**University of Colorado-Boulder**

Leeds School of Business

FNCE 4826 Sanjai Bhagat

**Seminar in Corporate Governance** Office: KOBL S431

Spring 2016

KOBL S125

M 3:30 pm - 6:15 pm

*sanjai.bhagat@colorado.edu*

Office Hours: TH 1 pm – 3pm

I. **Course Objective**

Corporate governance consists of the set of corporate policies that ensures outside investors a fair return on their investment. The objective of the course is to provide the student with a state-of-the-art understanding of **corporate governance** as it relates to

* Corporate control
* Corporate performance
* Board structure and effectiveness
* Executive and board compensation
* Entrepreneurship and private equity
* Corporate social responsibility

II. **Course Materials and Prerequisite**

Course materials consist of scholarly journal articles and working papers. These and lecture notes/overheads and class announcements can be accessed from my home-page:

*http://leeds-faculty.colorado.edu/bhagat*

The recommended textbook for this course is **Corporate Governance Matters** by David Larcker and Brian Tayan, FT Press, 2011.

Articles from the *Wall Street Journal* will be used to motivate some of the class discussion.

[www.wsj.com/studentoffer](http://www.wsj.com/studentoffer) www.wsj.com/quarter

  This is a Finance elective. FNCE 3010 is a prerequisite.

III. **Course Outline and Readings**

**A. Introduction**

**Corporate Governance Matters C**hapter 1. [IntroductionAgencyTheoryApplication](file:///\\busdemeter\faculty\bhagat\jensen-smith.doc)

[IntroductionCorporateGovernance](file:///\\busdemeter\faculty\bhagat\CorporateGovernanceIntroduction.ppt)

**B. Corporate Control: Mergers and Takeovers**

**Corporate Governance Matters C**hapter 11.

Andrade, M. Mitchell, and E. Stafford. "[New Evidence and Perspectives on Mergers](file:///\\busdemeter\faculty\bhagat\NewEvidenceMergers.pdf)." *Journal of Economic Perspectives* (2001): 103-120. [NewEvidenceMergers.ppt](file:///\\busdemeter\faculty\bhagat\NewEvidenceMergers.ppt)

[target-gain-goodfile.doc](file:///\\busdemeter\faculty\bhagat\target-gain-goodfile.doc)

S. B. Moeller, F. P. Schlingemann, R. M. Stulz, “[Firm Size and the Gains From Acquisitions](file:///\\busdemeter\faculty\bhagat\AcquisitionGains-FirmSize.pdf)*,” Journal of Financial Economics* 73, 2004, 201-228.

J. Harford, M. Humphery-Jenner, R. Powell. “[The sources of value destruction in acquisitions by entrenched managers](file:///X:\bhagat\ValueDestructioninAcquisitions.pdf),” *Journal of Financial Economics*, Volume 106, November 2012, Pages 247–26.

S. Bhagat, M. Dong, D. Hirshleifer and R. Noah, "[Do Tender Offers Create Value?](file:///\\busdemeter\faculty\bhagat\Bhagat-JFE-April-05.pdf)" *Journal of Financial Economics*, 2005, V76 N1, 3-60. [b-hirshleifer.ppt](file:///\\busdemeter\faculty\bhagat\Bhagat-Hirshleifer.ppt)

U. Malmendier and G. Tate, “[Who Makes Acquisitions? CEO Overconfidence and the Market’s Reaction,](file:///\\busdemeter\faculty\bhagat\CEO-Overconfidence-Acquisitions.pdf)” *Journal of Financial Economics* 89, 20-43, 2008. [CEO-Overconfidence.ppt](CEO-Overconfidence-Turnover.ppt)

M. Zhao and K. Lehn, “[CEO Turnover After Acquisitions: Do Bad Bidders Get Fired?](file:///\\busdemeter\faculty\bhagat\CEO-Turnover-Bad-Bidders.pdf)” 2006, *Journal of Finance* 61, 1759-1812.

# **Spinoffs and Corporate Refocusing**

P. G. Berger and E. Ofek, “[Causes and Effects of Corporate Refocusing Programs](file:///\\busdemeter\faculty\bhagat\CorporateRefocusingCausesEffects.pdf),” *Review of Financial Studies* 12, 1999, 311-346. [Spinoffs.ppt](http://leeds-faculty.colorado.edu/bhagat/Spin-offs.ppt)

S. Krishnaswami and V. Subramaniam, “[Information asymmetry, Valuation, and the Corporate Spin-off Decision](file:///\\busdemeter\faculty\bhagat\InfoAsymmetrySpinoff.pdf),” 1999, *Journal of Financial Economics* 53, 1999, 73-112.

C. **Shareholder Voting and Activism**

J.A. Brickley, R.C. Lease and C.W. Smith, Jr., "Ownership Structure and Voting on Antitakeover Amendments," *Journal of Financial Economics* 20, 1988, 267-292. [Antitakeover.ppt](file:///\\busdemeter\Faculty\bhagat\antitakeover.pptx)

S. Bhagat and R.H. Jefferis, "[Voting Power in the Proxy Process: The Case of Antitakeover Charter Amendments](file:///\\busdemeter\faculty\bhagat\VotingPowerProxyProcess.pdf)," *Journal of Financial Economics* 30, 1991, 193-226.

L. Bebchuk, A. Brav and W. Jiang, [“The Long-Term Effects of Hedge Fund Activism](http://leeds-faculty.colorado.edu/bhagat/long-term-hedge-fund-activism.pdf),” Harvard University working paper, 2013.

A. Brav, W. Jiang, F. Partnoy, and R. Thomas, “[Hedge Fund Activism](file:///C:\Users\bhagat\Desktop\class\HedgeFundActivismREview.pdf), Corporate Governance, and Firm Performance,” 2010, Duke University working paper.

Paul Gompers\*, Steven N. Kaplan and Vladimir Mukharlyamov, “[What Do Private Equity Firms Do](file:///C:\Users\bhagat\Desktop\class\what-do-pvt-equity-firms-do-AFA2015-1475.pdf)?” 2014, Harvard University working paper.

Steven Davis, et al, “[Private Equity, Jobs, and Productivity](file:///C:\Users\bhagat\Desktop\class\PrivateEquityJObsProductivity.pdf),” 2014, University of Chicago working paper.

**Corporate Governance Matters C**hapter 12.

D. **Corporate Board Structure**

**Corporate Governance Matters C**hapters 3, 4, and 5.

Gompers, P. A., J. L. Ishii, and A. Metrick, 2003, Corporate governance and equity prices, *Quarterly Journal of Economics* 118(1), 107-155.

S. Bhagat and B. Bolton, “Corporate Governance and Firm Performance,” *Journal of Corporate Finance 14*, 257-273, 2008. [Corporate Governance – Performance.ppt](http://leeds-faculty.colorado.edu/bhagat/CorpGovFirmPerformance.ppt)

S. Bhagat and B. Bolton "[Director Ownership, Governance and Performance](file:///C:\Users\bhagat\Desktop\class\BhagatBolton-JFQA-2013.pdf)," *Journal of Financial & Quantitative Analysis*, 2013, [Sox-GovernancePerformance](http://leeds-faculty.colorado.edu/bhagat/SOX-GovernancePerformance.ppt).

S. Bhagat , B. Bolton, and R. Romano, “[The Promise and Pitfalls of Corporate Governance Indices](file:///C:\Users\bhagat\Desktop\class\CorpGovIndices.pdf),” *Columbia Law Review*, v108 n8, pp 1803-1882, 2008

# **E. Management and Board Compensation**

**Corporate Governance Matters C**hapter 8.

S. Bhagat and B. Bolton, “[Bank Executive Compensation And Capital Requirements Reform](Bhagat-Bolton-JCF-2014.pdf)” *Journal of Corporate Finance*, 2014. [IBCompensation](http://leeds-faculty.colorado.edu/bhagat/BankCompensationCapitalReform-IMF.pptx)

S. Bhagat , B. Bolton, and R. Romano, “[Getting Incentives Right: Is Deferred Bank Executive Compensation Sufficient?](file:///C:\Users\bhagat\Desktop\class\BBR-YJR-2014.pdf)” *Yale Journal on Regulation***,** 2014.

S. Bhagat, “Bank Capital and Executive Compensation Reform: Preventing the Next Financial Crisis” 2016. [<Bank-Capital-Compensation-Reform-032816.pdf>]

F. **Corporate Social Responsibility**

Kitzmueller, Markus and Jay Shimshack. "[Economic Perspectives On Corporate Social Responsibility](file:///C:\Users\bhagat\Desktop\class\NewPerspectives-CSR.pdf)," *Journal of Economic Literature*, 2012, v 50(1), 51-84.

Simons, Robert, “[The Business of Business Schools: Restoring a Focus on Competing to Win](file:///C:\Users\bhagat\Desktop\class\Buiness-of-Business-Schools.pdf),” Harvard Business School, Capitalism and Society: Vol. 8: Iss. 1 , Article 2., 2013.

Guenther, David et al, “[Do Socially Responsible Firms Pay More Taxes?](Guenther-2016.pdf)” *Accounting Review*, 2016.

IV. **Course Policies**

Course Schedule

January 11 Introduction

January 18 Martin Luther King, Jr. Holiday

January 25 Corporate Control

February 1 Corporate Control **Proposal due**

February 8 Corporate Control

February 15 Shareholder Voting and Activism

February 22 Corporate Board Structure

February 29 Corporate Board Structure

March 7 Management and Board Compensation **Paper first-half due**

March 14 **Midterm Exam**

March 21 Spring Break

March 28 Management and Board Compensation

April 4 Governance and Venture Financing

April 11 Corporate Social Responsibility **Paper due**

April 18 Student Presentations

April 25 Student Presentations

May 4 **Final Exam 7:30 pm**

Grading

The grade breakdown is as follows:

Item Weight

A. Class participation and attendance 10%

B. Term Paper (proposal, due: February 1) 5%

C. Term Paper (first-half, due: March 7) 15%

D. Term Paper (due: April 11) 15%

E. Term Paper (presentation) 15%

F. Midterm Exam (March 14) 20%

G. Final Exam (May 4) 20%

A. Class participation is critical to the success of this course. Student questions and comments are expected and welcome. *Attendance will be taken at random (unannounced).* Students are requested to place their name-cards in front of their desk at all times during class.

The class will be conducted in a professional manner: Students and the instructor are expected to be prepared for each class, and behave professionally in the class.

B. Proposals for the term paper are due on February 1, 2016,before the start of class. The proposal should answer the following two questions:

* What will the paper be about?
* Why is this topic interesting and important?

You should also include a list of at least four academic papers or book chapters that you intend to read as background for your paper. The proposal should be no more than a page.

C, D, E. The term paper *draft* is due on March 7, 2016, before the start of class**.** The term paper draft should be at least ten pages long double-spaced pages (twelve-point font, one-inch margin all-around), and include the following:

* What is the paper about?
* Why is this interesting and important to study/read?
* A critical survey of the literature.
* Outline of the original analysis that would be of interest to somebody in the real world: Chairman of Board, CEO, CFO, policy makers and their staffs, compensation consultants, investment bankers, or private equity investors.
* References that includes at least four academic papers or book chapters.

The term paper is due on April 11, 2016**.**

Student presentations are scheduled for April 18 and 25, 2016. The paper can be on any topic that will be covered in the course. **The paper should include a critical survey of the literature and some original analysis that would be of interest to somebody in the real world: Chairman of Board, CEO, CFO, policy makers and their staffs, compensation consultants, investment bankers, or private equity investors.** The paper (including exhibits) should be between 20 and 25, double-spaced pages (twelve-point font, one-inch margin all-around).

On your paper please note the following:

*On my honor, as a University of Colorado at Boulder student, I have neither given nor received unauthorized assistance on this paper*.

A Note on Academic Honesty & Plagiarism: The development of the Internet has provided students with historically unparalleled opportunities for conducting research swiftly and comprehensively. The availability of these materials does not, however, release the student from appropriately citing sources where appropriate; or applying standard rules associated with avoiding plagiarism. Please see *http://www.colorado.edu/academics/honorcode*

Grade distribution:

[http://leeds.colorado.edu/asset/undergraduate/gradingpolicy.pdf](https://exchangeweb.colorado.edu/OWA/redir.aspx?C=9d901e40540d4a9c9b1ffb0ce30f5648&URL=http%3a%2f%2fleeds.colorado.edu%2fasset%2fundergraduate%2fgradingpolicy.pdf)

Also, please review

*http://www.colorado.edu/policies/fac\_relig.html,*

[*http://www.colorado.edu/policies/classbehavior.html*](http://www.colorado.edu/policies/classbehavior.html)*,*

*http://www.Colorado.EDU/disabilityservices,*

*and* [*http://www.colorado.edu/policies/discrimination.html*](http://www.colorado.edu/policies/discrimination.html)*.*



GuidancetoFacultyRegardingGradeDistributions

In May 2011, the faculty of the Leeds School voted to establish the “grading guidelines” shared below.

