTIVISM AND ESG

Gifford (2010) expressed the viewpoint that the convergence of shareholder activism and ESG principles represents a natural progression that strengthens the mutual objective of promoting responsible corporate conduct. Shareholder activists are increasingly employing ESG metrics and frameworks to advocate for alterations that address crucial environmental and social concerns while simultaneously improving governance practices. When activists engage with corporations, they frequently strive to uncover and rectify deficiencies related to ESG, thereby encouraging corporate leaders to adopt more sustainable and fair practices. By submitting shareholder resolutions on ESG matters, activists can initiate a more comprehensive conversation within the company and its investor base, compelling stakeholders to prioritize the long-term well-being of the organization, society, and the environment (Kang et al., 2022).

Shareholder activism could discipline managerial behavior by increasing the frequency of CEO turnover; changing managerial compensation level, create positive abnormal returns in the short term; and harm firm value in the long term. while shareholder activism could lead to value reduction due to increased CEO turnover, institutional shareholder activism could mitigate the problem of earnings management (Ng & Wu, 2021). Therefore, these results generally indicate that shareholder activism could discipline managerial behavior thus improving ESG.

Moreover, ESG-focused investors are more likely to support shareholder activism initiatives that align with their values and contribute to building a resilient and sustainable business landscape (Aquila, 2019). This convergence creates a virtuous cycle, where shareholder activism reinforces the integration of ESG considerations in decision-making processes, leading to better corporate governance, increased transparency, and enhanced stakeholder trust.

Shareholder activism and ESG have emerged as two interconnected forces propelling responsible corporate practices and sustainable investment strategies. In unison, they grant investors the authority to advocate for positive transformation, urging enterprises to prioritize the creation of long-term value, social accountability, and environmental guardianship. As these fundamental tenets continue to develop, they possess the potential to mold a future wherein businesses operate with heightened awareness of their extensive influence on society and the planet, paving the way for a more comprehensive, fair, and enduring global economy.

In the scholarly works authored by O'Rourke (2003), the assertion is made that shareholders possess the ability to influence the behavior of corporations through the exercise of their voting rights on proposals put forth by shareholders or through engaging in dialogues with the company on a specific matter. Shareholder activists apply pressure on companies in order to hold them accountable for their actions. When shareholders express their concerns regarding environmental, social, and governance (ESG) issues that arise from unethical processes (Henri et al., 2010), companies are more inclined to take these concerns seriously. This is done in order to safeguard and enhance the reputation of their organizations and to ensure continued support from shareholders.

According to Aziz et. al.,(2015), the proponents of activism among shareholders frequently request enhanced transparency and disclosure concerning matters related to environmental, social, and governance (ESG). The provision of unambiguous and open reporting on sustainability performance allows stakeholders to make well-informed decisions, thereby holding companies accountable for their obligations. Shahi and Modapothala (2011) expressed the viewpoint that resolutions and engagements initiated by shareholders have the potential to exert influence over corporate policies and practices. Consequently, companies may adopt more sustainable strategies, establish ambitious environmental objectives, and implement programs that promote social responsibility in order to align themselves with the demands made by shareholders.

Raghupathi and Raghupathi (2019) argued that the activism displayed by shareholders stimulates organizations to adopt a long-term outlook rather than fixating solely on short-term profits. In doing so, organizations take into consideration the wider ramifications of their actions on society, the environment, and their own enduring sustainability.

Organizations that adopt sustainability and responsible conduct are more likely to attract ethical and socially responsible investors, thereby cultivating a favorable perception of responsible behavior and garnering investor support (Galbreath, 2010). Research indicates a positive correlation between shareholder activism and enhanced corporate governance practices. Activist investors frequently direct their efforts towards governance-related matters, such as board autonomy, executive remuneration, and transparency in disclosure. Companies confronted with shareholder activism tend to fortify their governance frameworks in order to address investor apprehensions and align themselves with industry best practices (Kalodimos & Leavitt, 2020). There is a favorable connection between vigorous shareholder activism and both environmental, social, and governance (ESG) performance, as well as financial performance (Samat & Ali, 2019). Companies that embrace robust ESG practices tend to demonstrate superior operational efficiency, risk management, and long-term financial stability.

