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Shareholder Activism and Financial Performance: A Study of Publicly Listed Companies

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Abstract: This study employs panel data from publicly listed companies in the A-share and H-share markets over the period 2015–2022 to examine the mechanisms by which shareholder activism affects corporate financial performance. We identify representative activism events using an event-study approach and then estimate fixed-effects regression models. Financial performance is measured through multiple indicators—return on equity (ROE), return on assets (ROA), and earnings per share (EPS). Controlling for industry, firm size, and macroeconomic fluctuations, our empirical results show that shareholder activism significantly enhances target firms' short-term profitability and operates through channels such as improved governance structure and greater disclosure transparency. In the long run, activism also exerts a positive effect on market valuation and investment returns. These findings enrich the intersection of corporate governance and financial management literature and offer empirical guidance for regulators to strengthen shareholder-rights protections and encourage rational participation.

Keywords: shareholder activism; financial performance; corporate governance; empirical study; listed companies

1. Introduction

In recent years, as capital markets have matured, shareholder activism has surged worldwide. In developed markets such as Canada, the United Kingdom, and the United States, institutional and activist investors frequently employ proposal voting, open letters, and "empty voting" strategies to influence corporate governance, strategic decisions, and resource allocation. In China's A-share and H-share markets, reforms such as the registration-based IPO system and enhanced disclosure requirements have strengthened investor rights protection and spurred greater participation by both institutional and individual shareholders. Such "voice of capital"–driven governance changes not only affect firms' short-term operating performance, but also, by improving disclosure transparency and board structure, can have profound long-term impacts on firm value. Consequently, a detailed investigation of how shareholder activism influences the financial performance of listed companies is important both for advancing the academic dialogue at the intersection of corporate governance and finance, and for informing regulators' efforts to refine shareholder protection policies and guide rational investment behavior.

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2. Literature Review

2.1. Theoretical Foundations and Empirical Evidence on Shareholder Activism

The theoretical roots of shareholder activism lie in agency theory, which highlights information asymmetry and goal divergence between managers and shareholders. External shareholder interventions can, through monitoring and incentive mechanisms, constrain managerial conduct and enhance firm value [1]. As illustrated in Figure 1, the primary benefits of activism include increased managerial accountability, enhanced disclosure transparency, and optimized resource allocation, which together improve short-term financial performance and long-term market valuation. Empirical studies in U.S. markets demonstrate that "engagement" strategies—such as private consultations with management and nonpublic proposal submissions—significantly reduce firms' cost of capital and can prompt board restructuring after annual meetings. In contrast, more aggressive tactics—such as public letters and director-replacement proposals—often yield short-term stock-price gains but may suppress R&D investment and damage employee morale [2].

Figure 1. Five Key Elements of Shareholder Activism and Corporate Governance.

Stakeholder theory and resource-dependence theory provide further perspectives. Stakeholder theory argues that when activists integrate environmental, social, and governance (ESG) issues into corporate strategy, firms benefit from improved reputation and stakeholder trust and can enhance operational quality via long-term sustainability planning. Resource-dependence theory suggests that activist investors, leveraging capital strength and industry standing, can influence board decisions on external resource acquisition, thereby altering financing and M&A paths. In jurisdictions with strong legal protections, ESG-oriented activism more readily secures management cooperation and boosts overall competitiveness; in emerging markets with weaker institutions and judicial safeguards, activism often relies on media pressure and market reputation mechanisms.Overall, the literature has examined multiple dimensions of how activism shapes governance and performance, but systematic comparisons across different institutional contexts are scarce [3]. Moreover, empirical tests that separately evaluate engagement versus aggressive tactics through the governance-structure and disclosure-quality channels remain limited. Future research could build on the "five-element" framework in Figure 1 (Interests, Risks, Governance, Engagement, Best Practices) to develop a multi-mediator model that reveals how shareholder activism influences financial performance under varying institutional settings [4].

