

# DISCUSSION OF: Travelling Governance Effect of Shareholder Activism: Evidence from Clawback Provision Adoption

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ABFER, 2018



# My Goal Today

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Step back and take a look at the big picture.

My comments based on the intersection of:

- (1) the paper,
- (2) my experience, and
- (3) something you the audience can appreciate.

I will provide detailed comments for the authors separately.

Managers optimize subject to constraints.

To arrive at the “optimum,” what process do managers follow?

Do they consider the objectives of shareholders and other stakeholders?

Do they receive information from sources external to the firm?

In this context, the authors have an interesting question:

- Do very large shareholders who have some history of activism affect management’s decisions?

# Remaining Agenda

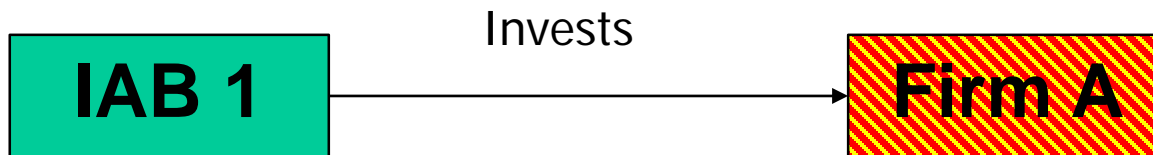
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My quick take on:

1. Idea
2. Housekeeping on the sample
3. Main results
4. Comment #1: Which IABs?
5. Comment #2: Governance
6. Comment #3: Un-adopt clawbacks
7. Big-picture on investor activism

