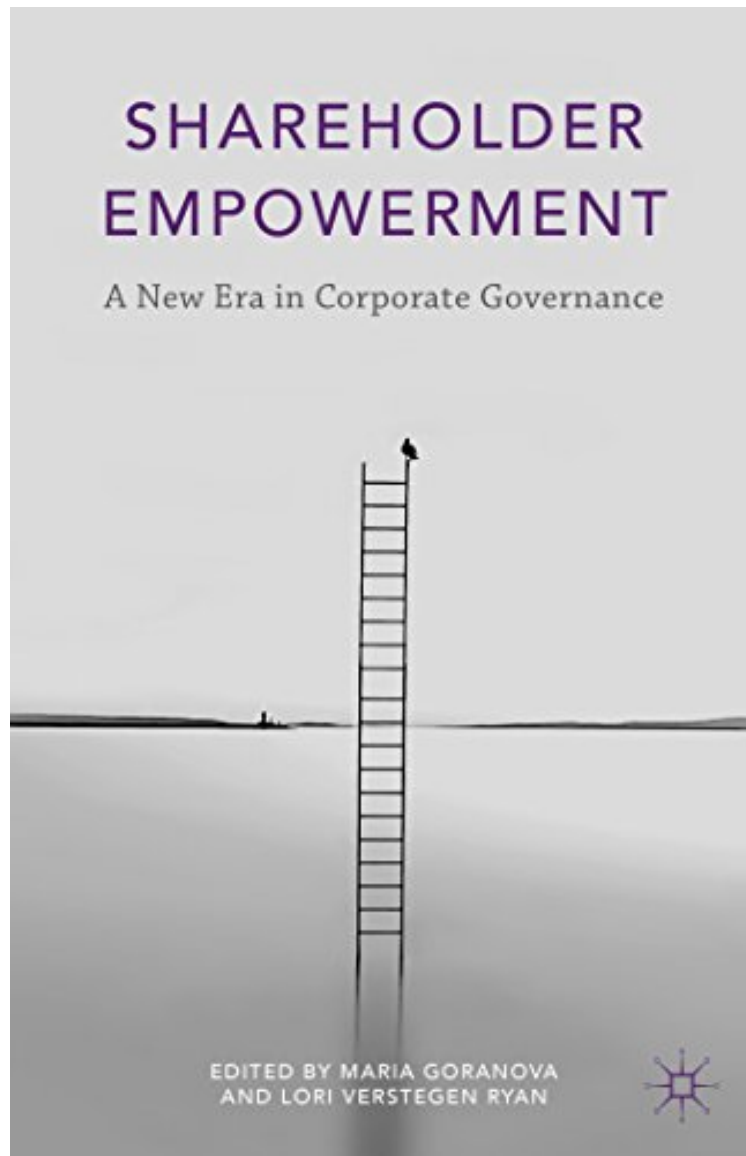


Shareholder Empowerment: A New Era in Corporate Governance

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From Palgrave Macmillan : Shareholder Empowerment: A New Era in Corporate Governance before purchasing it in order to gauge whether or not it would be worth my time, and all praised Shareholder Empowerment: A New Era in Corporate Governance:

1 of 1 people found the following review helpful. Best Book on Corporate Governance in Quite Some Time - A real page turner for an academic reader By CorpGovNet This is the best book on corporate governance I have read in quite some time. No, it does not have all the answers but it does ask many of the right questions. For an academic reader, I found it a surprising page-turner. Maria Goranova and Lori Versteegen Ryan, the editors, set up the central problem in