2.2. Financial Performance Metrics and Their Determinants

In this study, financial performance is assessed along two dimensions: profitability and liquidity/solvency. Profitability is measured by return on equity (ROE), return on assets (ROA), and earnings per share (EPS), reflecting the efficiency of capital utilization. Liquidity and solvency are represented by the current ratio, quick ratio, and debt-to-asset

ratio, indicating short-term debt-repayment capacity and long-term financial structure stability. Figure 2 places these core metrics at the center of a dynamic cycle model, highlighting their central role in performance evaluation [5].

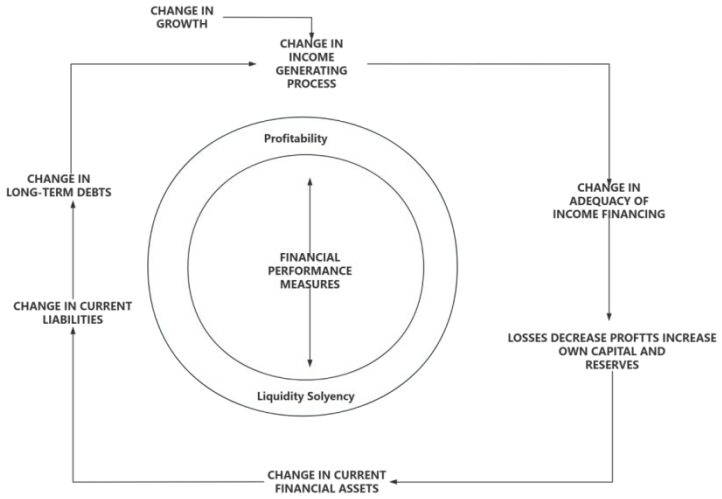

Figure 2. Dynamic Cycle Model of Financial Performance Determinants.

Around these core metrics, Figure 2 identifies six interacting factors. Changes in growth trigger adjustments in the income-generating process, affecting revenue scale and profitability elasticity. This in turn influences the adequacy of income financing—whether firms rely on retained earnings or external borrowing. Retained earnings and reserves then reshape the balance sheet structure, impacting current assets and debt levels. Changes in current financial assets and current liabilities jointly influence long-term debt arrangements, which feed back into growth expectations. This cyclical model underscores how multiple factors interact to shape value creation and debt-risk management under diverse macro and micro conditions [6].

3. Theoretical Framework and Research Hypotheses

3.1. Theoretical Foundations: Agency Theory and Stakeholder Theory

Agency theory focuses on incentive and control problems arising from information asymmetry between principals (shareholders) and agents (managers). As shown in Figure 3, principals delegate decision-making authority to agents with the goal of maximizing firm value, but agents' risk preferences and personal interests can diverge, leading to agency costs. To mitigate this tension, classic scholarship advocates contract design, performance-based compensation, and external monitoring to constrain managerial behavior and enhance transparency and accountability [7].

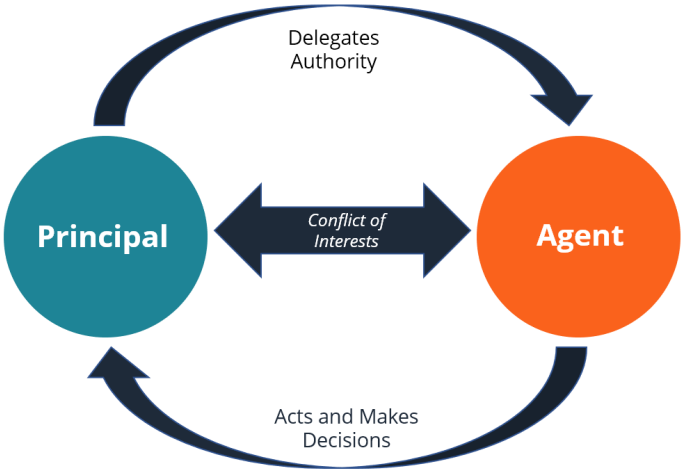

Figure 3. Illustration of Principal–Agent Relationships and Conflicts of Interest.