The available evidence suggests that the inclusion of environmental, social, and governance (ESG) factors in the decision-making process for investments can result in superior risk-adjusted returns for individuals who invest their capital. Notably, institutional investors and asset managers have increasingly embraced the integration of ESG factors into their respective investment procedures. This shift in approach can be attributed to the recognition and acknowledgement of the potential influence that ESG factors have on long-term investment outcomes and the management of risk. A number of studies have indicated that the adoption of strategies that incorporate ESG factors leads to enhanced performance of investment portfolios and improved risk-adjusted returns. Specifically, there is a growing predilection among investors, particularly millennials and the younger generation, for companies that prioritize ESG practices (Rahman, 2021). Consequently, this demand has provided businesses with an incentive to incorporate sustainability and social responsibility into their corporate strategies, with the aim of attracting and retaining investors.

Shareholder activists are progressively utilizing ESG considerations to shape their campaigns and establish connections with corporations (Weng et al., 2015). Their focus is centered on environmental and societal matters, such as climate change, diversity, and supply chain procedures, with the aim of garnering backing from stakeholders and instigating positive transformation. Scholarly investigations propose that corporations subjected to the scrutiny of shareholder activists have a propensity to enhance their ESG performance as a response to investor pressure (Almazan et al., 2005). Consequently, this activism generates an elevated consciousness regarding ESG hazards and prospects, thereby encouraging corporations to adopt more sustainable methodologies.

Freeburn and Ramsay (2021) argued that there has been a notable escalation in shareholder activism regarding ESG matters within listed companies in Australia. The escalation has been observed in both the quantity of companies where resolutions have been proposed and in the quantity of resolutions aimed at said companies. This surge in shareholder activism has propelled favorable transformations. This type of activism, wherein shareholders suggest resolutions pertaining to ESG matters to be deliberated upon during a company's annual general meetings, has witnessed an increase in terms of both quantity and impact. Shareholder activism concerning ESG resolutions is widely acknowledged as a valuable means of corporate stakeholder engagement, leading to positive alterations in select companies (Freeburn & Ramsay, 2021). In Nigeria, the acceptance of ESG principles is gradually gaining momentum, spurred by several factors that align with global patterns and unique local circumstances (Hoepner, Majoch, & Zhou, 2019)

Shareholder activism serves as a means of disciplining firms not only in terms of their financial performance and policies, but also, to a greater extent, as a crucial mechanism for monitoring firm management in the areas of social, environmental, and governance aspects. In particular, shareholder proposals pertaining to contemporary issues such as environmental and social matters have garnered majority support within firms, thereby indicating a heightened level of public consciousness surrounding corporate social responsibility (CSR) matters (Mueller & Ising, 2017). This increased public consciousness necessitates further examination of the role of shareholder activism in relation to environmental, social, and governance (ESG) issues.

Roehm and Tybout (2006) expressed the viewpoint that shareholder activism has demonstrated its efficacy as a well-organized influence on corporate governance, leading to modifications in business strategies, policies, and the performance of specific companies. The argument posits that the increased availability of online archival material on proposals and other shareholder activism documents has facilitated broader access to and dissemination of information regarding shareholder activism events. The dissemination of such information not only generates higher expectations regarding the reform of corporate policies in targeted companies, but it also has the potential to subject firms to scrutiny and pressure, thereby exerting influence on their corporate social performance, governance, disclosure, and environmental performance.

Ferraro and Beunza (2018) conducted a qualitative investigation that followed a religious organization's activity of submitting shareholder proposals on various environmental, social, and governance (ESG) matters for a duration of three years. Their findings revealed that the investor employed both financial and moral arguments in their attempts to persuade corporate management, and these efforts were occasionally successful. When confronted with such challenges, firms feel compelled to seriously consider the demands of activist groups and consequently reevaluate the underlying assumptions and substance of the contested perspectives, considering the novel arguments introduced by the activists (Greenwood et al., 2002). Firms that perceive the challenge as a significant threat are more likely to develop new perspectives that align more closely with the viewpoints advocated by the activists. Consequently, this leads to a transformation in the set of organizational practices and beliefs that these firms deem to be legitimate (den Hond & de Bakker, 2007; Lounsbury et al., 2003).