With this vote, the faculty returns to its preͲ2009 approach of grading guidelines.

These guidelines embody the faculty’s consensus about competition and fairness within, and across, classroom experiences at Leeds. In its discussions and preparations, the faculty relied heavily on norms and customs at topͲtier business schools throughout the U.S.

The following matrix provides guidance on grade distributions either at the course level or aggregated

across multiple, simultaneous sections.

|  |  |  |
| --- | --- | --- |
| CourseLevel | MaximumAverageCourseGrade | RecommendedDistribution |
| 1000 and 2000 | 2.8 | Not more than 15% AͲ or above  Not more than 65% BͲ or above  At least 35% C+ or below |
| 3000 | 3.0 | Not more than 25% AͲ or above  Not more than 75% BͲ or above  At least 25% C+ or below |
| 4000 | 3.2 | Not more than 35% AͲ or above  Not more than 85% BͲ or above  At least 15% C+ or below |

**Guidelines for the Term Paper**

Suggested order for the sections:

### Cover Page

Paper Title, Student Names, Course, Date

### Executive Summary

No more than one page. *The most important part of your paper!*  Briefly explain what the paper is about, why this is an interesting and important topic, and your main findings/conclusions. Consider an entrepreneur, investment banker, investor, or venture capitalist as your primary reader of this page.

Introduction

What is the paper about?

**Motivation**: Why is this interesting and important to study/read?

Overview of the paper.

(Main Body)

Please consider using sub-sections to better organize your paper, and improve its readability.

Please check the transition between paragraphs.

(Footnotes on same page.)

Summary and Conclusions

Exhibits (Tables, Graphs, etc.)

Captions and legends in the exhibits should make them self-explanatory. Cite data sources.

References

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**Check for grammar and spelling.**

All arguments/assertions should be supported using:

logical constructs, and/or

theoretical considerations (cite references), and/or

previous empirical evidence (cite references).

*Paper should be revised by you at least four times over a period no less than a week.*

F. The exam will consist of essay-type questions, and will be closed-book, closed-notes, and in-class. The exam will be based on study questions that will be handed out during the semester. The exam will be graded anonymously in the sense that students will not write their names on the exam and at the time I grade the exam I will not know whose exam it is.

Readings

You are advised to read the “critical portions” of the assigned readings for a particular class before that class. The critical portions of a reading include the abstract, introduction, summary/conclusions of the paper. You might wish to read the main body of the paper after we have discussed it in class.

V. **Additional Readings (Particularly helpful if your term paper is on one of the following topics)**

**B. Corporate Control**

**Mergers and Takeovers**

1. S. Bhagat, A. Shleifer, and R.W. Vishny, "Hostile Takeovers in the 1980s: The Return to Corporate Specialization," *Brookings Papers on Economic Activity*, 1990, 1-84. [target-gain-goodfile.doc](file:///\\busdemeter\faculty\bhagat\target-gain-goodfile.doc)
2. G. Andrade, M. Mitchell, and E. Stafford. "[New Evidence and Perspectives on Mergers](file:///\\busdemeter\faculty\bhagat\NewEvidenceMergers.pdf)." *Journal of Economic Perspectives* (2001): 103-120. [NewEvidenceMergers.ppt](file:///\\busdemeter\faculty\bhagat\NewEvidenceMergers.ppt)
3. E.H. Kim and V. Singal, "[Mergers and Market Power: Evidence from the Airline Industry](file:///\\busdemeter\faculty\bhagat\MergersMarketPowerAirlineIndustry.pdf)," *American Economic Review* 83, 1993, 549-569.
4. Hosken, Daniel S. and Tenn, Steven, Horizontal Merger Analysis in Retail Markets (January 19, 2015). Available at SSRN: <http://ssrn.com/abstract=2552548> or <http://dx.doi.org/10.2139/ssrn.2552548>
5. S. Bhagat, M. Dong, D. Hirshleifer and R. Noah, "[Do Tender Offers Create Value?](file:///\\busdemeter\faculty\bhagat\Bhagat-JFE-April-05.pdf)" *Journal of Financial Economics*, 2005, V76 N1, 3-60. [b-hirshleifer.ppt](file:///\\busdemeter\faculty\bhagat\Bhagat-Hirshleifer.ppt)
6. S. B. Moeller, F. P. Schlingemann, R. M. Stulz, “[Firm Size and the Gains From Acquisitions](file:///\\busdemeter\faculty\bhagat\AcquisitionGains-FirmSize.pdf)*,” Journal of Financial Economics* 73, 2004, 201-228.
7. S.B. Moeller, F. P. Schlingemann, and R.M. Stulz, “Wealth Destruction on a Massive scale? A Study of Acquiring-Firm returns in the Recent Merger Wave, *Journal of Finance* 60, 2005, 757-782.
8. J. Harford, M. Humphery-Jenner, R. Powell. “[The sources of value destruction in acquisitions by entrenched managers](file:///X:\bhagat\ValueDestructioninAcquisitions.pdf),” *Journal of Financial Economics*, Volume 106, November 2012, Pages 247–26.
9. U. Malmendier and G. Tate, “[Who Makes Acquisitions? CEO Overconfidence and the Market’s Reaction,](file:///\\busdemeter\faculty\bhagat\CEO-Overconfidence-Acquisitions.pdf)” *Journal of Financial Economics* 89, 20-43, 2008.
10. M. Zhao and K. Lehn, “[CEO Turnover After Acquisitions: Do Bad Bidders Get Fired?](file:///\\busdemeter\faculty\bhagat\CEO-Turnover-Bad-Bidders.pdf)” 2006, *Journal of Finance* 61, 1759-1812.
11. S. Bhagat, S. Malhotra and P.C. Zhu, “[Emerging country cross-border acquisitions: Characteristics, acquirer returns and cross-sectional determinants](file:///X:\bhagat\EmergingCoubtryCrossBorderM&A.pdf),” *Emerging Markets Review*, Volume 12, September 2011, Pages 250-27.

11. I. Erel, R.C. Liao, and M.S. Weisbach, “[Determinants of Cross-Border Mergers and Acquisitions](file:///X:\bhagat\CrossBorderMergers.pdf),” *Journal of Finance* 67, 2012, pages 1045–1082.

# **Spinoffs and Corporate Refocusing**

1. B. E. Eckbo and K.S. Thorburn, [Corporate Restructuring](file:///X:\bhagat\CorporateRestructuring.pdf)*, Foundations and Trends in Finance,* 2013*.*
2. P. G. Berger and E. Ofek, “[Causes and Effects of Corporate Refocusing Programs](file:///\\busdemeter\faculty\bhagat\CorporateRefocusingCausesEffects.pdf),” *Review of Financial Studies* 12, 1999, 311-346. [Spinoffs.ppt](http://leeds-faculty.colorado.edu/bhagat/Spin-offs.ppt)
3. L Daley, V. Mehrotra, and R. Sivakumar, “[Corporate Focus and Value Creation: Evidence fron Spinoffs](file:///\\busdemeter\faculty\bhagat\CorporateFocusValueCreation.pdf),” 1997, *Journal of Financial Economics* 45, 257-281*.*
4. S. Krishnaswami and V. Subramaniam, “[Information asymmetry, Valuation, and the Corporate Spin-off Decision](file:///\\busdemeter\faculty\bhagat\InfoAsymmetrySpinoff.pdf),” 1999, *Journal of Financial Economics* 53, 1999, 73-112.
5. S. Ahn and D.J. Denis, “[Internal Capital Markets and Investment Policy: Evidence From Corporate Spinoffs](file:///\\busdemeter\faculty\bhagat\SpinoffsInternalCapMarkets.pdf),” *Journal of Financial Economics* 71, 2004, 489-516.
6. T.R. Burch and V. Nanda, “[Divisional Diversity and the Conglomerate Discount: Evidence From Spinoffs](file:///\\busdemeter\faculty\bhagat\ConglomerateDiscountSpinoffs.pdf),” *Journal of Financial Economics* 70, 2003, 69-98.
7. L. Cohen and D. Lou, “[Complicated Firms](Complicated%20Firms.pdf),” *Journal of Financial Economics* 102, 2012, 383-400.

C. **Shareholder Voting and Activism**

1. J.A. Brickley, R.C. Lease and C.W. Smith, Jr., "Ownership Structure and Voting on Antitakeover Amendments," *Journal of Financial Economics* 20, 1988, 267-292. [Antitakeover.ppt](file:///\\busdemeter\faculty\bhagat\Antitakeover.ppt)
2. S. Bhagat and R.H. Jefferis, "[Voting Power in the Proxy Process: The Case of Antitakeover Charter Amendments](file:///\\busdemeter\faculty\bhagat\VotingPowerProxyProcess.pdf)," *Journal of Financial Economics* 30, 1991, 193-226.
3. D. DelGuercio and J. Hawkins, “[The Motivation and Impact of Pension Fund Activism](file:///\\busdemeter\faculty\bhagat\PensionFundActivism.pdf),” *Journal of Financial Economics* 52, 1999, 293-340.
4. L. Bebchuk, A. Brav and W. Jiang, [“The Long-Term Effects of Hedge Fund Activism](http://leeds-faculty.colorado.edu/bhagat/long-term-hedge-fund-activism.pdf),” Harvard University working paper, 2013.
5. L.A. Bebchuk and E. Kamar, “Bundling and Entrenchment,” *Harvard Law Review*, May 2010.
6. A. Brav, W. Jiang, F. Partnoy, and R. Thomas, “[Hedge Fund Activism](file:///C:\Users\bhagat\Desktop\class\HedgeFundActivismREview.pdf)” 2010, Duke University working paper.
7. S. Bhagat and R. Romano, “[Empirical Studies of Corporate Law](file:///\\busdemeter\faculty\bhagat\EmpiricalStudiesofCorporateLaw.pdf),” in *Handbook of Law & Economics*, 2007. [CorporateLaw.ppt](file:///\\busdemeter\faculty\bhagat\CorporateLaw.ppt)

D. **Corporate Board Structure**

1. S. Bhagat and B. Black, “[The Non-Correlation Between Board Independence and Long-Term Firm Performance](file:///\\busdemeter\faculty\bhagat\bb-022300.pdf)” *Journal of Corporation Law*, 2002, Volume 27, Number 2. [b-black.ppt](http://leeds-faculty.colorado.edu/bhagat/b-black-2005.ppt)
2. S. Bhagat and R.H. Jefferis, [*The Econometrics of Corporate Governance Studies*](file:///\\busdemeter\faculty\bhagat\Bhagat-Jefferis.pdf), 2002, MIT Press.
3. S. Bhagat and B. Bolton, “[Corporate Governance and Firm Performance](http://leeds-faculty.colorado.edu/bhagat/JFQ481_Feb2013_Bhagat-Bolton.pdf),” *Journal of Corporate Finance 14*, 257-273, 2008. [Corporate Governance – Performance.ppt](http://leeds-faculty.colorado.edu/bhagat/CorpGovFirmPerformance.ppt)
4. S. Bhagat and B. Bolton "[Director Ownership, Governance and Performance](http://leeds-faculty.colorado.edu/bhagat/JFQ481_Feb2013_Bhagat-Bolton.pdf)," *Journal of Financial & Quantitative Analysis*, 2013, [Sox-GovernancePerformance](http://leeds-faculty.colorado.edu/bhagat/SOX-GovernancePerformance.ppt).
5. S. Bhagat , B. Bolton, and R. Romano, “[The Promise and Pitfalls of Corporate Governance Indices](file:///\\busdemeter\faculty\bhagat\BBR-CGindices.pdf),” *Columbia Law Review*, v108 n8, pp 1803-1882, 2008
6. S. Bhagat and H. Tookes, “Voluntary and Mandatory Skin in the Game: Understanding Outside Director's Stock Holdings,” *European Journal of Finance*, 2011.