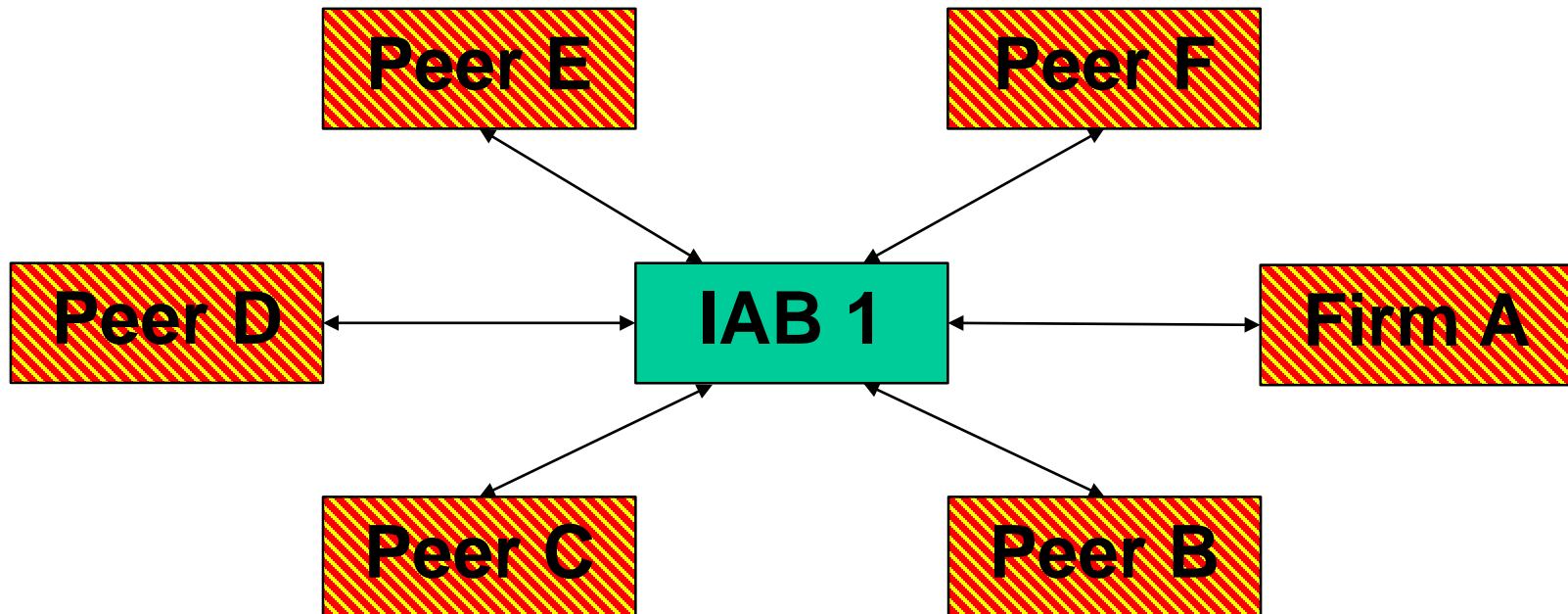
# 1. Idea

- IAB 1 (Institutional activist [13D] block holder [5%]) invests in Firm A



# 1. Idea

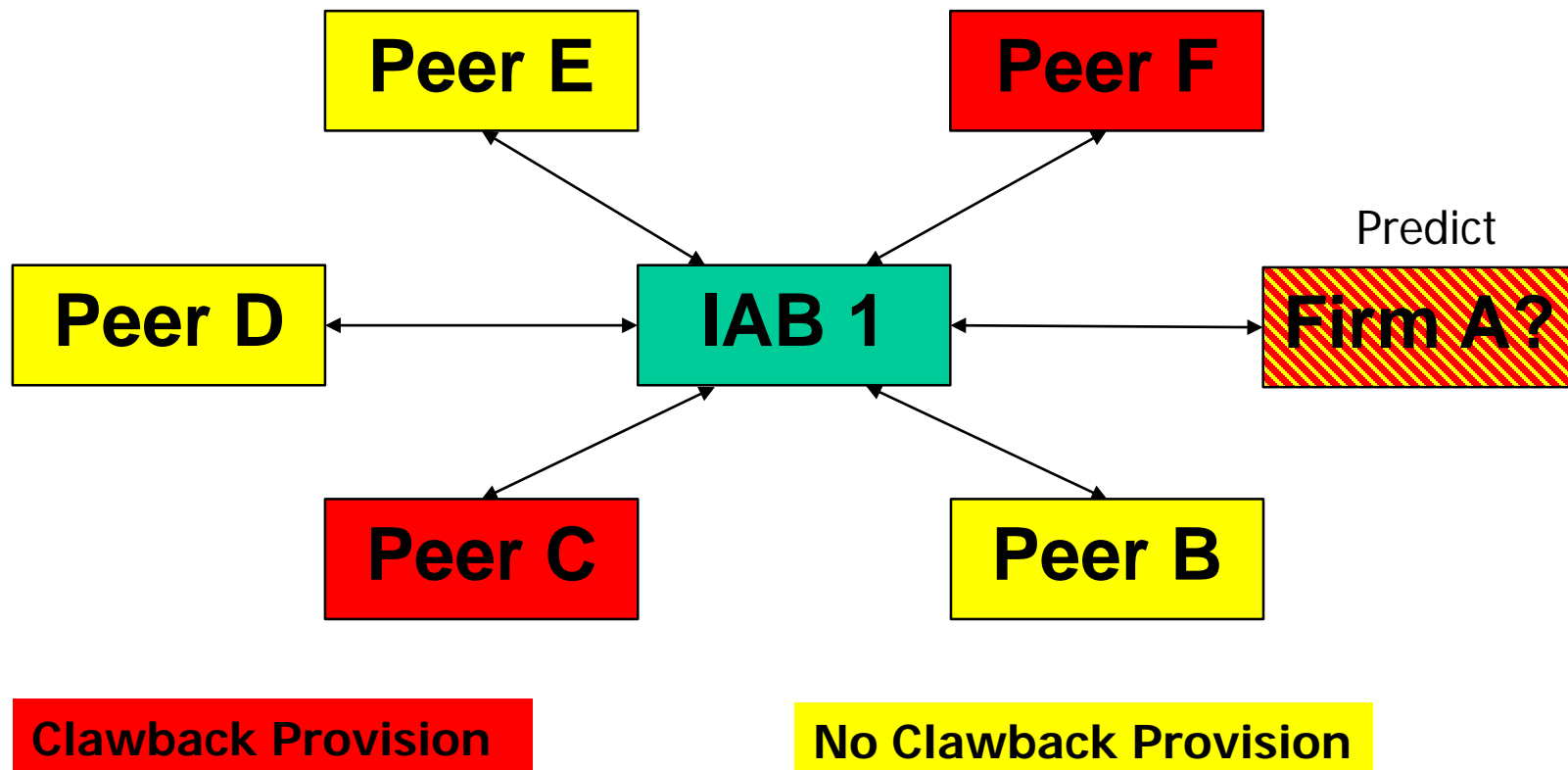
- Some of the IABs also hold 5% of another company