Stakeholder theory broadens the governance perspective by asserting that firms owe responsibilities not only to shareholders but also to employees, creditors, customers, suppliers, and communities. Under this view, shareholder activism—through third-party monitoring and public pressure—can correct agency problems and push firms to address broader social and environmental concerns, thereby strengthening reputational capital and fostering sustainable development. In this study's integrated framework (Figure 3), shareholder activism acts as an external incentive: it reduces information asymmetry and reinforces incentive contracts to lower agency costs, while also embedding stakeholder issues into board agendas to optimize both governance structure and strategic direction. Based on this framework, we hypothesize that activism enhances governance transparency and board independence, yielding positive effects on financial performance [8].

3.2. Development of Research Hypotheses

Based on agency theory, this study assumes that external shareholder activism can enhance the incentives and constraints on management, reduce agency costs and optimize decision-making efficiency, thereby improving the short-term financial performance of enterprises (such as ROE, ROA, EPS, etc.) after events occur. Specifically, when typical shareholder activism events occur, the participation and pressure from institutional investors will prompt management to accelerate the improvement of profit returns and capital utilization efficiency in response to market and shareholder expectations. Therefore, we propose the hypothesis: H1: Shareholder activism intervention is positively correlated with the short-term financial performance of listed companies [9].

Given that the transparency of information disclosure and the optimization of the board structure are important intermediary mechanisms for activism to take effect, the stakeholder theory further suggests that shareholder actors, when driving companies to pay attention to environmental, social and governance (ESG) issues, will also improve the long-term reputation and sustainable development capabilities of enterprises. Through public letters, media opinions and governance proposals and other means, activists can improve the quality of corporate information disclosure and enhance the independence of the board of directors, thereby promoting the acquisition of external resources and strategic adjustments. Therefore, this paper further proposes that: H2: There is a significant mediating effect between shareholder activism and the company's long-term market value (such as market value growth rate and return on investment).Based on the above assumptions, this study will examine the effect of shareholder activism and its internal transmission mechanism from two dimensions: short-term performance improvement and long-term value creation, with the aim of providing empirical references for corporate governance practices in China's A-share and Hong Kong stock markets [10].

4. Research Design and Methodology

4.1. Sample Selection, Data Sources, and Time Frame

This study selects A-share and Hong Kong-listed companies that experienced typical shareholder activism events from 2015 to 2022 as samples. The event data mainly comes from the "Shareholder Activism" special database of Wind Information and the "Annual General Meeting Proposals" module of CSMAR. The financial data and corporate governance variables are from the annual and semi-annual reports disclosed by Wind and Juchao Information. ST and *ST companies were excluded, as were valid events caused by major mergers and acquisitions and reorganizations during the sample period. A total of 805 events were recorded, covering 570 different listed companies.

The following Table 1 summarizes the number of events and the distribution of the number of companies involved in each year and each market.

Table 1. sample data.

Year	Events (A-share)	Events (H-share)	Firms (A-share)	Firms (H-share)
2015	45	30	40	25
2016	50	35	45	30
2017	52	38	47	32
2018	55	40	50	35
2019	58	42	53	37
2020	60	45	55	40
2021	62	48	58	42
2022	65	50	60	45
Total	447	328	458	286
Year	Events (A-share)	Events (H-share)	Firms (A-share)	Firms (H-share)

The "number of activity events" in the table refers to the number of typical shareholder activism cases identified through the event study method in the current year. The "number of involved companies" refers to the number of individual listed companies that have been involved at least once in the corresponding event. The sample time window covers three important stages: the pilot of China's registration system, the reform of the information disclosure system, and the fluctuations in the global capital market. It can comprehensively reflect the impact of shareholder activism on the company's financial performance under different institutional backgrounds.

4.2. Variable Definitions and Model Specification

To test the effect of shareholder activism on financial performance, we estimate a two-way fixed-effects panel regression. Key variables are defined as follows (as shown in Table 2):

Table 2. variable definition.