# **E. Management and Board Compensation**

M.C. Jensen and K.J. Murphy, "[Performance Pay and Top-Management Incentives](file:///\\busdemeter\faculty\bhagat\Jensen-Murphy.pdf)," *Journal of Political Economy* 98, 1990, 225-264.

B. J. Hall and J. B. Liebman, “[Are CEOs Really Paid Like Bureaucrats?](file:///\\busdemeter\faculty\bhagat\CEOsBureaucrats.pdf)” 1998*, Quarterly Journal of Economics* 108, 653-691. [Hall-Liebman.ppt](file:///\\busdemeter\faculty\bhagat\hall-liebman.ppt)

C.S. Armstrong, D. F. Larcker, G. Ormazabal, and D. J. Taylor, “[The Relation Between Equity Incentives and Misreporting: The Role of Risk-taking Incentives,”](file:///X:\bhagat\EquityIncentives-Misreporting.pdf) *Journal of Financial Economics* 109, 327-350, 2013.

Armstrong, C. S., A. Jagolinzer and D. Larcker, “[Chief Executive Officer Equity Incentives and Accounting Irregularities](http://leeds-faculty.colorado.edu/bhagat/CEOIncentivesAccountingRegularities.htm)”*, Journal of Accounting Research* 48, 225-271, 2010.

S. Bhagat and B. Bolton, “[Bank Executive Compensation And Capital Requirements Reform](Bhagat-Bolton-JCF-2014.pdf)” *Journal of Corporate Finance*, 2014. [IBCompensation](http://leeds-faculty.colorado.edu/bhagat/BankCompensationCapitalReform-IMF.pptx)

S. Bhagat , B. Bolton, and R. Romano, “[Getting Incentives Right: Is Deferred Bank Executive Compensation Sufficient?](file:///C:\Users\bhagat\Desktop\class\BBR-YJR-2014.pdf)” *Yale Journal on Regulation***,** 2014. [ReformingExecComp](http://leeds-faculty.colorado.edu/bhagat/REformingExecComp.ppt)

Anat R. Admati, Peter M. DeMarzo, Martin F. Hellwig, Paul C. Pfleiderer, “Fallacies, Irrelevant Facts, and Myths in the Discussion of Capital Regulation: Why Bank Equity is Not Expensive,” Stanford University working paper, September 2011.

S. Bhagat, “Bank Capital and Executive Compensation Reform: Preventing the Next Financial Crisis” 2016. [<Bank-Capital-Compensation-Reform-032816.pdf>]

**F. Governance and Venture Financing**

1. S.N. Kaplan and Per Stromberg. "[Financial Contracting Theory Meets The Real World: An Empirical Analysis Of Venture Capital Contracts](http://leeds-faculty.colorado.edu/bhagat/VentureCapitalContracts.pdf)," *Review of Economic Studies*, 2003, v70(2,Apr), 281-315.
2. S. N. Kaplan, B. A. Sensoy, and P. Stromberg, [“Should Investors Bet on the Jockey or the Horse? Evidence from the Evolution of Firms from Early Business Plans to Public Compa](http://leeds-faculty.colorado.edu/bhagat/ShouldInvestorsBetonJockeyorHorse.pdf)nies,” *Journal of Finance* 64, 2009, 75-115.
3. O. Bengtsson and B. A. Sensoy, [“Changing the Nexus: The Evolution and Renegotiation of Venture Capital Contracts,](http://leeds-faculty.colorado.edu/bhagat/ChangingNexusEvolutionRenegotiationVC.pdf)” Ohio State University working paper, 2009.
4. O. Bengtsson and B. A. Sensoy, [“Investor Abilities and Financial Contracting: Evidence from Venture Capital,](http://leeds-faculty.colorado.edu/bhagat/InvestorAbilitiesFinancialContracting.pdf)” Ohio State University working paper, 2009.
5. O. Bengtsson and S.A.Ravid, “[The Geography of Venture Capital Contracts](http://leeds-faculty.colorado.edu/bhagat/GeographyVentureCapitalContracts.pdf),” Ohio State University working paper, 2009.
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[EuropeanCrisis](file:///\\busdemeter\faculty\bhagat\EuropeanCrisis.pdf)

FNCE 4825 - Corporate Governance Seminar

Student Presentation Schedule – Spring 2016

|  |  |  |  |
| --- | --- | --- | --- |
| Day | Time | **Student Name** | *Topic* |
| April 18 | 3:20 pm – 3:30 pm | **Samuel Gesten** | *Mergers & Takeovers* |
| April 18 | 3:30 pm - 3:40 pm | **Austin Smith** | *CEO Compensation* |
| April 18 | 3:40 pm - 3:50 pm | **Dakota Muench** | *Bank Board Compensation & Financial Crisis* |
| April 18 | 3:50 pm - 4:00 pm | **Amirah Loza** | *Mergers & Acquisitions* |
| April 18 | 4:00 pm - 4:10 pm | **Noha Kikhia** | *CSR in Executive Compensation* |
| April 18 | 4:10 pm - 4:20 pm | **Megan Wuebbolt** | *SRI* |
| April 18 | 4:20 pm - 4:30 pm | **Ramiro Racual** | *CSR* |
| April 18 | 4:30 pm - 4:40 pm | **Corbin Fromm** | *VC Contracts* |
| April 18 | 4:40 pm - 4:50 pm | **Rejill Vardon** | *Healthcare* |
| April 18 | 4:50 pm - 5:00 pm | **Georgios Stratigis** | *Spinoffs* |
| April 18 | 5:00 pm - 5:10 pm | **Cole Cribari** | *Hedge Fund Activism* |
| April 18 | 5:10 pm - 5:20 pm | **Jason Baer** | *Fraud* |
| April 18 | 5:20 pm - 5:30 pm | **Brian Keesling** | *Management Compensation* |
| April 18 | 5:30 pm - 5:40 pm | **Matthew Rattiner** | *CSR* |
| April 18 | 5:40 pm - 5:50 pm | **John Maslin** | *Post-Recession Legislation* |
| April 18 | 5:50 pm - 6:00 pm | **Tazmihl Walker** | *Board Structure* |
| April 18 | 6:00 pm - 6:10 pm | **Joey Muckler** | *Board & Management Compensation* |
| April 18 | 6:10 pm - 6:20 pm | **Dylan Barnes** | *Board Structure & Performance* |
| April 18 | 6:20 pm - 6:30 pm | **Trevor Hazlett** | *Management Compensation* |
| April 18 | 6:30 pm - 6:40 pm | **Lauren Wood** | *Social Responsibility* |
| April 18 | 6:40 pm - 6:50 pm | **Benjamin Weiner** | *LBO* |
| April 18 | 6:50 pm – 7:00 pm | **Andre Matip** | *Management Misconduct* |

**Presentation Format**:

Presentation: 8 - 9 minutes.  
Q&A: 1 - 2 minutes.

Suggestions:

Please allocate equal time for your literature review, and the original analysis.

Please rehearse your presentation at least twice (and preferably thrice).  
If Plan A does not work, have a back-up Plan B, … and Plan C.

Overheads: **Less is more!** (Instead of including too much information on one overhead, consider presenting that material in two or three overheads.) *Be creative!*

FNCE 4825 - Corporate Governance Seminar

Student Presentation Schedule – Spring 2016

|  |  |  |  |
| --- | --- | --- | --- |
| Day | Time | **Student Name** | *Topic* |
| April 25 | 4:00 pm - 4:10 pm | **Mark Hammond** | *Hostile Takeovers* |
| April 25 | 4:10 pm - 4:20 pm | **Connor Smith** | *Management & Board Compensation* |
| April 25 | 4:20 pm - 4:30 pm | **Declan Hyde** | *Executive Compensation* |
| April 25 | 4:30 pm - 4:40 pm | **Will Zimmerman** | *Management Compensation* |
| April 25 | 4:40 pm - 4:50 pm | **Rick Brubaker** | *Activist Investing / M&A* |
| April 25 | 4:50 pm - 5:00 pm | **Griffin Midler** | *CSR* |
| April 25 | 5:00 pm - 5:10 pm | **Ryan Nole** | *Venture Debt* |
| April 25 | 5:10 pm - 5:20 pm | **Lexi Shryack** | *Corporate Governance & CSR* |
| April 25 | 5:20 pm - 5:30 pm | **Hannah Safari** | *Compensation & CSR* |
| April 25 | 5:30 pm - 5:40 pm | **James Kade** | *M&A in Insurance* |
| April 25 | 5:40 pm - 5:50 pm | **Rachel Hillen** | *Company Culture & VC Contracts* |
| April 25 | 5:50 pm - 6:00 pm | **Lauren Thomas** | *CSR* |
| April 25 | 6:00 pm - 6:10 pm | **Maria Morrish** | *CEO Compensation* |
| April 25 | 6:10 pm - 6:20 pm | **Jack Pillsbury** | *CSR* |
| April 25 | 6:20 pm - 6:30 pm | **Andrea Di Falco** | *Corporate Governance* |
| April 25 | 6:30 pm - 6:40 pm | **Michael Arrington** | *CSR* |
| April 25 | 6:40 pm - 6:50 pm | **Connor Watson** | *Hedge Fund Activism* |
| April 25 | 6:50 pm - 7:00 pm | **Andrew Spruck** | *M&A* |
| April 25 | 7:00 pm - 7:10 pm | **Natalie Schmille** | *Corporate Governance* |
| April 25 | 7:10 pm - 7:20 pm | **Tyler Glatch** | *CEO Compensation* |
| April 25 | 7:20 pm – 7:30 pm | **Stephanie Leimbach** | *Mergers & Acquisitions* |

**Presentation Format**:

Presentation: 8 - 9 minutes.  
Q&A: 1 - 2 minutes.  
Suggestions: Please allocate equal time for your literature review, and the original analysis.

Please rehearse your presentation at least twice (and preferably thrice).  
If Plan A does not work, have a back-up Plan B, … and Plan C.

Overheads: **Less is more!** (Instead of including too much information on one overhead, consider presenting that material in two or three overheads.) *Be creative!*

The Midterm Exam (March 14) will consist of two questions drawn from the following. It is expected that the answer to each question would take about 30 minutes.

1. (a) What is corporate governance?

(b) Why would a private high-tech start-up care about corporate governance? [IntroductionCorporateGovernance.ppt]

2. Discuss the advantages and disadvantages of common stock residual claims. [IntroductionAgencyTheoryApplication]

3. Discuss the sources of conflict of interest between managers and shareholders. Discuss the mechanisms to control this conflict of interest. [IntroductionAgencyTheoryApplication]

3. (a) What does it mean to say that a market is efficient?

(b) A certain investment advisor claims that the clients she has advised in the past have done “better than the market” because in the past five years the portfolio she had recommended beat the market by the following: 1.5%, 2.5%, 0.5%, -0.5%, -1.25%. Evaluate her claim. [CAPM-EMH.ppt]

4. a) Target shareholders generally receive substantial positive abnormal returns during takeovers. What are the hypothesized sources of these abnormal returns?  [target-gain.doc] [NewEvidenceMergers.ppt]

4. b) What is the empirical evidence on returns to bidders in takeovers? Discuss potential problems in the traditional ways of measuring returns to bidders in takeovers. [b-hirshleifer.ppt] [NewEvidenceMergers.ppt]

5. (a) What is Roll’s Hubris Hypothesis of corporate acquisitions? Explain. Discuss Malmendier-Tate’s (2008) evidence on this. How do they identify hubristic CEOs?

(b) Do bad bidders get fired? [CEO-Overconfidence.ppt]

6. (a) During the last decade corporations are said to be refocusing. What  is meant by “corporate refocusing”?  Discuss why corporations might be refocusing; please consider the evidence in Krishnaswami and Subramaniam (1999), Ahn and Denis (2004) and Daley, et al (1997).

(b) What might be the role of market disciplinary forces, and internal governance mechanisms in spurring corporate refocusing as discussed in Berger and Ofek (1999). [Spinoffs.ppt]

7. (a) What are antitakeover amendments?

(b) Why might antitakeover amendments be in shareholders’ interest?

(c) Why might antitakeover amendments not be in shareholders’ interest?

(d) What is the empirical evidence on when managers are more likely to propose antitakeover amendments? [Antitakeover.ppt]

8 (a) What are the long term effects of hedge fund activism?