- In the picture above, IAB 1 holds 5% of six companies.

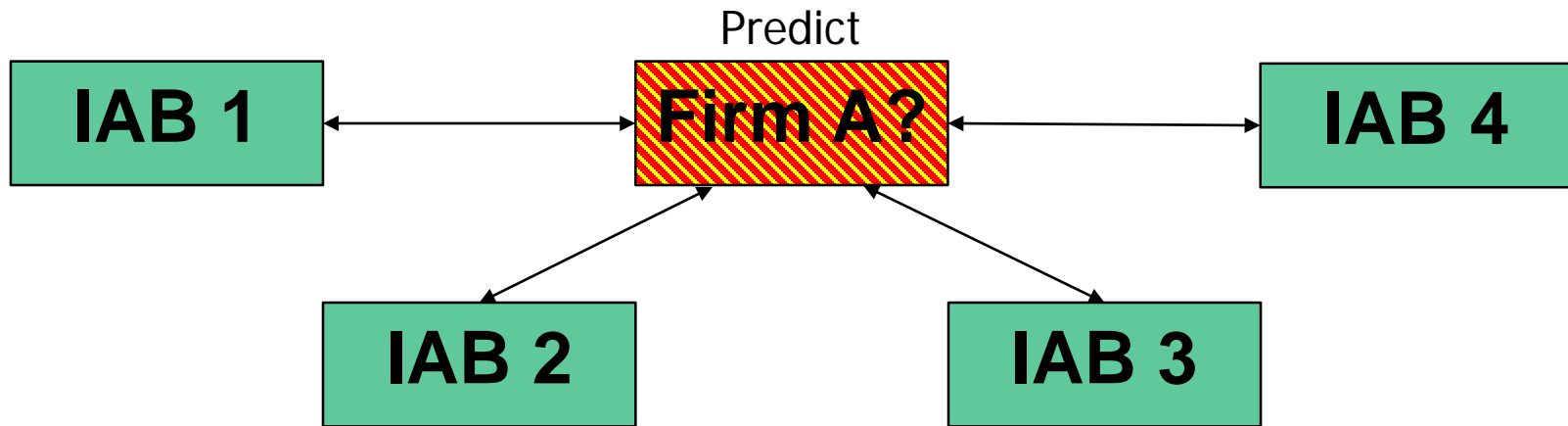
# 1. Idea

Research Question: Do the clawback provisions of IAB Peers lead to Firm A having clawback provisions?