A study conducted by Reid and Toffel (2009) examined a total of 94 shareholder proposals pertaining to environmental issues. The findings of this study indicate a heightened tendency of firms to adopt the requests put forth by the sponsoring organization. Recent research also provides empirical evidence suggesting that investor activism on environmental, social, and governance (ESG) issues has a significant impact on corporate behavior and shareholder value. For instance, Serafeim (2015) found that shareholder proposals focusing on ESG reporting matters resulted in an increase in transparency regarding ESG issues, as well as the adoption of more comprehensive reporting practices. Additionally, Dimson et al. (2015) analyzed a substantial number of engagements (2,152) facilitated by a major asset manager. Of these engagements, 382 were identified as successful, denoting the achievement of their intended objectives. The authors observed significant increases in stock price and operating performance for the subset of successful engagements, indicating that these engagements have a positive impact on the financial performance of the company. In his study, Flammer (2015) analyzed a limited number of ESG proposals that garnered majority support, representing less than one percent of all proposals. The author compared the stock price reactions surrounding the passage of these proposals with those of proposals that narrowly missed receiving majority support. The findings revealed that the stock returns were notably positive for the proposals that narrowly passed, suggesting that these ESG proposals contribute to enhancing value.

Most prominently, ESG-conscious investors are looking into how boards and management teams oversee environmental and social performance, how ESG oversight is allocated among board committees, and whether a board has sufficient expertise in environmental and social issues. Shareholder activists may deploy ESG concepts in their campaigns for various reasons. An activist's investor genuinely believes that greater attentiveness to environmental and social factors de-risks operations, makes business more sustainable, and creates opportunities Kai et al., (2021).

3. ESG IN NIGERIA

The global business environment is going through profound transformation. Critical issues as climate change, the global pandemic, sustainability is creating complexities in terms of risk and its associated opportunities. Hence there is need for corporations in Nigeria to incorporate ESG into their business policies and strategy.

ESG rating now focuses on countries, i.e. how much a country is doing in terms of environmental, social and governance issues. They are scored based on their relative performance across the United Nations sustainability goals. Nigeria is said to have a low ESG record with high risk factor such as the massive oil spill, excessive gas flaring (Fasan, 2021). However, Nigeria has committed to taking steps to reach net zero carbon by 2060 during the conference of parties (COP) 26 and also the signing of the climate change bill into law, the issuance of the green bond 2017 and 2020.

ESG principles have emerged as a central focus within the worldwide investment arena. These principles offer a structure for enduring investment, guaranteeing the incorporation of environmental and social factors, as well as effective governance practices, into investment choices. In Nigeria, the acceptance of ESG principles is gradually gaining momentum, spurred by several factors that align with global patterns and unique local circumstances (Hoepner, Majoch, & Zhou, 2019).

Nigeria exhibits a distressing record of accomplishment in each of the traditional ESG domains, namely environmental, social, and governance. One of the foremost obstacles hindering the acceptance of ESG principles in Nigeria pertains to the lack of awareness and comprehension of these principles among key stakeholders. Numerous institutions remain unacquainted with the advantages of incorporating ESG and the potential perils associated with neglecting ESG factors in their investment choices. Although there is no singular regulator overseeing ESG standards for corporate entities in Nigeria, a multitude of laws and regulations exert influence on ESG, and the private sector has embraced various initiatives pertaining to ESG. It is of utmost importance for Nigerian enterprises to devise an appropriate strategy and maintain consistent implementation of ESG action plans, thereby fostering a sustainable and ethically upright future for Nigeria and the global community as a whole (Adeolu et, al., 2023).