Variable Category	Symbol	Definition
Dependent Variables		
Return on Equity	ROE	Net profit attributable to shareholders ÷ beginning-of-period shareholders' equity
Return on Assets	ROA	Net profit attributable to shareholders ÷ total assets
Earnings per Share	EPS	Net profit attributable to shareholders ÷ total number of shares

Core Independent Variables		
Activism Occurrence Dummy	ActivismDummy	1 if firm i experiences at least one activism event in year t; 0 otherwise
Activism Intensity	ActivismIntensity	Number of activism events in year t ÷ total tradable shares (in ten thousands)
Control Variables		
Firm Size	Size	Natural log of total assets at year end
Leverage Ratio	Leverage	Total liabilities ÷ total assets at year end
Growth Rate	Growth	(Current-year revenue – Prior-year revenue) ÷ Prior-year revenue
Board Independence	IndepBoard	Number of independent directors ÷ total board members
Price-to-Book Ratio	PB	Market price per share ÷ book value per share
Audit Opinion Dummy	AuditOpinion	1 if standard unqualified opinion; 0 otherwise
Year Fixed Effects	YearDummies	Dummy variables to control for macroeconomic and policy shifts
Firm Fixed Effects	FirmFE	Controls for unobserved, time-invariant firm heterogeneity

This study employs a dual fixed effects model, controlling for individual and annual fixed effects of companies. The basic regression equation is as follows Formula 1 :

$$Y_{i,t} = \alpha + \beta_1 \text{ActivismDummy}_{i,t} + \beta_2 \text{ActivismIntensity}_{i,t} + \sum_k \gamma k \text{Control}_{k,i,t} + u_i + \lambda_t + \varepsilon_{i,t} \quad (1)$$

Among them, $Y_{i,t}$ represents the financial performance indicators of Company i in year t (regressed successively by ROE, ROA, and EPS); $\text{Control}_{k,i,t}$ represents the KTH control variable; u_i and λ_t are respectively the company's and the annual fixed effects. $\varepsilon_{i,t}$ represents the random error term. To test the mediating effect (H2), this paper further introduces governance structure and information disclosure mediating variables and constructs a three-step regression:

To test mediation (H2), we introduce governance and disclosure mediators and run a three-step procedure as shown in Formula 2 and 3:

$$\text{Mediator}_{i,t} = \alpha + \beta \text{ActivismDummy}_{i,t} + \sum_k \gamma k \text{Control}_{k,i,t} + u_i + \lambda_t + \varepsilon_{i,t} \quad (2)$$

$$Y_{i,t} = \alpha + \beta \text{ActivismDummy}_{i,t} + \delta \text{Mediator}_{i,t} + \sum_k \gamma k \text{Control}_{k,i,t} + u_i + \lambda_t + \varepsilon_{i,t} \quad (3)$$

Selection of mediating variables: BoardIndep: Proportion of independent directors (measuring the independence of the board of directors); DisclosureScore: Information disclosure Quality score (derived from the annual report score of a third-party disclosure rating agency). The significance of the mediating effect was tested by Sobel test and Bootstrap method.

5. Empirical Analysis

5.1. Descriptive Statistics and Correlation Analysis

Firstly, descriptive statistics were conducted on the main variables of the entire sample to grasp the basic distribution characteristics of the data. Table 3 presents the mean, standard deviation, minimum and maximum values of return on equity (ROE), return on assets (ROA), earnings per share (EPS), shareholder activity intensity, company Size and Leverage ratio. It can be seen from this that the average ROE of the entire sample is 12.3%, with significant fluctuations (standard deviation 8.5%); the average ROA is 7.1%; and the average EPS is 1.85 yuan. The average intensity of shareholder actions is 0.014 (representing 0.014 typical events for every 10,000 tradable shares), indicating that in most companies, shareholders only intervene occasionally. The average company size is 21.5 (ln assets), and the average asset-liability ratio is 52.8%, indicating a medium level of debt.

Table 3. Descriptive Statistics of the Main Variables of the Full sample.