# 1. Idea

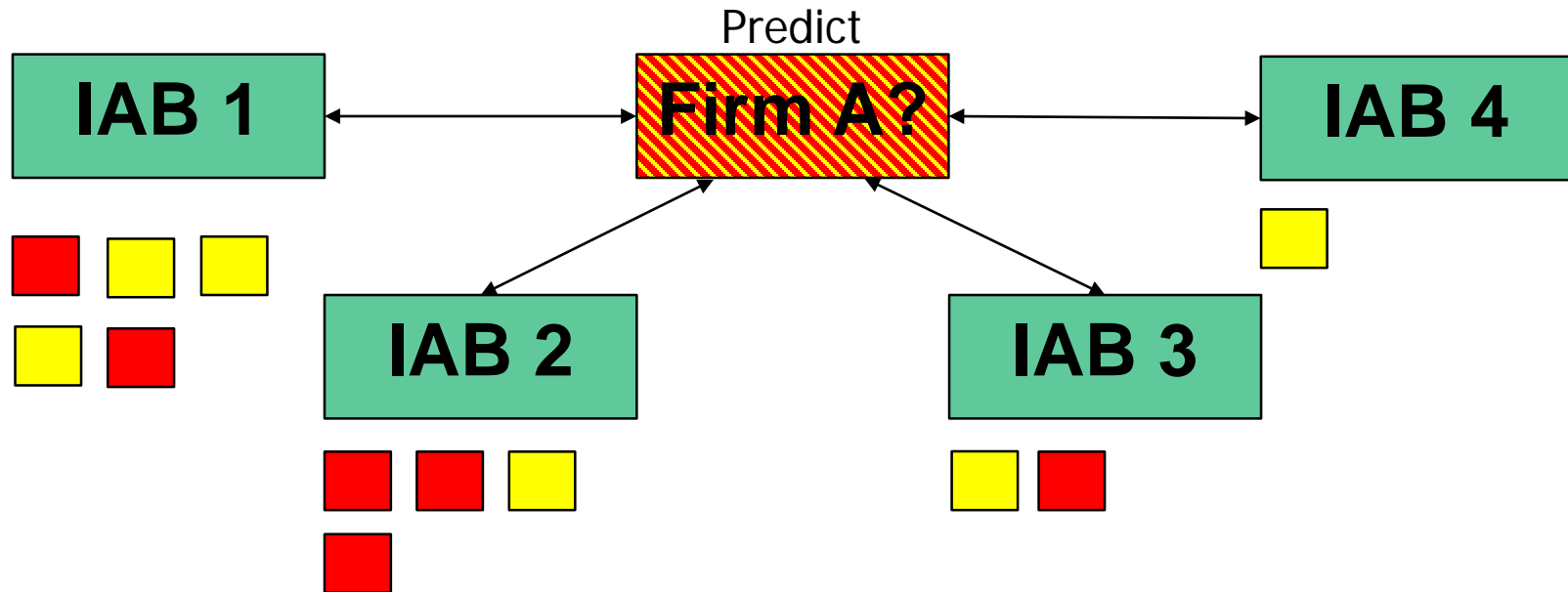
It's a bit more complicated because Firm A can have more than one IAB





# 1. Idea

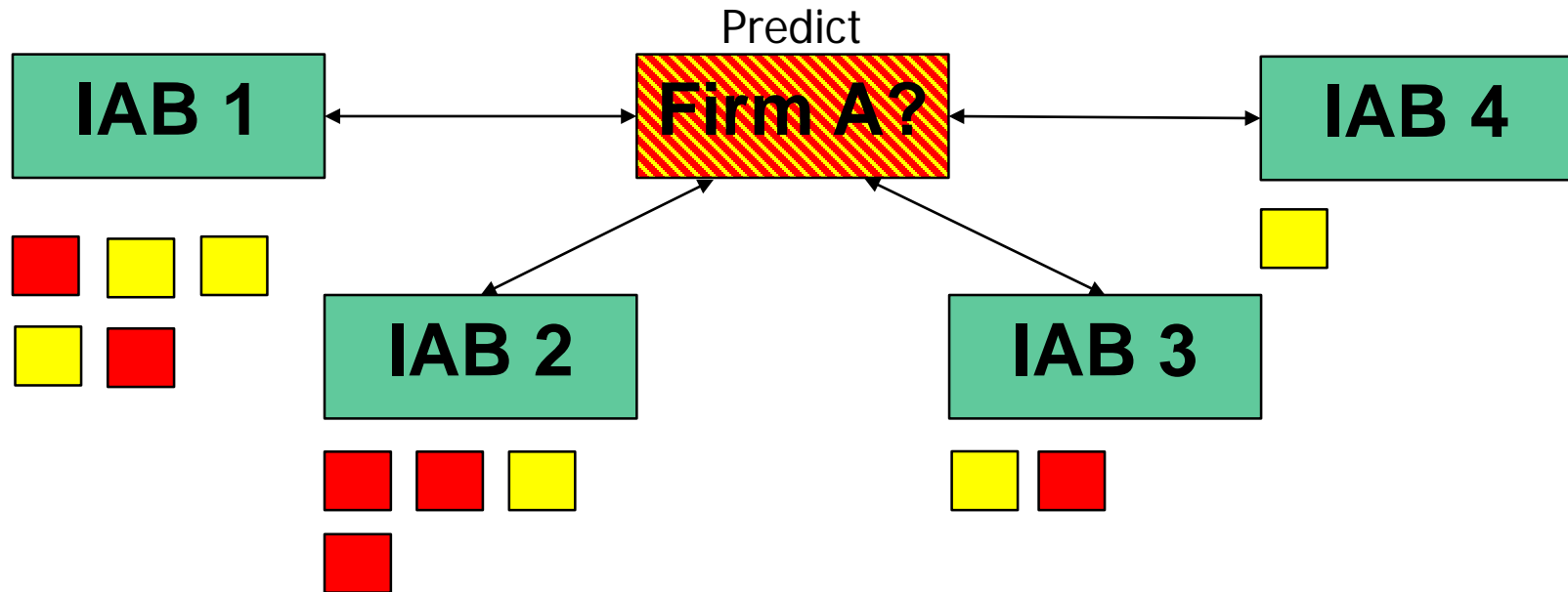
And each IAB must own a block of another peer