(b) Why might hedge fund activism be different than institutional investor activism? [Antitakeover.ppt] Bebchuk-Brav-Jiang (2013)

9. Recently academics (GIM, Bhagat and Bolton (2008)), and industry advisors to institutional investors (The Corporate Library) have suggested ways to measure corporate governance for companies.

(a) Describe the three measures of corporate governance.

(b) What are the pros and cons of these three measures of corporate governance?

(c) What is the empirical evidence on the effectiveness of these three measures of corporate governance? [Corporate Governance-Performance.ppt]

The Final Exam (May 4, 2016, 7:30 pm) will consist of two questions drawn from the following. It is expected that the answer to each question would take about 30 minutes.

1. (a) What is corporate governance?

(b) Why would a private high-tech start-up care about corporate governance? [IntroductionCorporateGovernance.ppt]

2. Discuss the advantages and disadvantages of common stock residual claims. [IntroductionAgencyTheoryApplication]

3. (a) What does it mean to say that a market is efficient?

(b) A certain investment advisor claims that the clients she has advised in the past have done “better than the market” because in the past five years the portfolio she had recommended beat the market by the following: 1.5%, 2.5%, 0.5%, -0.5%, -1.25%. Evaluate her claim. [CAPM-EMH.ppt]

5. (a) What is Roll’s Hubris Hypothesis of corporate acquisitions? Explain. Discuss Malmendier-Tate’s (2008) evidence on this. How do they identify hubristic CEOs?

(b) Do bad bidders get fired? [CEO-Overconfidence.ppt]

6. (a) During the last decade corporations are said to be refocusing. What  is meant by “corporate refocusing”?  Discuss why corporations might be refocusing; please consider the evidence in Krishnaswami and Subramaniam (1999), Ahn and Denis (2004) and Daley, et al (1997).

(b) What might be the role of market disciplinary forces, and internal governance mechanisms in spurring corporate refocusing as discussed in Berger and Ofek (1999). [Spinoffs.ppt]

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(d) What is the empirical evidence on when managers are more likely to propose antitakeover amendments? [Antitakeover.ppt]

8 (a) What are the long term effects of hedge fund activism?

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9. Recently academics (GIM, Bhagat and Bolton (2008)), and industry advisors to institutional investors (The Corporate Library) have suggested ways to measure corporate governance for companies.

(a) Describe the three measures of corporate governance.

(b) What are the pros and cons of these three measures of corporate governance?

(c) What is the empirical evidence on the effectiveness of these three measures of corporate governance? [Corporate Governance-Performance.ppt]

10. What is the impact of the following corporate governance measures on corporate performance, disciplinary management turnover, and M&A activity before and after the passage of the Sarbanes-Oxley Act?

a) GIM index; (b) director ownership; (c) board independence. [Sox- Governance-Performance.ppt]

11. Bebchuk, Cohen and Spamann (2010) study the compensation structure of the top executives in Bear Stearns and Lehman Brothers and conclude, “…given the structure of executives’ payoffs, the possibility that risk-taking decisions were influenced by incentives should not be dismissed but rather taken seriously.”

Fahlenbrach and Stulz (2011) focus on the large losses experienced by CEOs of financial institutions via the declines in the value of their ownership in their company’s stock and stock option during the crisis and conclude, “Bank CEO incentives cannot be blamed for the credit crisis or for the performance of banks during that crisis.”

(a) How might you differentiate between these two points of view?

(b) What recommendations might you make regarding executive compensation, and capital structure of large financial institutions? Why?

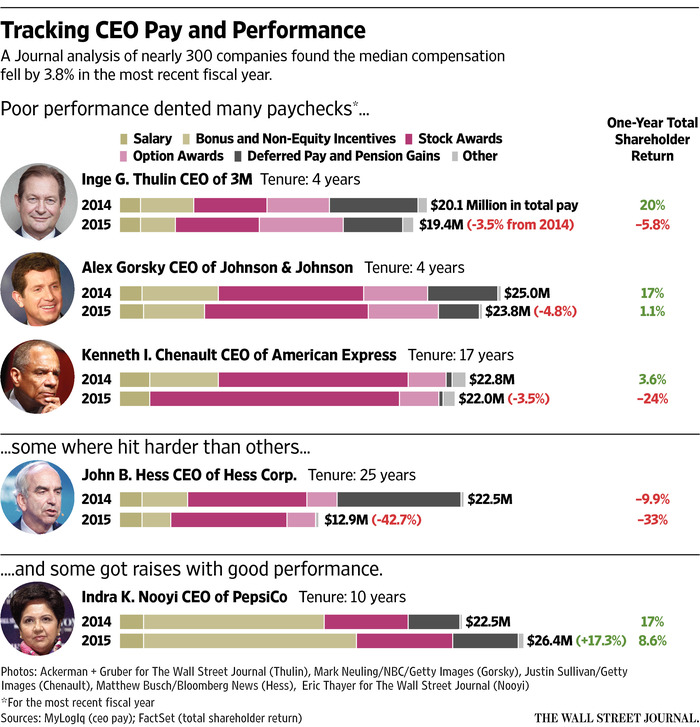
[[BankCompensationCapitalReform](file:///\\\\busdemeter\\faculty\\bhagat\\BankCompensationCapitalReform.pptx)]

1. While the popular business media and academic research has written extensively about executive compensation, the literature on director compensation is thin.
   1. Why is it important to study director compensation.
   2. Please discuss the director compensation proposal and the caveats to this as in Bhagat (2016). [Bank-Capital-Compensation-Reform-032816.pdf]

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# **April 7, 2016 CEO Pay Shrank Most Since Financial Crisis**



**http://www.wsj.com/articles/big-investors-question-corporate-board-tenures-1458761857**

**Big Investors Question Corporate Board Tenures**

At 24% of major U.S. companies, most directors have been in place for at least 10 years

By

**THEO FRANCIS** and

**JOANN S. LUBLIN**

March 23, 2016 3:37 p.m. ET

[**29 COMMENTS**](http://www.wsj.com/articles/big-investors-question-corporate-board-tenures-1458761857#livefyre-comment)

Large U.S. companies increasingly are governed by board members who have held their seats for a decade or more, even as some big investors question whether these directors serve shareholders’ best interests.

At 24% of the biggest U.S. companies, a majority of the board has been in place for at least 10 years, a Wall Street Journal analysis found. It is a marked changed from 2005, when long-term directors made up a board majority at 11% of large companies. One factor driving the change is low turnover among directors.

“Having some long-term board members is not bad in and of itself—but too many raises red flags about the board’s independence and succession planning,” says Scott Stringer,who oversees more than $150 billion in public pension funds as the comptroller for New York City.

Long-tenured directors can offer companies institutional memory and deep insight into company operations across a variety of economic and competitive environments—as well as, potentially, the experience to question even longtime managers. Yet some investors worry that longtime board members may grow too close to the companies and management teams they are supposed to oversee, and lack the critical eye and fresh ideas that newer directors likely bring.

Advertisement

At [Costco Wholesale](http://quotes.wsj.com/COST) Corp. last year, just two nonexecutive directors had served less than a decade, and the other eight averaged 19 years on the board. Nine of 11 nonexecutive directors on advertising giant [Omnicom Group](http://quotes.wsj.com/OMC) Inc.’s board last year had held a seat for a dozen years or more—five of them for at least 18 years. At both companies, a majority of directors were in their 70s.

Richard Galanti, Costco’s finance chief, said shareholders rejected a proposal early last year to limit director tenure at the company. The warehouse retailer named two new directors to its board later in the year, replacing two directors who left in previous months, including former Republican presidential candidate Ben Carson in May, after 16 years on the board.

An Omnicom spokeswoman said the board adopted a mandatory retirement age in December, but declined to say what age was chosen. “Our goal is to reduce board tenure by almost half,” the spokeswoman said.

Some investors and proxy advisory firms aren’t waiting for companies to make changes.[BlackRock](http://quotes.wsj.com/BLK) Inc., [State Street Global Advisors](http://quotes.wsj.com/STT) and other big money managers have begun opposing the re-election of some directors with extended tenure.

“The tenure issue is one that is bubbling below the surface,” says Douglas K. Chia, who until January was corporate secretary at [Johnson & Johnson](http://quotes.wsj.com/JNJ) and now heads a corporate governance center at the Conference Board.

‘*The tenure issue is one that is bubbling below the surface*’

—Douglas K. Chia of the Conference Board

Overall, one-third of individuals who served on S&P 500 boards in 2005 still held seats last year, the Journal found in its analysis of data from MSCI ESG Research. One director in every six has held his seat for at least 15 years. And just 7% of board seats turn over each year at large companies, recruiting firm Spencer Stuart found in an analysis last year.

About 4,500 directors serve on the boards of S&P 500 companies—typically longtime business, government and nonprofit officials who can [earn more than $250,000 a year](http://www.wsj.com/articles/corporate-directors-pay-ratchets-higher-as-risks-grow-1456279452?cb=logged0.7764614764768022)for each seat they hold.

Seasoned directors offer valuable institutional memory, and can serve as a counterweight to longtime executives. “Longer-term directors may be more likely to criticize management,” says William Libit, a law partner at Chapman and Cutler LLP in Chicago who works with corporate boards.

At the same time, efforts to bring more women and minorities onto boards are hindered by low turnover. And after years on the same board, directors may lose their objectivity. “There’s a risk that extended tenure could lead a non-management director to begin thinking like an insider,” Mr. Libit says.

**INSIDE AMERICA’S BOARDROOMS**

Part of a series on how business is done on corporate boards.

* [Doctors to Play Key Role in Fate of Redstone Media Empire](http://www.wsj.com/articles/redstone-trust-set-rules-for-a-health-review-1454790543)
* [Boards Get More Independent, But Ties Endure](http://www.wsj.com/articles/boards-get-more-independent-but-ties-endure-1453234607)
* [Two-Person Board Committees Exist at Some Big Firms](http://www.wsj.com/articles/two-person-board-committees-exist-at-some-big-firms-1453942169)
* [Three, Four, Five? How Many Board Seats Are Too Many?](http://www.wsj.com/articles/three-four-five-how-many-board-seats-are-too-many-1453342763)
* [Data: How U.S. Companies Stack Up in Terms of Board Pay](http://graphics.wsj.com/boards-of-directors-at-SP-500-companies/)

The California Public Employees’ Retirement System, which manages nearly $280 billion in assets, [said this month that directors can be “compromised” after 12 years on a board](https://www.calpers.ca.gov/page/about/board/board-meetings/invest-201603), and companies should explain any decision to consider a director independent after that point.

State Street Global Advisors, with more than $2 trillion under management, says it voted against 339 directors last year and 355 the year before due to tenure concerns.

BlackRock, with $4.6 trillion under management, revised its U.S. voting guidelines in early 2015 to signal that it might oppose directors with long tenure, among other perceived failings.

The rise in long-tenured directors also is helping to push the overall age of corporate boards higher. Median age for S&P 500 directors has risen to 63 years old, from 61 in 2005. Today, one of every five directors is at least 70 years old, nearly double the rate a decade ago, the Journal analysis found. Just two boards had a median age below 50:[Facebook](http://quotes.wsj.com/FB) Inc. and online travel site [TripAdvisor](http://quotes.wsj.com/TRIP) Inc.

Among S&P 500 companies, only 13 had limits on director tenure last year, down from two dozen in 2010, according to Spencer Stuart—while two thirds explicitly disavowed tenure limits. And boards with mandatory retirement ages have been nudging them higher as directors age; today a third have set them at 75 or older, compared with just 8% in 2005, Spencer Stuart found.

Among the large companies that limit tenure, there is little agreement on how long is too long. [Wal-Mart Stores](http://quotes.wsj.com/WMT) Inc. has a 12-year cap, while directors at rival [Target](http://quotes.wsj.com/FB) Corp. can serve as long as 20 years.

[General Electric](http://quotes.wsj.com/FB) Co. adopted tenure limits last year, requiring directors other than the CEO to retire after 15 years, with a two-year transition for current directors. The move marks something of a reversal for GE, which successfully urged shareholders in 2013 to reject an investor’s proposal for stricter limits. A mix of tenures means GE’s board will have a mix of fresh perspectives and experienced directors, a spokesman said.

Outside the U.S., regulators have sought to slow the advance of long-serving directors. In France, directors lose their independent status after 12 years. Hong Kong requires companies to re-elect directors with a separate vote after they have served nine years.

Applying similar rules to large U.S. companies would have profound effects: Thirty percent of U.S. companies would no longer have an independent majority of directors if board members were considered insiders at a decade, MSCI ESG Research concluded in a report last year.