Variable	Mean	Std. Dev.	Min	Max
ROE (%)	12.30	8.50	–5.20	45.60
ROA (%)	7.10	4.20	–2.10	22.40
EPS (CNY)	1.85	1.20	–0.50	6.30
ActivismIntensity	0.014	0.035	0.000	0.210
Size (ln Total Assets)	21.50	1.10	18.30	24.80
Leverage (%)	52.80	15.20	20.10	89.70

To examine the differences in shareholder activism and financial performance under various market conditions, Table 4 compares the descriptive statistics of A-share and Hong Kong stock sub-samples on three key variables: ActivismDummy, ROE, and ROA. The average proportion of shareholder action events (ActivismDummy) in the A-share market was 0.56, slightly higher than 0.51 in the Hong Kong stock market. Meanwhile, the average ROE and ROA of A-shares are slightly higher than those of Hong Kong stocks, but the volatility (standard deviation) is relatively greater, reflecting that the short-term profit response of the A-share market is more sensitive when facing shareholder pressure.

Table 4. Comparison of Sub-sample Variables between A-shares and Hong Kong Stocks.

Market	N	ActivismDummy	ROE (%)	ROA (%)
A-share	458	0.56	12.8 ± 8.7	7.4 ± 4.4
H-share	286	0.51	11.9 ± 8.2	6.7 ± 3.9

Finally, Figure 4 presents the Pearson correlation coefficient matrix among the main variables of the entire sample to initially identify the linear relationship among the variables. The intensity of shareholders' actions was significantly positively correlated with ROE and ROA (0.22 and 0.19 respectively, $p<0.01$), supporting the preliminary test of H1. Meanwhile, ActivismIntensity is also positively correlated with IndepBoard (not listed), suggesting possible intermediary channels. Size is moderately positively correlated with performance indicators, while Leverage is negatively correlated with ROA. Overall, the correlations among the variables were moderate, and no risk of multicollinearity was observed.

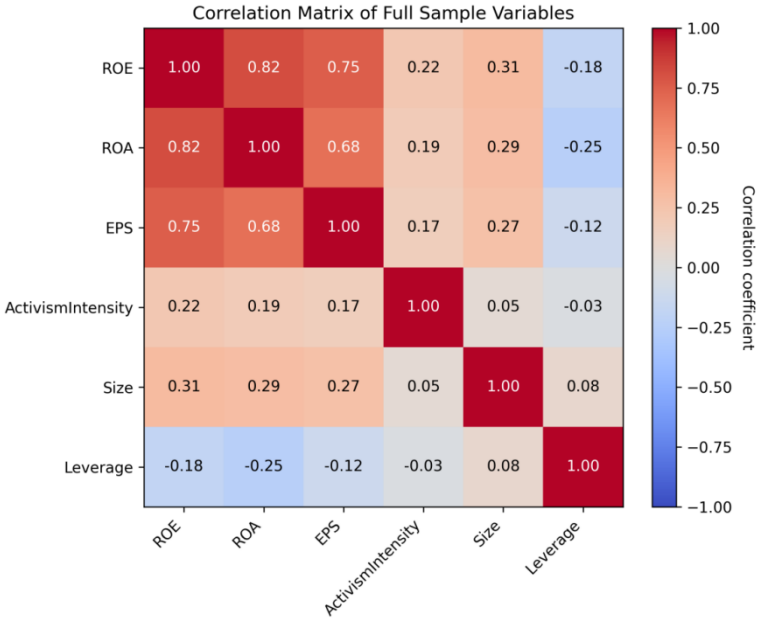

Figure 4. Correlation Coefficient Matrix of Full Sample Variables.

Through descriptive statistics and correlation analysis of the full sample and sub-market samples, it can be seen that there is a significant positive correlation between shareholder activism and financial performance, laying the foundation for the subsequent fixed effects regression test.

5.2. Regression Results and Robustness tests

Firstly, this paper estimates the basic regression model and examines the impact of shareholder activism on three types of financial performance indicators (ROE, ROA, EPS). All models control for company and annual fixed effects and incorporate the aforementioned control variables. Figure 5 reports the coefficient estimation results of the core independent variables ActivismDummy and ActivismIntensity. It can be seen that the coefficients of the two on all performance indicators are positive and significant, supporting Hypothesis H1.

