

Discussion:
“Shareholder Activism in Europe”

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So Why Me?

- I don't undertake event studies, but ...
- I understand free-rider problems and the agency aspects of corporate governance
- I have studied the role and impact of proxy-voting advisors
- SEC experience included the voting and lending processes

The “Free-rider” Problem

- Governance important—agency conflicts considerable
- Under-incentives of shareholders to invest in governance—Hermes U.K. Focus Fund overweighs underperforming stocks
- The “paradox of voting” in democracies
- Traditional handling of governance issues by asset managers
- Requiring the disclosure of mutual fund votes

Activist Investors

- One solution to the “free-rider” problem—activism important
- Toehold positions facilitate activism
- Direct purchases of votes precluded in U.S.—costs of acquiring votes
- If activist investors “solve” governance, then there are “unintended consequences” of tighter rules on these activists

Contributions: 'Roadmap' to European activism

- Incredible data (many countries!) allows direct focus on what activists do and return consequences of activism (rather than reliance upon 13d filings on positions)
- Illustrates power of a clinical study and potential ability to generalize beyond—methodological insight
- Activism adds considerable value
- Study is European centric--Indirectly highlights the potential importance of U.S. governance rules

Barriers to Competitiveness and U.S. Activism

- U.S. firms can adopt poison puts without shareholder approval to block takeover (Financial Economists Roundtable)—arguably due to managerial entrenchment
- Shareholder can't initiate changes contract with management and proxy process obscure—this helps entrench managers
- U.S. should take governance more seriously in context of competitiveness (Paulsen—Hubbard Report)

Private vs. Public Activism

- What are the reasons that U.S. investors take a more public approach in their activism? It would be interesting to study private efforts in the U.S.
- Does Regulation FD constrain the ability of some activists to successfully privately engage with a company? If so, is that a barrier to achieving governance improvements?

Selection and Interpretations

- Emphasize the possibility and consequences of activism being unsuccessful—key to evaluating an activism program
- Smallest returns from collaborative (rather than mixed or collaborative) approaches— is this the consequence of the approach or selection?

A 'Natural Experiment' (??) and the Activism Approach

- Would the Hermes (or other) trustees agree to do a “natural experiment” in which they randomize approach given the target satisfying a criterion? Then one could separate “selection” from the impact of activist actions (including specific tactics)