the introduction. There is growing public outrage over the pay gap of CEOs and average employees. Corporations are no longer reliable providers of job security, healthcare and retirement benefits. Power has been shifting from corporate officers and directors to shareholders. Finance and legal scholars, "who equate the well-being of corporations with the well-being of investors," have dominated the corporate governance debate. Perhaps the management academy can shed some insight into these issues. The editors go on to discuss executive pay, the attempts and failure to link it to long-term performance. Boards of directors have become increasingly "independent," declassified and encouraged to monitor at the expense of their strategic advisory role and long-term commitment. Investors have consolidated their holdings, moving most to a few huge vehicles. The top 10 hold about a third of all institutional investments. Are they free-riding on the monitoring work of others or diligently engaged through quiet diplomacy? It is hard to tell, since "most observers are never aware of that engagement." Shareholders are not homogenous but are driven by conflicting interests and time horizons. As hedge funds target more profitable and financially healthy firms, the "market for corporate control" has shifted to the market for corporate influence. My aside: Maybe the low-hanging fruit is gone? The editors conclude, "governance mechanisms have rendered corporate executives more accountable to shareholders, but that these benefits may have come at a cost." As I write this review essay, the Financial Times reports, activist funds lost 9% last year, after fees, and returned only 2.8% a year over the past three years, while the broader stock market returned an annualized 10.8%. Investors pulled \$1B, or 1%, out of activist funds in the fourth quarter of 2015. This year's first-quarter figure could be even worse. (Activist hedge funds found wanting in essential tasks, March 29, 2016) Perhaps we need far more dissection of the types of shareholders, even within categories such as hedge funds. Large indexed funds compete mostly on low cost, so active monitoring has largely fallen to hedge funds. More analysis and discussion of their varieties and of how they influence the voting of the large indexed funds that actually cast the deciding votes would certainly be helpful. Which hedge funds have the most influence, using what types of arguments? Yes, hedge funds have made a lot of money breaking up and restructuring companies or taking them private and then heading back to the market. However, I have to believe some hedge funds, like Relational Investors whose David Batchelder penned the book's "Forward," are also making a serious contribution to long-term strategy where incumbent boards have stumbled. I would like to see more analysis of those cases by the management academy. Katarina Sikavica and Amy J. Hillman follow with a chapter that provides insight through a psychological typology: stock renters, share owners, stock investors and patron owners. Stock renters, as the name implies, are essentially short-term bettors with little psychological investment in the company. They free-ride on the efforts of others and exit when they perceive trouble ahead. Stock investors generally have larger holdings. With more at stake, they also have more ability to influence and longer time horizons. "Stock investors will prefer private negotiations with management over more public tactics because publicly signaling their concerns may result in further share price decreases." Share owners have a sense of psychological ownership with low levels of investment. They use public activism even if it hurts their financial interests, having a long-term outlook. Identification as an owner and association with the company are central, while managers may be seen as the "problem." Patron owners have both high psychological and financial ownership. They may set "ideals" for the company that fit their own self-identification but don't reflect the desires of other shareholders. Patron owners tend to work collaboratively with management through private negotiations, using shareholder proposal or public media only if management is unresponsive. I found the discussion interesting and provocative. It is easy to see how psychological factors and self-identification can enter into decisions by individuals. Think of the excitement generated around the next Apple or Tesla product and the likelihood that investors in those companies are also often consumers of company products. Also of interest is recognition that "self-concepts" may also play a role with institutional investors, since they are "not reified" organizations that act independent of human judgment, but rather represent the actions of individual fund managers, many of whom may develop psychological ownership toward some of the companies they invest in. Of course, the weakness of the chapter is the openly disclosed in the following line: "We leave empirical validation of this assumption to future study." While it is fun to theorize about possible ideal types, I am reminded of the old adage. There are two types of people in the world; one type thinks there are two types of people, the other doesn't. Economics has gotten us into serious trouble by building statistical models that assume people behave rationally. Thankfully, many are beginning to recognize the benefit to tying theory to observed behavioral patterns; thus, the rise of behavioral economics. It will be interesting to see if any empirical researchers build off the typology offered up by Sikavica and Hillman. Is it actually helpful in explaining or predicting behavior or in negotiating change? What proportion of the investing population falls into each category? Does the self-concept of the human administering BlackRock's mega-shares act from a different frame of reference than someone administering a similar but much smaller fund? Endless questions could be examined. I look forward to more. In the chapter by Kevin Morrell and Loizos Heraclous it is back to fundamental questions in political economy. Should the economy be structured around laissez-faire markets, comparative utility, through deontological ethics, which emphasize process and motives more than outcomes or should virtue; the development of character, take center stage? The authors come down on fostering a "process of authentic dialogue among stakeholders (shareholders,