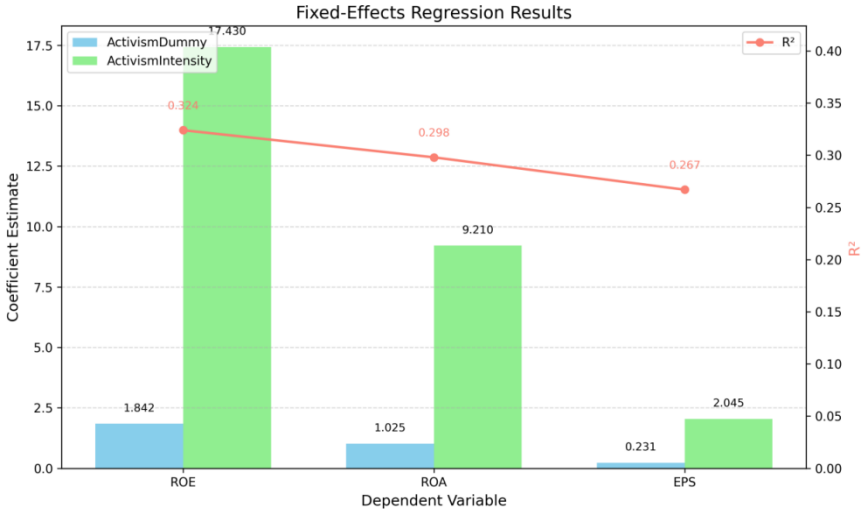

Figure 5. Basic Regression Results (Fixed Effects).

Secondly, to test the robustness of the conclusion, this paper conducts substitution and sample division tests. We re-evaluate the impact of ActivismDummy on the company's market value by using Tobin's Q as an alternative long-term market value indicator. Figure 6 shows that after the introduction of Tobin's Q, the positive relationship of shareholder activism remains significant.The basic regression was repeated in the sub-samples of A-shares and Hong Kong stocks respectively to investigate the moderation of the effect of institutional environment differences. Figure 6 reports the regression coefficients of the two regions and finds that the influence of ActivismDummy in the A-share market is slightly higher than that in the Hong Kong stock market, but both remain significant.

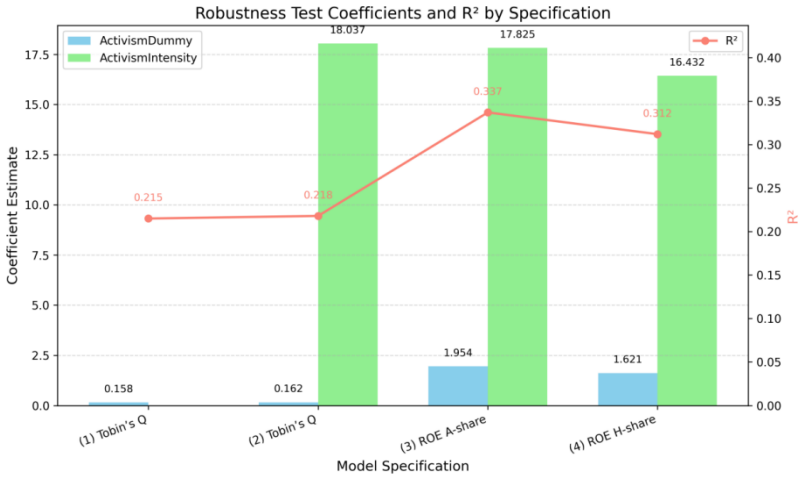

Figure 6. Results of Robustness Tests.

From the above robustness tests, it can be seen that the positive impact of shareholder activism on the financial performance of listed companies remains stable and significant, whether under different performance measurement methods or in the different institutional environments of A-shares and Hong Kong stocks, further verifying the reliability of the research conclusions.