**Write to**Theo Francis at [theo.francis@wsj.com](mailto:theo.francis@wsj.com) and Joann S. Lublin at[joann.lublin@wsj.com](mailto:joann.lublin@wsj.com)

* [MARKETS](http://www.wsj.com/news/markets)

# http://www.wsj.com/articles/key-formula-for-oil-executives-pay-drill-baby-drill-1457721329

# Key Formula for Oil Executives’ Pay: Drill Baby Drill

## Bonuses at many energy companies based on higher oil production, reserves; shareholders seek change

By

**RYAN DEZEMBER**,

**NICOLE FRIEDMAN** and

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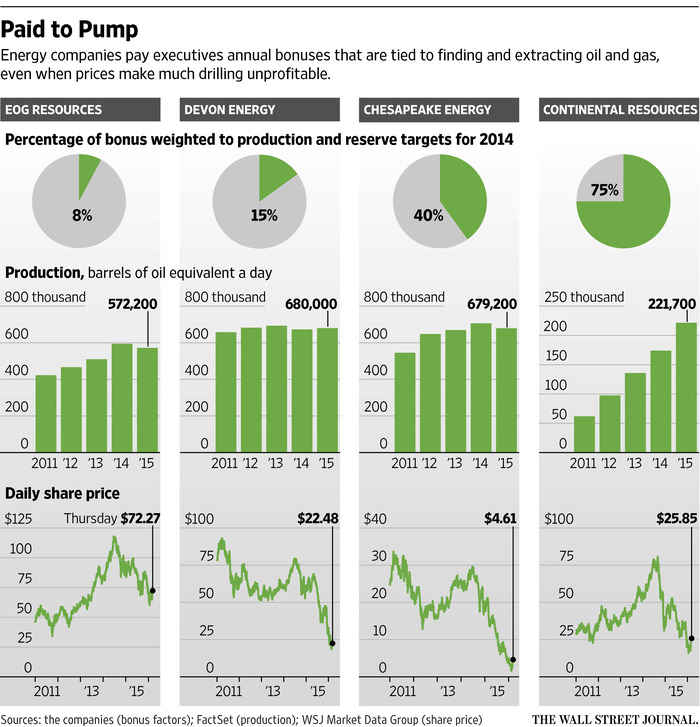
Updated March 11, 2016 3:13 p.m. ET

Markets have been waiting for U.S. energy producers to slash output during a period of depressed crude prices. But these companies have been paying their top executives to keep the oil flowing.

Production and reserve growth are big components of the formulas that determine annual bonuses at many U.S. exploration and production companies. That meant energy executives took home tens of millions of dollars in bonuses for drilling in 2014, even though prices had begun to fall sharply in what would be the biggest oil bust in decades.

The practice stems from Wall Street’s treatment of such companies’ shares as growth stocks, favoring future prospects over profitability. It has helped drive U.S. energy producers to spend more unearthing oil and gas than they make selling it, energy executives and analysts say.

It has also helped fuel the drilling boom that lifted U.S. oil and natural-gas production 76% and 31%, respectively, from 2009 through 2015, pushing down prices for both commodities.

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“You want to know why most of the industry outspent cash flow last year trying to grow production?” William Thomas, chief executive of oil producer [EOG Resources](http://quotes.wsj.com/EOG) Inc. said recently at a Houston conference. “That’s the way they’re paid.”

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Lately, though, some shareholders are asking companies to reduce connections between pay and production, saying such incentives don’t make sense since abundant supplies have caused commodity prices to crash.

Signs that oil production may finally be easing helped push up crude prices Friday to their [highest levels of the year.](http://www.wsj.com/articles/oil-prices-rise-on-hopes-glut-will-ease-1457690391) The International Energy Agency said in a monthly report that output in some regions was falling faster than expected and that [prices may have “bottomed out.”](http://www.wsj.com/articles/iea-says-there-are-signs-oil-prices-might-have-bottomed-out-1457687768) A separate report said the [number of rigs drilling](http://www.wsj.com/articles/u-s-oil-and-natural-gas-rig-count-falls-to-record-low-1457720961) for oil and natural gas in the U.S. fell to a record low. U.S. crude settled up 1.7% at $38.50 a barrel on the New York Mercantile Exchange.

Still, CEO pay and production are likely to remain a flash point for investors because few wells are profitable even at these higher crude prices. The persistence of U.S. production in the face of such economics has been one of the biggest puzzles in the energy market. Members of the Organization of the Petroleum Exporting Countries have increased production, betting that U.S. energy producers would curtail drilling or be forced out of business. But even as oil prices began their plunge in the second half of 2014, many companies kept drilling.

#### RELATED

* [Crude Rises on Hopes Glut Will Ease](http://www.wsj.com/articles/oil-prices-rise-on-hopes-glut-will-ease-1457690391)
* [IEA: Oil Prices May Have Bottomed](http://www.wsj.com/articles/iea-says-there-are-signs-oil-prices-might-have-bottomed-out-1457687768)

Mr. Thomas and others at his Houston company derived a relatively small 8% of their bonuses from hitting production and reserve targets in 2014, the most recent period for which pay data are available. EOG put more emphasis on return on capital, relative stock price and spending.

Large U.S. energy producers base as much as 75% of executives’ bonuses on production and reserve growth goals, with most companies pegging between 15% and 40% of potential incentive pay to such targets, based on a Wall Street Journal analysis of proxy filings at large U.S. oil and gas companies. Payments for hitting those targets generally range from a couple of hundred thousand dollars to well over a million for individual executives, the filings show. In many cases the bonus calculations extend to employees ranking well below top executives.

[Hess](http://quotes.wsj.com/HES) Corp.’s CEO, John Hess, earned more than $1 million in 2014, which was more than a third of his bonus, because the company topped production and reserve targets.[Anadarko Petroleum](http://quotes.wsj.com/APC) Corp. CEO R.A. Walker earned about $1.5 million because the company’s output rose about 8%, or the equivalent of 23.4 million barrels of oil, from 2013 and it exceeded goals for finding new oil and gas deposits. Spokesmen for Hess and Anadarko declined to comment.

‘*You want to know why most of the industry outspent cash flow last year trying to grow production? That’s the way they’re paid.*’

—William Thomas

Companies will detail how they calculated 2015 bonuses in proxy filings beginning this month.

Recently, some big U.S. producers have throttled back production for the first time in years in response to depressed oil prices. U.S. oil output fell on a yearly basis in December for the first time since 2011.

Energy pay experts also caution against entirely eliminating incentives to find new oil and gas. Companies use yet-to-be extracted oil and gas, or reserves, as collateral for bank loans. Falling oil prices can increase pressure to boost reserve volume to offset declines in value.

“There is a need for reserve replacement,” said Rick Davis, an oil-industry specialist at executive-search firm Stanton Chase. “You have to have that to some degree.”

Still Mr. Thomas’s message has resonated with investors.

“If more companies behaved like EOG and rewarded their CEOs based on return on capital, I think the industry would be better,” said John Dowd, who manages the $1.9 billion Fidelity Select Energy Portfolio.

#### MARKET TALK

**Moving From Growth Stocks to Earnings-Centric**. US oil producers have long been viewed as growth stocks, with executives rewarded for production and reserve growth. But there are signs the bottom line is becoming more important. US E&P companies have outspent cash flow every year since 2005, Raymond James estimates, but the sector isn’t expected to this year as capital and other spending slumps amid companies’ cash-containment efforts. The stocks of firms like Pioneer Natural and Anadarko rose in recent weeks after announcing budget cuts even when doing so signaled slower or no production growth. “For the first time it appears the market is comfortable with companies reporting declines in production volumes,” says Rob Thummel at energy-focused money manager Tortoise Capital. (nicole.friedman@wsj.com)

Market Talk is a stream of real-time news and market analysis available on Dow Jones Newswires

Some shareholder activists are seeking to limit bonuses tied to production and reserve growth. They say the practice can encourage CEOs to keep drilling even when prices may not justify doing so, and they have pitched proxy ballot measures at companies like [Devon Energy](http://quotes.wsj.com/DVN)Corp. and [Chesapeake Energy](http://quotes.wsj.com/CHK) Corp.

Devon and Chesapeake spokesmen declined to comment.

The Nathan Cummings Foundation, which manages the estate of the deceased Sara Lee Corp. founder, has asked Chesapeake to eliminate reserve growth from its pay calculations.

In 2014, more than half of Chesapeake CEODoug Lawler’s $2.7 million bonus came from exceeding reserve and production targets, according to a securities filing. The Oklahoma City company’s production grew by 5.5%, and it added the equivalent of 367 million barrels of oil to its proven reserves, topping a target of 300 million barrels, filings show.

The Unitarian Universalist Association has sent [ConocoPhillips](http://quotes.wsj.com/COP) a proposal for its proxy ballot that would require the oil company to wait up to five years before paying out bonuses tied to reserve growth to ensure the oil and gas remains worth extracting. Executives are “incented to find reserves that may never deliver value to shareholders,” said Tim Brennan, the Unitarian group’s finance chief.

Low prices have made huge stores of oil and gas not worth the expense of extracting. North American exploration and production companies wrote down the value of their assets by about $177 billion in 2015, according to energy consultancy IHS Herold, more than triple the record set during 2008’s market meltdown.

ConocoPhillips, which in its 2015 proxy successfully urged shareholders to reject a proposal to eliminate pay for reserve-replacement goals, wrote down assets by $2.7 billion during the fourth quarter. A ConocoPhillips spokesman declined to comment.

Still, there have been signs lately that the bottom line is becoming more important. Stocks of several big U.S. producers, including [Pioneer Natural Resources](http://quotes.wsj.com/PXD) Co. and Anadarko, rose after they announced budget cuts, even when doing so signaled slower or no production growth.

“For the first time it appears the market is comfortable with companies reporting declines in production volumes,” said Rob Thummel, a portfolio manager at Leawood, Kan., energy-focused money manager Tortoise Capital Advisors LLC.

[Continental Resources](http://quotes.wsj.com/CLR) Inc., for example, said it would spend $920 million this year on nonacquisition capital expenditures, or about a third of what it spent in 2015. In doing so, the company said average daily output could decline about 10%. In the past, such a slowdown would have prompted a selloff. Instead, Continental’s shares climbed 4% after the announcement.

Continental CEO Harold Hamm said the Oklahoma City company, which based 75% of possible 2014 incentive pay on reserve and production growth, is rewriting its bonus formula to emphasize efforts to keep spending in check.

“You’ll see more emphasis on return on capital and efficiencies than on growth,” Mr. Hamm said in an interview. “You’re not getting paid for growth right now.”

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**http://www.wsj.com/articles/why-these-retail-m-a-winners-feel-buyers-remorse-1456950028**

**Western Digital Investor Alken Opposes SanDisk Acquisition**

Alken says $19 billion price tag of SanDisk purchase is too high

Alken Asset Management says that Western Digital’s $19 billion acquisition of SanDisk is too expensive. *PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES*

By

**DAVID BENOIT**

Updated Feb. 22, 2016 11:20 a.m. ET

A top shareholder in [Western Digital](http://quotes.wsj.com/WDC) Corp. is urging the chip maker to walk away from its planned acquisition of [SanDisk](http://quotes.wsj.com/SNDK) Corp., arguing that [the $19 billion deal is too expensive](http://www.wsj.com/articles/western-digital-to-buy-sandisk-for-19-billion-1445427966).

Alken Asset Management Ltd., a London hedge fund that’s among Western Digital’s top-ten shareholders, intends to vote against stock issuance the company may need to complete the deal, according to a copy of a letter sent to the board Monday and reviewed by The Wall Street Journal.

Alken, which owns about 2.2% of Western Digital, points to a lowered outlook for SanDisk since the deal was agreed last fall.

Neither Western Digital nor SanDisk was immediately available for comment.

On a conference call in late January, Western Digital executives defended the deal amid questions from analysts about the markets for SanDisk products. Chief Executive Steve Milligan said the company had expected volatility and run several “stress tests” on SanDisk results and remains comfortable with the deal.

“Our strong belief is, and very strong belief and strong conviction, is that this is the appropriate move for us to make for long-term shareholder value creation,” Mr. Milligan said. “We’re confident in our ability to be able to get the necessary approvals from our shareholders to proceed with the transaction.”