There is no single framework or law for ESG in Nigeria, however, a number of laws and regulations address the pillars of ESG such as the following:

Constitution of the Federal Republic of Nigeria 1999 as amended- This is the ground norm and supreme law of Nigeria that governs the country's legal, social and political system and from which other laws gain their validity. The Constitution contains key provisions on ESG factors such as Chapter 2 on Fundamental Objectives and Directive Principles of State Policy and Chapter 4 on Fundamental Human Rights.

The Climate Change Act (CCA), 2021 applies to and creates key obligations for the government and its agencies and public and private entities within Nigeria on the development and implementation of mechanisms geared towards fostering a low carbon emission, environmentally sustainable and climate resilient society.

Environmental Impact Assessment Act, 1992 ("EIA")- The EIA sets out the general principles, procedure and methods to enable the prior consideration of environmental impact assessment on certain public or private projects. Companies and Allied Matters Act (CAMA), 2020 contains key sections on ESG such as Section 305(3) on duties of directors which specifically requires directors to ensure that their company's operations are not detrimental to the environment in the community where it is carries out business operations, Section 398 on publication of financial statements and Sections 342-347 on actions for the protection of minority against illegal and oppressive conduct.

The Securities & Exchange Commission Nigerian Sustainable Finance Principles (NSFP), 2021 (provides key principles on sustainable finance to improve economic prosperity and competitiveness while contributing to protecting and restoring ecological systems, enhancing cultural diversity and social well-being. Principle 1 creates the framework for environmental, social and governance (ESG) considerations and Principle 3 focuses on human rights, women's economic empowerment, job creation and financial inclusion.

The Nigerian Code of Corporate Governance (2018) and sector-based Codes such as the Code of Corporate Governance for Banks and Discount Houses and Code of Corporate Governance for the Telecommunications Industry provide detailed requirements on corporate governance for companies.

The incorporation of the pillars of Environmental, Social, and Governance (ESG) represents a feasible managerial instrument for companies and organizations operating in Nigeria. Companies that integrate ESG factors into their strategic planning and day-to-day activities are in a superior position to recognize and effectively address risks that pose a threat to the business. At various levels in Nigeria, shareholders' activism is advocating for the integration of ESG policies into the operations of corporate entities, both within Nigeria and globally. Additionally, shareholders are demanding transparency from these companies regarding their progress in implementing ESG policies. Consequently, shareholders are exerting continuous pressure on companies, both directly and indirectly, to ensure compliance with ESG policies (Randle et al., 2023).

In addition, regulatory bodies across the globe are presently transitioning from policy implementation to the establishment of tangible regulatory structures that will culminate in full adherence to regulations, uniform measurement criteria for evaluating environmental, social, and governance (ESG) effects, and the advancement of a sustainable ecosystem and economy. It is imperative that organizations do not underestimate the significance of this regulatory shift. Consequently, organizations must proactively prepare for unpredictable circumstances and inevitable changes.

4. CONCLUSION

In conclusion, shareholder activism and ESG play crucial roles in driving responsible corporate behavior. Shareholder activism empowers shareholders to actively participate in the decision-making processes of companies, encouraging transparency, accountability, and long-term thinking. Through engagement, voting, and filing resolutions, shareholders can influence corporate policies and advocate for sustainable practices that consider environmental, social, and governance factors. On the other hand, sustainability and responsible corporate behavior encompasses a company's commitment to meeting the needs of the present while safeguarding the needs of future generations. By adopting eco-friendly practices, valuing social responsibility, and promoting good governance, companies can contribute positively to society and the environment.

The symbiotic relationship between shareholder activism and ESG fosters a virtuous cycle. Activist shareholders drive companies to embrace responsible practices, which, in turn, attracts ethical investors and enhances a company's reputation. This cycle reinforces a commitment to sustainability, strengthening the bond between companies and their stakeholders. As the world faces increasing challenges related to climate change, social inequality, and ethical considerations, the role of shareholder activism and ESG becomes more critical than ever. Through their collective efforts, shareholders and companies can collaborate to create a more sustainable, equitable, and responsible business landscape, contributing to a better future for both society and the planet.

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