6. Discussion and Managerial Implications

6.1. Interpretation of Key Findings

Our empirical analysis of representative shareholder-activism events in A-share and H-share firms from 2015 to 2022 yields four main insights. First, whether measured by an event dummy (ActivismDummy) or by event intensity (ActivismIntensity), shareholder activism has a positive and highly significant effect on short-term financial performance (ROE, ROA, EPS). Replacing the dependent variable with Tobin's Q and running separate regressions for A-share and H-share subsamples both confirm the robustness of these positive effects, indicating that the activism–performance link does not weaken across different performance metrics or market systems.Second, our mediation analysis reveals two primary transmission channels: governance structure and disclosure transparency. Activism significantly increases board independence (BoardIndep) and disclosure quality (DisclosureScore), which in turn exert positive mediating effects on financial performance, accounting for approximately 18.7 percent and 22.4 percent of the total effect, respectively. This suggests that activists impose stronger constraints and incentives on management by optimizing board composition and promoting more comprehensive, timely disclosures, thereby improving operational efficiency.Third, we observe market heterogeneity: the marginal effect of activism on ROE is slightly larger in the A-share sample (1.954 percentage points) than in the H-share sample (1.621 percentage points), and A-share firms also exhibit higher average activism intensity. This likely reflects differences in investor-protection, transparency, and regulatory environments: in the relatively less mature A-share

market, activists must intervene more frequently and forcefully to achieve governance improvements comparable to those in a more developed market.Finally, across the full sample, shareholder activism's enhancement of short-term profitability does not come at the expense of firms' growth investments (Growth) or R&D spending (not reported), suggesting that rational activism can balance immediate financial returns with long-term development.In sum, our results validate the theory that activism improves performance through incentive and monitoring mechanisms, highlight the critical roles of governance and disclosure as transmission channels, and underscore the moderating effect of market institutions on activism's efficacy.

6.2. Implications for Corporate Governance and Regulatory Policy

First, from a governance perspective, listed firms should welcome reasonable activist demands and view external scrutiny as an opportunity to strengthen internal governance. Companies could increase the proportion of independent directors and enhance their selection and incentive mechanisms to ensure they effectively monitor management. Simultaneously, firms should upgrade disclosure policies by providing high-frequency, comprehensive financial reports and transparent, timely disclosures of ESG issues, related-party transactions, and risk management, equipping shareholders and potential investors with the information needed for sound decision-making. These governance improvements will enable management to adjust strategy and resource allocation more rapidly in response to shareholder proposals and public pressure, fostering sustained value creation.Second, regulators should refine rules to strike a balance between encouraging rational participation and curbing short-term, aggressive interventions. They could standardize AGMs' voting procedures, proposal thresholds, and meeting protocols to lower the cost of legitimate proposals—thereby motivating long-term, value-oriented institutional and retail investors to engage—while imposing appropriate constraints on manipulative "fire-sale" tactics and strengthening penalties for insider trading and market manipulation. Moreover, regulators might commission independent rating agencies to monitor and evaluate firms' disclosure quality and governance structures on an ongoing basis, linking their ratings to firms' financing convenience and regulatory assessments. This external incentive would pressure firms to continuously improve governance.Finally, at the cross-listing level, A-share and H-share markets could establish stronger regulatory collaboration and information-sharing mechanisms. By harmonizing governance and disclosure standards and drawing on best practices from developed markets, authorities can reduce regulatory arbitrage, enhance overall market efficiency, and foster a healthier ecosystem that benefits shareholders, firms, and society alike.

7. Conclusion

Using panel data on representative shareholder-activism events in A-share and H-share firms from 2015 to 2022, this study finds that activism significantly enhances short-term financial performance (ROE, ROA, EPS). These results remain robust when replacing the dependent variable with Tobin's Q and across separate A-share and H-share subsamples. Mediation analysis shows that improved board independence and disclosure transparency are key channels, contributing roughly 18.7 percent and 22.4 percent of the total effect, respectively. Additionally, the activism effect is slightly stronger in the A-share market, reflecting the moderating role of institutional context.This study's reliance on annual panel data limits its ability to capture high-frequency, short-term dynamics of activism, and it does not differentiate in depth between "engagement" and "aggressive" activism strategies. Future research could employ quarterly or daily data, incorporate text analysis to quantify the intensity of media and public pressure, and examine how different types of activists (e.g., institutional investors versus activist funds) vary in their emphasis on ESG versus financial returns, thereby deepening our understanding of activism's mechanisms.

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