Although Alken isn't well-known as an activist shareholder, its public opposition adds to skepticism about the proposed marriage. Investors concern is reflected in a swoon in Western Digital’s stock since the deal was struck, the letter says.

Western Digital and SanDisk unveiled their deal on Oct. 21, touting the combination of Western Digital’s leading position in hard drives and SanDisk’s strength in the growing market for flash memory chips needed for smartphones and cloud computing. The tie-up came amid a rush of chip makers to combine in attempts to boost margins and expand their reach.

But since the deal was announced, shares of Western Digital had fallen roughly 40%, trading early Monday at $45.94, up 4.1%. The Irvine, Calif., company’s market value has fallen to just over $10 billion.

Meanwhile, analysts have lowered their earnings expectations for SanDisk, which is based in Milpitas, Calif. In the past year, the average forecast for SanDisk’s 2016 earnings has dropped to $2.95 a share from $6.18 a share, according to FactSet. Roughly half the decline has come since the deal was announced.

“Because of changes in SanDisk’s markets and business, as well as capital market factors, the price has proven to be simply too high,” Alken wrote to the Western Digital board.

The breakup fee of $185 million that Western Digital would have to pay is “relatively small,” the letter adds.

The ability of Western Digital shareholders to block a deal is uncertain at this point.

In a separate transaction announced in September, [Western Digital is selling a 15% stake](http://www.wsj.com/articles/unisplendour-to-buy-15-stake-in-western-digital-get-board-seat-1443613667) to an arm of China’s Tsinghua Unigroup Ltd. That deal, worth $3.8 billion, would help finance the nearly all-cash SanDisk acquisition, but is awaiting approval from U.S. regulators including the Committee on Foreign Investment in the U.S.

If it hasn’t closed by the time the SanDisk deal closes, Western Digital would need to issue more shares to SanDisk. The extra shares would trigger a requirement that Western Digital get shareholder approval.

The fate of the share sale is far from certain as a rising tide of Chinese interest in the U.S. has sparked opposition in Washington to such deals.

Western Digital is holding a vote next month either way, but could push forward with the deal even in a failed vote if it doesn’t have to issue the extra stock.

The deal using more cash was worth $85.88 a share for SanDisk holders as of Friday’s close, while the alternative would be worth $78.03. SanDisk closed at $68.85 Friday, down 8% since the announcement as investor worries over its completion mount.

Alken has been invested in Western Digital since 2010 and lauds the company’s management in the letter.

While it has previously written public letters, Alken is far from an activist investor. Instead, it fits in [a trend of typically staid investors who are speaking out](http://www.wsj.com/articles/dont-make-me-do-this-rise-of-the-reluctant-activist-1455814599) about some of their biggest positions. Such investors made up more than half of all activist campaigns in the U.S. last year, the first time occasional activists overtook firms dedicated to fights, according to researcher Activist Insight.

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* [BUSINESS](http://www.wsj.com/news/business)

# Xerox CEO Defends Split, but Her Future Role Is Unclear

## ‘This was about opportunities. It’s not about panic,’ says Ursula Burns

Xerox Corp. plans to divide itself into one company containing its hardware operations and another housing its services businesses. It's also launching a major cost-cutting plan. The WSJ's Lee Hawkins discusses the development.

By

**DREW FITZGERALD** and

**DAVID BENOIT**

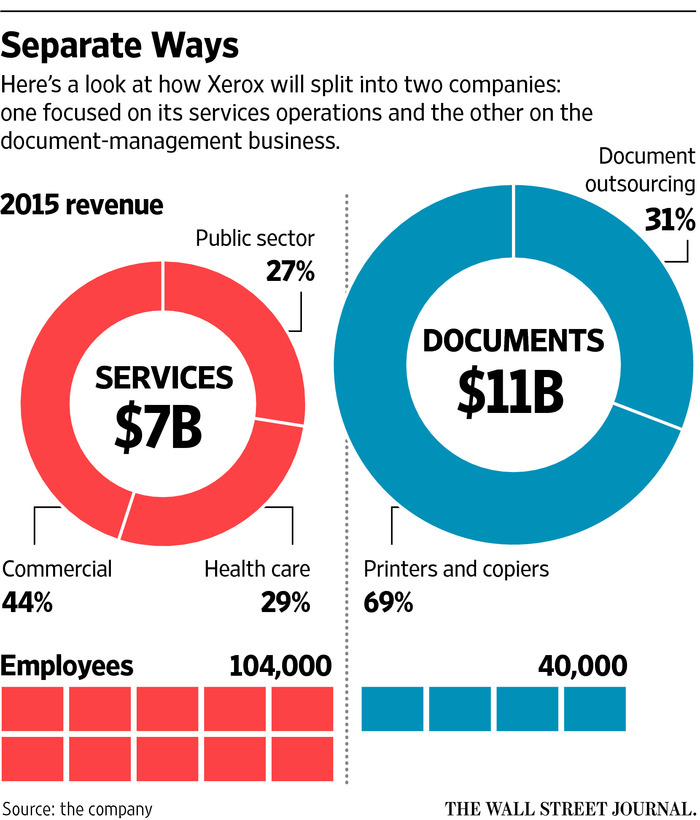
Updated Jan. 29, 2016 8:07 p.m. ET

[**29 COMMENTS**](http://www.wsj.com/articles/xerox-ceo-defends-split-but-her-future-role-unclear-1454083790#livefyre-comment)

[Xerox](http://quotes.wsj.com/XRX) Corp. Chief Executive [Ursula Burns](http://topics.wsj.com/person/B/Ursula-Burns/736) defended the decision this week to undo her signature acquisition by splitting the 109-year-old company in two. Left unanswered was what role, if any, she would play in the future companies.

Ms. Burns, 57 years old, said in an interview on Friday that she pushed the company’s directors last October to begin a strategic review, saying the decision to separate the businesses wasn’t driven by activist [Carl Icahn](http://topics.wsj.com/person/I/Carl-Icahn/65), who disclosed a stake in November.

“We could have kept them together. It’s not like there was a gun to our head,” the 36-year Xerox veteran said. “This was about opportunities. It’s not about panic.”

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The firm on Friday disclosed it would split into two public companies: one with 40,000 workers that sells office machines and one with 104,000 workers that provides back-office services. Its shares rose about 6% to $9.75 on Friday on the news. They have lost 27% in the last 52 weeks.

The Norwalk, Conn.-based company is searching for an external candidate to run its services business. Mr. Icahn will get three board seats at that firm. The company didn’t say who would lead the legacy printer-and-copier business or what Ms. Burns’s future role would be.

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Ms. Burns said she preferred to put aside questions about future management positions until after the board had finished its review of its business prospects. “I want to do that without anyone seeing my face or any of my management’s face in a job, because that actually can cloud a decision,” she said. “All that will come after.”

Both units have been struggling to grow. Revenue from the company’s services business last year fell 3% to $10.25 billion. Sales in its legacy hardware division dropped 12% to $7.36 billion, its steepest decline since 2009.

The planned split prompted debt rating firm Standard & Poor’s to lower Xerox’s rating to triple-B-negative, on the brink of junk territory. S&P noted worsening sales declines, especially in Xerox’s traditional hardware business, and put the company on watch for further downgrades. Xerox had $7.4 billion of outstanding debt at the end of 2015.

One factor supporting Xerox’s investment-grade rating was “the diversity of revenues and that perpetual hope that they’re going to get their act together,” said [Moody’s Investors Service](http://quotes.wsj.com/MCO) analyst Gerry Granovsky. Moody’s put the company’s status under review pending more information about how the two new companies would be funded.

Ms. Burns joined Xerox in 1980 as an engineering intern and worked her way to the top. She played a key role on the team that saved Xerox from bankruptcy in the early 2000s. Her predecessor, former CEO [Anne Mulcahy](http://topics.wsj.com/person/M/Anne-Mulcahy/27), tapped her to help fix the business when it was buried in debt, had seven straight quarters of losses and faced a Securities and Exchange Commission investigation.

Ms. Burns’ signature move, however, came in the wake of the 2008 financial crisis. Months into her tenure as CEO, she struck a roughly $6 billion deal to acquire Affiliated Computer Services Inc., a Dallas-based provider of back-office services to government agencies and corporations.

The deal pushed Xerox beyond its core hardware roots and offered investors hope the company could grow again. Xerox’s market value swelled to $15 billion when it bought ACS, a number that had shrunk to about $9.4 billion on Friday.

Still, Ms. Burns said the package of businesses that ACS brought to Xerox proved worth the price. She said the move brought cost savings and changed clients’ perceptions of the Xerox brand, among other benefits.

While she admitted she was aware she was undoing a signature deal, the board never discussed how that would appear and it didn’t factor into the decision, she said.

“Interestingly enough, given what we know today, I would have bought the company, for sure,” she said in the interview. “I would have done the same thing today.”

A person familiar with Ms. Burn’s thinking said she would likely stay on long enough to help Xerox through its transition but would not stay on to lead the hardware business, which, though profitable, is in secular decline. Ms. Burns had been considering retirement in the next several years, the person said.

It is not unusual for a merger to fail to live up to its promise. There are many examples of big, splashy deals that ultimately were unwound, perhaps most notably America Online Inc.’s landmark 2000 agreement to combine with [Time Warner](http://quotes.wsj.com/TWX) Inc. or the 1998 merger agreement of German auto maker [Daimler-Benz](http://quotes.wsj.com/DDAIY) AG and Chrysler Corp.

Ms. Burns said she began to revisit her strategy last fall after Xerox’s government health-care business suffered several setbacks, including a decision to abandon projects planned for state systems in California and Montana.

Other factors, like the disruptive impact a strong dollar had on its legacy printer and copier business, convinced the board its two business wings would be more attractive to investors and customers as stand-alone companies.

Ms. Burns, who launched her review in October, said she didn’t meet with Mr. Icahn to discuss the company until late December. When he was told of the plan, after he signed a nondisclosure agreement, he agreed the split was the best decision, she said.

“We applaud Ursula Burns and Xerox’s Board of Directors for recognizing the importance of separating Xerox into two publicly traded companies,” Mr. Icahn said in a statement.

Xerox’s plan to split won’t affect the company’s normal process of seeking out acquisition targets this year, and its board still considers opportunities to prune business lines that aren’t meeting expectations, Ms. Burns said.

*—Betsy Morris contributed to this article.*

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# **With Split, Xerox Becomes Latest Company to Take M&A U-Turn**

[**ARTICLE**](http://blogs.wsj.com/moneybeat/2016/01/29/with-split-xerox-becomes-latest-company-to-take-ma-u-turn/)Jan 29, 2016

## [DEALS](http://blogs.wsj.com/moneybeat/category/deals/)

* By

* MAUREEN FARRELL

Xerox Corp.’s plan to break in two would effectively [**reverse**](http://blogs.wsj.com/moneybeat/2016/01/29/xerox-and-acs-a-troubled-deal-from-the-start/) the biggest merger in its 100-plus year history, and serves as the latest cautionary tale for would-be dealmakers.

Nearly six years after Xerox [**purchased**](http://www.wsj.com/articles/SB125413413514545919) Affiliated Computer Services Inc. for roughly $6 billion in an effort to branch out and revive its fortunes, the company is separating that business from the copier and printer operations that made it famous.

Xerox is not alone in shelling out billions to buy a rival or enter a new field of business only to, in the words of Missy Elliott, just “flip it and reverse it.” History is littered with examples of bold takeovers that didn’t live up to their promise and ultimately had to be undone.

The about-faces normally come after a deal fails to boost a company’s growth and share price. Xerox stock and its sales and profits have fallen in recent years.

Bankers tend to make out better than the shareholders in such situations. They earned nearly $90 million for their work on Xerox’s purchase of ACS. Freeman & Co. estimates Xerox bankers will get another $35 million to $45 million for helping break it up. (Xerox spread the wealth, using different banks this time.)

Xerox Chief Executive Ursula Burns on Friday defended the ACS deal, saying in an interview that it was a “good decision” and the company was always prepared to change direction if the market demanded it. While she personally had in the back of her mind the fact she was undoing a signature deal, the board never discussed how that would appear and it didn’t factor into the decision, she added. “Interestingly enough, given what we know today, I would have bought the company for sure,” she said. “I would have done the same thing today.”