the board, managers, employees, suppliers, the community, and the wider public) on issues of substance, and by the continuous reflexivity among respective parties in terms of their positions and aims. The State would ask whether they create the infrastructure conducive to symmetrical exchange; or do our representatives succumb to the influence of powerful lobbyists. Has the State already created that infrastructure by way of the Internet? Unfortunately, we have chosen to use it primarily to push and pull information, much more than community building through reflexive dialogue. I have to take issue with "Shareholder Democracy as a Misbegotten Metaphor" by Buchholtz and Brown but it is more with the title than the substance of the chapter. They argue corporate governance is a plutocracy, rather than democracy and that unlike citizens, shareholders are rationally apathetic because they don't know enough about the issues to make informed choices. Shareholders should therefore refrain from submitting proposals on the operations or the nuisances of corporations and should let boards represent them. According to the authors, although activism has focused on a myriad of issues, shareholder democracy has centered around instituting majority vote requirements to elect directors, eliminating multi-year terms and gaining access to the proxy ballot for board member candidate nominations. All three have now largely been accomplished. Only those locked away in an ivory tower could think so. While almost 90% of SP 500 companies have majority vote requirements, only 27% of Russell 2000 companies do. Again, 90% of SP 500 companies have declassified their boards but 53% of the Russell 2000 have not. The claim that proxy access has been accomplished is most absurd. Although the number is growing monthly, in January of 2016 only 135 companies out of more than four thousand public corporations in the United States had any form of proxy access. Most of those have a form that is proxy access in name only because they limit the number that can form a nominating group to 20 members. The Council of Institutional Investors, whose members have over \$3 trillion in assets notes their members would, in most cases, never be able to reach the required threshold of 3% of common stock held for 3 years with the 20 member limitation. Proxy access depends on the participation of large mainstream funds like Vanguard, Fidelity and BlackRock. However, since these funds have never even filed a proxy proposal, they are highly unlikely to ever invoke proxy access. Most are essentially index funds, competing with each other on being low cost aggregators. A proxy access campaign would take substantially more money and effort than filing a shareholder proposal. Such activities would undermine their competitive advantage because their non-participating competitors would benefit similarly from any gains but would suffer no expense. Very few companies have the type of workable proxy access envisioned by the SEC's vacated Rule 14a-11. That said, I agree with the authors' main argument that shareholders should focus on getting the right directors, rather than trying to govern through proxy proposals. But shareholders are very similar to citizens. As citizens, we elect politicians to represent us and aren't involved in the day-to-day decisions of government. Referendum and petitions are available but their use should be infrequent if our representatives are doing their jobs. Unfortunately, in corporate governance we still have very little choice or influence with regard to who will represent our interests on corporate boards. We haven't gained access to the proxy ballot for board member candidate nominations. Therefore, I expect reliance on a plethora of proxy proposals to continue, since that is usually the only cost-effective mechanism available. In their chapter on "Agents without Principals" Revisited, Jones and Keevil review agency theory and point out substantial and critical differences between shareholder-manager contracts in the metaphorical sense and the process of creating executive compensation contracts as actual binding documents. Their critique hits on many issues and then goes on to note, "until quite recently, they [shareholders] had no way of protecting their interests in the establishment of the actual employment contracts that guide managerial behavior and regard the agent-managers who run their corporations." Because of recent regulatory changes, primarily allowing shareholders to seek proxy access, shareholder nominated directors (SNDs) could actually bring agency theory to life. Managers won't be able to almost automatically get their way. "Shareholder may, for various reasons, decide not to pursue board representation, but such decisions will be voluntary." "If shareholders themselves (rather than independent representatives of shareholders) win board seats, the interests of shareholders will be represented directly on the board rather than indirectly." Management privilege should fade. Again, I have the same criticism for Jones and Keevil as for Buchholtz and Brown. Shareholders don't have the right to proxy access, so inaction is not voluntary. Even if shareholders eventually obtain proxy access at specific companies, it will only be for a small portion of the board — typically about 20%. The authors do, however, make a number of interesting propositions regarding the probable impact of SNDs. For example, "the incidence of golden parachutes will be negatively related to the proportion of SNDs (a) on the board and (b) on the compensation committee." I hope so. Because most proxy access provisions adopted to date are more corporate governance washing (analogous to green washing) than real, it may be many years until any of the 14 propositions hypothesized by Jones and Keevil can be tested. Several of the other chapters in the book contain equally thought-provoking observations and speculations. Gerald Davis argues, convincingly, we may be reaching "The Twilight of the Berle and Means Corporation" as the dominant business form in the United States. Other chapters ask if "shareholderism" disregards other corporate roles in society and discuss topics ranging from the role of religious organizations as shareholders, angel investors, privatization, ownership patterns in Italy and global non-

convergence regarding corporate governance standards. Rare in a compilation of thirteen chapters by different authors, *Shareholder Empowerment* reads well and mostly hangs together. Whatever their perspective, readers will grapple with important questions and come away with new critical insights.

In this volume, leading management experts offer critical insights into the promises and illusions of shareholder empowerment, the discrepancies between theory and practice, and the challenges posed by variations in global corporate governance regimes.

About the Author Maria Goranova is Associate Professor of Organizations and Strategic Management at the University of Wisconsin-Milwaukee, USA. She researches corporate governance and corporate strategy, with a focus on how ownership interests, shareholder activism and executive compensation affect corporate diversification and mergers and acquisitions. She serves on the editorial board of *Journal of Management* and her research has been published in such journals as *Strategic Management Journal*, *Organization Science*, and *Journal of Management*.
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