In this example, Firm A has:

- Six IAB peers with clawback provisions
- Six IAB peers with no clawback provisions

## 2. Housekeeping on the sample



- How do the firms in the sample compare with the population of firms?
- How do the IABs in the sample compare with other institutional investors or block holders?

### 3. Main results

Firms are more likely to *have* clawback provisions if their IAB peers *have* clawback provisions.

- Reasonable result (levels)
- Is there a critical threshold of IAB peers?

Firms are more likely to *have* clawback provisions if their IAB peers *change* clawback provisions.

- Even better result (changes in independent variables)
- Is the change in peers' clawback provisions due to the new IABs (with IAB clawback peers) or to the existing IABs (where its peers adopt clawbacks)?

## 4. Comment #1: Which IABs?

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Wouldn't some IABs be more excited about clawback provisions than other IABs?

- It can't just be the peers regardless of the IAB (as currently modelled).
- Anyway to predict which IABs are more excited?

## 5. Comment #2: Governance

Are the authors studying travelling “governance”?

- More ambitious than simply studying clawback provisions

If so, more work is required:

- Which governance mechanisms will IAB propagate? Why these and not others? In particular, why clawbacks?
- Why do the authors only test for CEO Contract and Board Independence?
- What about governance factors associated with clawback provisions already documented in the literature? Clawbacks more likely when:
  - Less management entrenchment (Addy et al. '14)
  - Less board co-option (Huang et al. '15)
  - Other governance factors (Babenko et al. '15)

## 6. Comment #3: Un-adopt clawbacks

Do firms “un-adopt” clawback provisions? (i.e., drop clawbacks)

- If yes, how about some descriptive statistics on this?
- If no, should we be using a survival model where everyone eventually dies (i.e., firms eventually adopt)?
  - Wouldn't the survival model be better for causation – modelling when a firm adopts (as opposed to does the firm have) a clawback provision?

## 7. Big-picture on investor activism

If I am an activist shareholder and I want better governance, what is my strategy?

- How do clawbacks potentially substitute for or complement my other activist actions? (And what exactly are these other activities?)
- What about non-activist investors or blockholders who want better governance from the firms they own? What is their strategy?
- This question seems to broad for more tests, but maybe some carefully worded discussion could be included at the end of the paper.

# Final Thoughts

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Authors in a great position:

- Interesting research question
- Interesting findings
- Aware of, and test for, alternative explanations, such as:
  - IABs may buy firms who have adopted clawback provisions
  - Information flows through interlocked board
- Lots of opportunities to improve the paper



**Thank you!**