MoneyBeat took a look at some well-known previous deals that were eventually unwound:

**AOL-Time Warner:**Just ahead of the bursting of the Internet bubble in 2000, what was then America Online Inc. and [**Time Warner**](http://www.wsj.com/public/quotes/main.html?type=djn&symbol=TWX) Inc.[**TWX -2.69%**](http://blogs.wsj.com/public/quotes/main.html?type=djn&symbol=TWX?mod=inlineTicker) [**announced their blockbuster merger**](http://www.wsj.com/articles/SB947493902515323558).

In 2009, Time Warner [**said it**](http://www.wsj.com/articles/SB124351327459962223) would split off its AOL division, six years after dropping AOL from its corporate name. Since then, Time Warner has been breaking further into pieces, splitting off its cable assets and publishing division. AOL was [**sold to**](http://www.wsj.com/articles/verizon-to-buy-aol-for-4-4-billion-1431428458) Verizon Communications Inc. for $4.4 billion last year.

The AOL-Time Warner deal is now widely considered one of the worst in M&A history.

[**ConAgra**](http://www.wsj.com/public/quotes/main.html?type=djn&symbol=CAG)[**CAG -0.66%**](http://blogs.wsj.com/public/quotes/main.html?type=djn&symbol=CAG?mod=inlineTicker)**-Ralcorp:**ConAgra Foods Inc. spent nearly $5 billion to buy Ralcorp Holdings Inc. in 2013, after a bitter 20-month takeover fight. In doing so, ConAgra became the largest private-label food manufacturer in the U.S.

In June 2015, less than three years later, ConAgra said it would sell its private-label business. The buyer, **[TreeHouse Foods](http://www.wsj.com/public/quotes/main.html?type=djn&symbol=THS)** Inc.[**THS +0.24%**](http://blogs.wsj.com/public/quotes/main.html?type=djn&symbol=THS?mod=inlineTicker), [**purchased the business**](http://www.wsj.com/articles/conagra-to-sell-private-brands-to-treehouse-for-2-7-billion-1446468508) for $2.7 billion, a little more than half what ConAgra paid.

[**Daimler-Chrysler**](http://www.wsj.com/public/quotes/main.html?type=djn&symbol=DAI.XE)[**DAI.XE -1.78%**](http://blogs.wsj.com/public/quotes/main.html?type=djn&symbol=DAI.XE?mod=inlineTicker)**:** German automaker Daimler-Benz AG and U.S. automaker Chrysler Corp. agreed to [**join forces**](http://www.wsj.com/articles/SB894421909383679000) in 1998, creating DaimlerChrysler AG. At the time, they said it would become “the most profitable automotive company in the world.” Instead, the new company’s market cap crumbled to less than that of Daimler-Benz before the deal.

In 2007, Daimler sold 80% Chrysler to Cerberus Capital Management LP for about $7.2 billion. After Chrysler stumbled during the financial crisis and declared bankruptcy in 2009, [**Fiat**](http://www.wsj.com/public/quotes/main.html?type=djn&symbol=FCA.MI) SpA[**FCA.MI -7.60%**](http://blogs.wsj.com/public/quotes/main.html?type=djn&symbol=FCA.MI?mod=inlineTicker) [**struck**](http://www.wsj.com/articles/SB124424451815990495)a deal with Chrysler that paved the way for the Italian auto maker to get full control of the company.

[**Freeport-McMoRan**](http://www.wsj.com/public/quotes/main.html?type=djn&symbol=FCX)**Inc.**[**FCX -7.22%**](http://blogs.wsj.com/public/quotes/main.html?type=djn&symbol=FCX?mod=inlineTicker)**:** The mining company jumped into the oil and gas business in 2013, when it purchased McMoRan Exploration Co. and Plains Exploration & Production Co. for a total of $9 billion. Freeport had separated from McMoRan in the 1990s.

In October, the company, struggling amid tumbling energy prices, said it would [**explore options**](http://www.wsj.com/articles/freeport-mcmoran-reviewing-options-for-oil-and-gas-business-1444136221) for these businesses, which could herald a spinoff of them.

[**Hewlett-Packard**](http://www.wsj.com/public/quotes/main.html?type=djn&symbol=HPQ)[**HPQ -5.45%**](http://blogs.wsj.com/public/quotes/main.html?type=djn&symbol=HPQ?mod=inlineTicker)**:**The company formerly known as Hewlett-Packard Co.[**purchased**](http://www.wsj.com/articles/SB999553371387135083) Compaq Computer Corp., then one of its biggest rivals, in 2002. The deal made H-P one of the largest PC makers but immediately ran into problems. The son of one of the company’s founders [**called the purchase**](http://www.wsj.com/articles/SB10001424053111903596904576516914051864044) a “$25 billion mistake.”

Almost a decade later, H-P [**said**](http://www.wsj.com/articles/SB10001424053111903596904576516914051864044) it was exploring strategic alternatives for the division. That announcement came alongside H-P’s news of what would be another [**ill-fated acquisition**](http://www.wsj.com/articles/SB10001424127887324352004578130712448913412)– of software maker Autonomy Corp. H-P didn’t end up ditching Compaq then and instead split up last year into an enterprise company and a one selling PCs and printers.

* [MARKETS](http://www.wsj.com/news/markets)

# Amid Pressure, AIG Will Pare Down

## Insurer will sell broker-dealer network, conduct IPO of its mortgage-insurance unit and more aggressively cut costs

ENLARGE

AIG logo from headquarters offices in Manhattan's financial district. *PHOTO: ASSOCIATED PRESS*

By

**LESLIE SCISM** and

**LISA BEILFUSS**

Updated Jan. 26, 2016 11:29 a.m. ET

[**5 COMMENTS**](http://www.wsj.com/articles/aig-to-sell-broker-dealer-network-1453809945#livefyre-comment)

[American International Group](http://quotes.wsj.com/AIG) Inc. will sell its broker-dealer network, conduct an initial public offering of its mortgage-insurance unit and more aggressively cut costs, Chief Executive Peter Hancock said in a strategy update Tuesday, as [pressure from investor](http://www.wsj.com/articles/icahn-says-he-has-taken-large-stake-in-aig-encourages-company-to-split-1446038362)[Carl Icahn](http://topics.wsj.com/person/I/Carl-Icahn/65) grows.

AIG also said it plans to return at least $25 billion over the next two years to shareholders in the form of share buybacks and dividends, funded by divestitures, operating performance and other things. The amount is higher than some analysts expected and above the $20 billion Mr. Icahn pushed for.

In addition, the board also approved a plan to reorganize AIG into nine separate business units, and the company said that “if they don’t adequately contribute to financial targets,” AIG “could consider” the divestiture of even its core property-casualty unit. “There are no sacred cows,” Mr. Hancock said on a call with analysts and investors.

AIG will create a new legacy portfolio, representing more than a quarter of total equity and consisting of non-strategic assets, businesses flagged for sale and certain other items. The company said it intends to release $9 billion of capital from the $22 billion portfolio by 2017.

Shares in the company rose 1.5% in morning trading, paring the stock’s loss over the past three months to 8%.

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* [**AIG to Offer Some Shares of Mortgage Insurance Unit to Public**](http://www.wsj.com/articles/aig-to-offer-some-shares-of-mortgage-insurance-unit-to-public-1453506275)**(Jan. 24)**
* [**AIG Faces Push to Break Up**](http://www.wsj.com/articles/icahn-says-he-has-taken-large-stake-in-aig-encourages-company-to-split-1446038362)**(Oct. 28)**
* [**Carl Icahn to Solicit Shareholder Support for AIG Breakup**](http://www.wsj.com/articles/carl-icahn-to-solicit-shareholder-support-for-aig-breakup-1448288702)**(Nov. 23)**
* [**Carl Icahn Again Pushes for AIG Split in Wake of MetLife’s Breakup Plans**](http://www.wsj.com/articles/carl-icahn-again-pushes-for-aig-split-in-wake-of-metlifes-breakup-plans-1453212908)**(Jan. 19)**

In announcing the moves, the insurance giant is heeding many investors’ calls for more asset dispositions but isn’t following [activists’ game plan for an immediate breakup](http://www.wsj.com/articles/carl-icahn-to-solicit-shareholder-support-for-aig-breakup-1448288702). “After careful consideration, AIG believes that a full breakup in the near term would detract from, not enhance, shareholder value,” said Douglas Steenland, nonexecutive chairman, adding that Mr. Hancock has the board’s “full support.”

Barclay’s analyst Jay Gelb noted AIG’s strategic update falls short of Mr. Icahn’s demands and suggested pressure on the company’s board could intensify.

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Separately, AIG announced that it would strengthen its loss reserves in its property-casual business by $3.6 billion, representing about 6% of AIG’s total property-casual net reserves.

The company will sell its Advisor Group to private-equity firm Lightyear Capital LLC and Canadian pension manager PSP Investments. The sale of the broker-dealer network, for which financial terms weren’t disclosed, is expected in the second quarter.

AIG also plans to [execute a 19.9% public offering](http://www.wsj.com/articles/aig-to-offer-some-shares-of-mortgage-insurance-unit-to-public-1453506275) of United Guaranty Corp., in what it called a first step toward full separation. The insurer increased its expense-reduction target to $1.6 billion within two years, up from an earlier plan to shave costs by $1 billion to $1.5 billion by 2017.

**[VIEW INTERACTIVE](http://graphics.wsj.com/activist-investor/)**

“With these actions, AIG has taken another major step in simplifying our organization to be a leaner, more profitable insurer,” Mr. Hancock said.

AIG nearly collapsed into bankruptcy court in 2008 amid the worsening global liquidity crunch, and to pay back its nearly $185 billion government bailout, it sold over 50 businesses and other assets, generating more than $90 billion in proceeds, according to its figures.

When the crisis hit, AIG was a globe-straddling financial-services behemoth with an airline-leasing unit and a large financial-products unit, among other non-insurance businesses. In selling assets, it scaled back mostly to world-wide sales of property-casualty insurance, both to businesses and consumers, and a U.S.-focused life-insurance and retirement-services business.

Lately, AIG has been under mounting pressure to improve results. Mr. Icahn, who last year called AIG “too big to succeed,” in November disclosed a stake of more than 42 million AIG shares, translating to $2.61 billion and roughly 3% of the company.

Together with fellow billionaire [John Paulson](http://topics.wsj.com/person/P/John-Paulson/6046), Mr. Icahn has called for AIG to pursue a split into three separate companies, arguing that each of those companies would be small enough to avert the “systemically important financial institution,” or SIFI, designation, which carries heightened scrutiny and requirements to hold robust capital buffers against losses. He said in an open letter to AIG’s board last week that he wouldn’t be satisfied with “small-scale asset sales and incremental cost-cutting.”

The board Chairman Mr. Steenland said “being a nonbank SIFI is not currently a binding constraint on return of capital.” He said a “lack of diversification benefits would reduce capital available for distribution, and there would be a loss of tax benefits.”

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# Siemens CEO Faces Investors After Strong First Quarter

## Joe Kaeser is pressed to show that a two-year revamp is starting to pay off

ENLARGE

Siemens CEO Joe Kaeser addressed a news conference before the company's annual shareholders’ meeting in Munich on Tuesday.*PHOTO: REUTERS*

By

**CHRISTOPHER ALESSI**

Updated Jan. 26, 2016 8:41 a.m. ET

[**0 COMMENTS**](http://www.wsj.com/articles/siemens-ceo-faces-investors-after-strong-first-quarter-1453806905#livefyre-comment)

MUNICH— [Siemens](http://quotes.wsj.com/SIEGY) AG Chief Executive Joe Kaeser faced investors Tuesday at the company’s annual meeting, a day after disclosing strong earnings and a big, strategic deal—but while many shareholders are still questioning whether a two-year restructuring effort is bearing fruit.

“2014 was a year of strategic reorientation for Siemens. In 2015, we consolidated the company’s operations. 2016 is now the year of optimization,” Mr. Kaeser said in a speech to shareholders. “That means higher profitability and productivity,” he added.

Siemens posted [a 42% jump in net profit for its fiscal first quarter](http://www.wsj.com/articles/siemens-profit-jumps-42-1453747272?mod=wsj_nview_latest) and raised its guidance for the full fiscal year. The results reflected positive currency effects, as well as a strong order intake.

Net profit for the three months ended Dec. 31 totaled €1.53 billion ($1.66 billion), compared with €1.1 billion during the corresponding period a year earlier, driven in part by strong profitability at the health-care division.

The company said it now expects basic earnings per share in a range of €6 to €6.40, up from previous guidance of €5.90 to €6.20. The company said the outlook was predicated on growth in the market for its high-margin short-cycle businesses, including the automation business, in the second half of the fiscal year, even as it expected a “further softening” in the macroeconomic environment as China’s economy continues to slow.

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Still, many institutional investors used the meeting to push Mr. Kaeser to demonstrate that his revamp of the company—which has included about 13,000 job cuts, divestitures and a simplification of the company’s organizational structure—will finally start paying off this year.

“The next 12 months are for investors the biggest litmus test of whether the strategy really works,” Ingo Speich, a fund manager at Union Investment, said during a speech to Mr. Kaeser and fellow shareholders. “You now need visible and measurable successes,” Mr. Speich added.

Another institutional investor said Siemens’s analysis of its business performance was mostly overly ambitious. “What is a good year? What is a bad year? The different results of the many different business areas make it not easy to draw a conclusion,” said Marcus Poppe, a portfolio manager at Siemens investor Deutsche Asset Management. “The impression given is that Siemens is too complex,” he added during a speech to the assembly.

Investors have of late voiced concerns that Siemens’s conglomerate structure—it produces a wide variety of products, from gas turbines to trains to diagnostic imaging equipment—is holding back growth and profitability.

Even so, Mr. Kaeser has taken steps to streamline the business since taking the helm in summer 2013. Siemens last year legally separated its high-margin health-care division, in a move many observers believe presages an eventual sale or spinoff of the business.

Siemens’s first-quarter results came as it announced plans Monday [to acquire U.S.-based simulation software supplier CD-adapco](http://www.wsj.com/articles/siemens-to-buy-cd-adapco-for-around-1-billion-1453739628) in a stock-purchase agreement valued at $970 million.

CD-adapco will be integrated into Siemens’s profitable Digital Factory division, which produces industrial software and factory-automation gear. Mr. Kaeser said Tuesday that the deal was part of Siemens’s strategy to expand its electrification, automation and digitalization capabilities.

“CD-adapco further reinforces our leading role in industrial digitalization,” Mr. Kaeser said.

Still, the Digital Factory unit has come under pressure in recent quarters because of its[strong exposure to the slowing Chinese economy.](http://www.wsj.com/articles/china-economic-growth-slows-to-6-9-on-year-in-2015-1453169398)

Digital Factory’s first-quarter profit margin fell to 16.9% from 18.8% a year earlier, partly because of “industrial deceleration” in China, Siemens said. However, Mr. Kaeser said that “strong orders from Europe” had helped compensate for lower Chinese demand.

The economic slowdown in China is one of a number of macroeconomic factors,[including lower global oil prices](http://www.wsj.com/articles/oil-price-decline-pricks-last-weeks-tiny-bubble-of-hope-1453773148), that have been holding back growth at Siemens.

The company’s Power and Gas division continued to be squeezed by weak oil and gas markets, with the profit margin dropping to 9.5% from 11.3% a year earlier.

However, Mr. Kaeser said that “strong orders from Europe” had helped compensate for lower Chinese demand.

“Power and Gas operates in a market environment that continues to be challenging and is marked by intense competition, as well as overcapacities and high price pressure,” Mr. Kaeser said.

Mr. Kaeser moved to build up Siemens’s oil and gas operations, with a [$7.6 billion acquisition of U.S. oil-equipment maker](http://www.wsj.com/articles/siemens-set-to-announce-deal-to-buy-dresser-rand-for-6-billion-in-cash-1411335976) Dresser-Rand just as petroleum prices started to drop in 2014. Costs related to the integration of Dresser-Rand also held back profitability at the division, Siemens said.

But quarterly order intake at the division was helped by the company’s recent €8 billion power-generation contract with Egypt, the largest in Siemens’s history.

Last year, the company signed a deal to supply Egypt with three natural-gas-fired power plants and deliver as many as 12 wind farms to the country. Analysts and investors remain concerned about Siemens’s ability to execute the project amid political uncertainty in Egypt.

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# Investors Gain Greater Clout Over Boards

## More companies embrace proxy access, allowing shareholders to list competing board candidates

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New York City Comptroller Scott M. Stringer, who oversees $162 billion in pension funds, is spearheading a campaign to challenge companies to adopt or improve proxy access this year. *PHOTO: BRYAN SMITH/ZUMA PRESS*

By

**JOANN S. LUBLIN**

Jan. 10, 2016 7:00 p.m. ET

[**3 COMMENTS**](http://www.wsj.com/articles/investors-gain-greater-clout-over-boards-1452470402#livefyre-comment)

American businesses are increasingly bowing to investors’ demands for greater boardroom clout, with dozens of companies revising their bylaws in recent weeks ahead of this year’s annual meetings.

Proxy access, embraced by 117 U.S. companies during 2015, gives shareholders more power to oust directors and influence corporate strategy by letting them list competing board candidates on ballots for annual meetings. About 21% of S&P 500 companies have adopted proxy access, up from about 1% in 2014, according to Institutional Shareholder Services, a major proxy-advisory firm.

Big businesses that handed [investors the keys to their boardrooms](http://www.wsj.com/articles/in-shift-firms-give-investors-new-clout-over-board-seats-1426550134) last year include[General Electric](http://quotes.wsj.com/GE) Co., [AT&T](http://quotes.wsj.com/T) Inc., [Apple](http://quotes.wsj.com/AAPL) Inc., [Citigroup](http://quotes.wsj.com/C) Inc., [Occidental Petroleum](http://quotes.wsj.com/OXY) Corp.and [McDonald’s](http://quotes.wsj.com/MCD) Corp.  These companies typically changed corporate bylaws so owners with at least 3% of their shares for at least three years can propose a significant portion of board members.

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“The accelerated acceptance of proxy access is unprecedented,’’ said Avrohom J. Kess, a partner at Simpson Thacher & Bartlett LLP. “We’re in a new world.’’  The management lawyer advises boards about governance.

“We could approach half of the S&P 500 companies within two years’’ adopting proxy access, said New York City Comptroller Scott M. Stringer, who oversees $162 billion in pension funds. He is spearheading a campaign that initially challenged 74 more companies, including [3M](http://quotes.wsj.com/MMM) Co., [NVR](http://quotes.wsj.com/NVR) Inc. and [Home Depot](http://quotes.wsj.com/HD) Inc., to adopt or improve proxy access this year.

#### RELATED

* [Document: Companies With Pending Proxy-Access Proposals for 2016 (current as of Jan. 8)](http://www.wsj.com/public/resources/documents/2016proxylist.pdf)
* [Apple Offers Proxy Access](http://www.wsj.com/articles/apple-inc-offers-proxy-access-1450824690) (Dec. 22)
* [Staples Adopts Proxy-Access Policy](http://www.wsj.com/articles/staples-adopts-proxy-access-policy-1449007877)(Dec. 1)
* [Are Investors Bearing Proxy Access Costs?](http://blogs.wsj.com/cfo/2015/09/03/is-proxy-access-costing-investors/) (Sept. 3)
* [Citigroup to Back Proxy Access for Investors](http://www.wsj.com/articles/citigroup-to-back-proxy-access-for-investors-1424955193) (Feb. 26)

Mr. Stringer’s new drive follows his [similar 2015 initiative](http://www.wsj.com/articles/comptroller-scott-stringer-is-lauded-for-work-on-shareholders-1443492738), supported by an influential bloc of public pension funds in various locales.  Forty-three of their 66 shareholder resolutions for proxy access won majority support at annual meetings last year.

TIAA-CREF, a big asset manager, separately mounted a letter-writing campaign to its top 100 U.S. holdings last year and urged those companies to improve the ability of shareholders to nominate directors.  Thirty-nine firms made the move or committed to proxy access by early 2016. “We are continuing to have conversations” with the rest, said Bess Joffe, head of corporate governance at TIAA-CREF.

The rapid spread of proxy access also has been spurred by companies’ expanded outreach to major investors and directors’ desire to avoid the ire of proxy advisers that often oppose their re-election when management ignores a measure garnering majority support.

Dozens of companies made the change in recent weeks amid looming deadlines for investors to submit 2016 annual meeting proposals. At least 10 proxy access bylaws arrived every week during much of December, said Patrick McGurn, special counsel for ISS.  “Why catch the heat if you’re going to adopt anyway?”

3M beat the New York City pension funds to the punch. The industrial conglomerate disclosed its directors’ endorsement of proxy access, effective immediately, in a Nov. 10 regulatory filing. The same day, the city’s pension funds sent 3M a similar proxy access measure for 2016.

“We did not have any advance notice that any shareholder was considering a shareholder proposal on the topic,’’ and directors had considered proxy access for over a year, a 3M spokeswoman said.

Fourteen of the other businesses that received Mr. Stringer’s proposal for 2016 also have already endorsed proxy access, a Stringer spokesman said. Mr. Stringer dropped another two companies for technical reasons.

But some, such as NVR, oppose New York City’s efforts.  The home builder wants securities regulators to block the city’s binding resolution from coming to a vote this year because the company adopted a limited form of proxy access in November. NVR requires investors to own at least a 5% stake before they can nominate directors. It declined to comment, as did Home Depot, which lacks proxy access.

Investors have yet to use their improved entry into boardrooms. But “in the next two or three years, we might start to see one or two instances,’’ said Cam Hoang, a partner at Dorsey & Whitney LLP and governance specialist.  She expects coalitions of institutional shareholders will nominate directors at troubled companies that should fire their chief executive, for instance.

“It is the nuclear weapon that is a measure of last resort,’’ said TIAA-CREF’s Ms. Joffe.

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* **WALL STREET JOURNAL** [BUSINESS](http://www.wsj.com/news/business)

# Activist Investor Starboard Urges Macy’s to Strike Real-Estate Deals

## Deals could unlock value in retailer’s property holdings, Starboard says

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Activist investor Starboard Value would like to see Macy’s Inc. set up a joint venture for the retailer’s landmark properties such as its Herald Square store in New York, shown here. *PHOTO: BEBETO MATTHEWS/ASSOCIATED PRESS*

By

**DAVID BENOIT** and

**SUZANNE KAPNER**

Jan. 10, 2016 11:03 p.m. ET

[**10 COMMENTS**](http://www.wsj.com/articles/activist-investor-starboard-urges-macys-to-strike-real-estate-deals-letter-1452485020#livefyre-comment)

Activist investor Starboard Value LP is again urging [Macy’s](http://quotes.wsj.com/M) Inc. to find ways to unlock the value of its vast real-estate holdings, including its famous Herald Square store in New York.

In a letter and presentation the investor sent to Macy’s management on Sunday, Starboard said it supports the retailer’s recently announced plans to cut costs and urged the company to follow through with real-estate deals that could put more cash in its coffers as it struggles with lackluster sales.

The real-estate strategy could “create meaningful and lasting value for shareholders” despite the challenging retail environment, Starboard said in the letter.

In an emailed statement, Macy’s said it was reviewing Starboard’s letter and materials. The company said Starboard’s views are consistent with actions already under way at Macy’s. The company said it looks forward to continued dialogue with Starboard and other shareholders.

Macy’s last week said it would seek out joint-venture partners to take minority stakes in some properties after rejecting Starboard’s earlier call for a full spinoff of its real-estate holdings.

#### RELATED

* [Kohl’s Weighs Steps as Woes Mount](http://www.wsj.com/articles/kohls-weighs-next-steps-as-woes-mount-1452471600)

Starboard’s letter, reviewed by The Wall Street Journal, reiterates its view that the company’s properties are worth $21 billion, all told, and that the sale of even a small stake in Macy’s real estate could help drive the company’s shares higher.

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Starboard suggested two separate joint ventures, one for Macy’s landmark properties like Herald Square and a second for its hundreds of mall locations.

Last week, Macy’s announced disappointing holiday sales and said it would slash jobs and cut costs. It also said it was hiring a new adviser to explore joint-venture deals for its real estate and that an earlier adviser, real-estate developer Tishman Speyer, was interested in bidding.

Department stores were challenged in the period by consumers buying heavily online, though Macy’s pointed to unseasonably warm weather, which hurt winter buying, and a strong U.S. dollar, which slowed tourist spending.

Starboard first disclosed a stake in Macy’s in July. In its Sunday letter, the investor said it believes the stock could trade as high as $70, nearly double its Friday closing price of $35.89.

The letter implies that Starboard has given the company a detailed operational plan for how it believes the business could be turned around, but the activist isn’t sharing that plan publicly at Macy’s request.

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