

Shareholder activism and the timing of blockholder disclosure

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What is shareholder activism ?

- « The use of shareholder rights to enhance shareholder value » (Armour & Cheffins, 2011)
- Typically large minority shareholders
- Cooperative or confrontational approach

Purpose of the paper



- Propose a model of shareholder activism including the acquisition/disclosure part of the strategy
- Address the lack of theoretical framework underlying empirical studies on blockholder disclosure (*e.g.* Brav *et al.* 2008, Bebchuk *et al.* 2013)
- Discuss the consequences of the change in disclosure regulation currently under debate at the SEC

Context: market transparency



➔ Is full transparency desirable ?

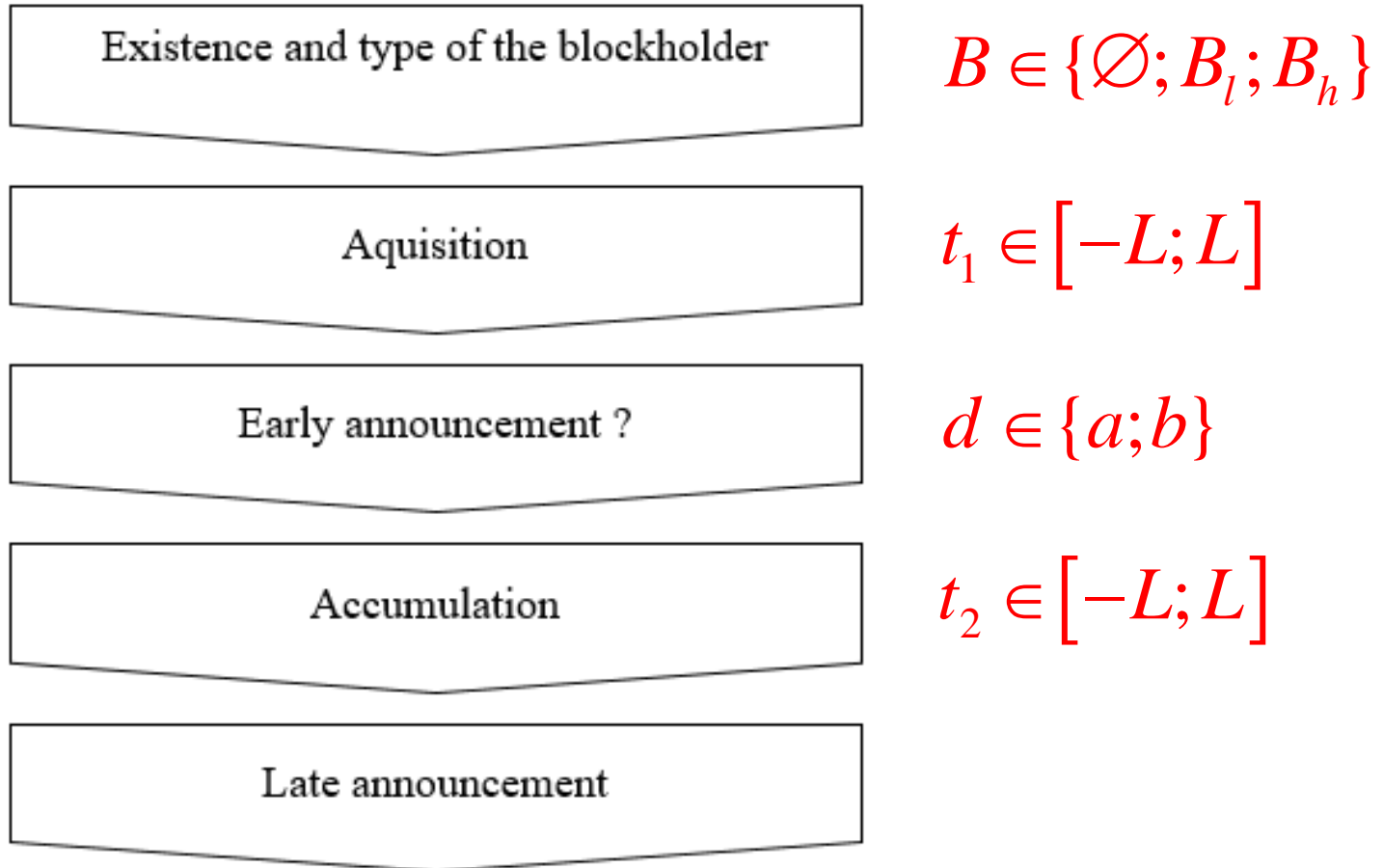
Academic context

- Law and finance : importance of disclosure rules (La Porta *et al.*, 2006)
 - Gantchev (2013): sequential decision model of activism
 - Activism is costly (more than \$10M for a campaign ending in a proxy fight)
-  *activist shareholders (and managers) try to avoid costly campaigns*
- Empirical studies on blockholding disclosure by activist shareholders (Brav et al. 2008)
-  *theory of activism ignores this first stage*

Institutional debate

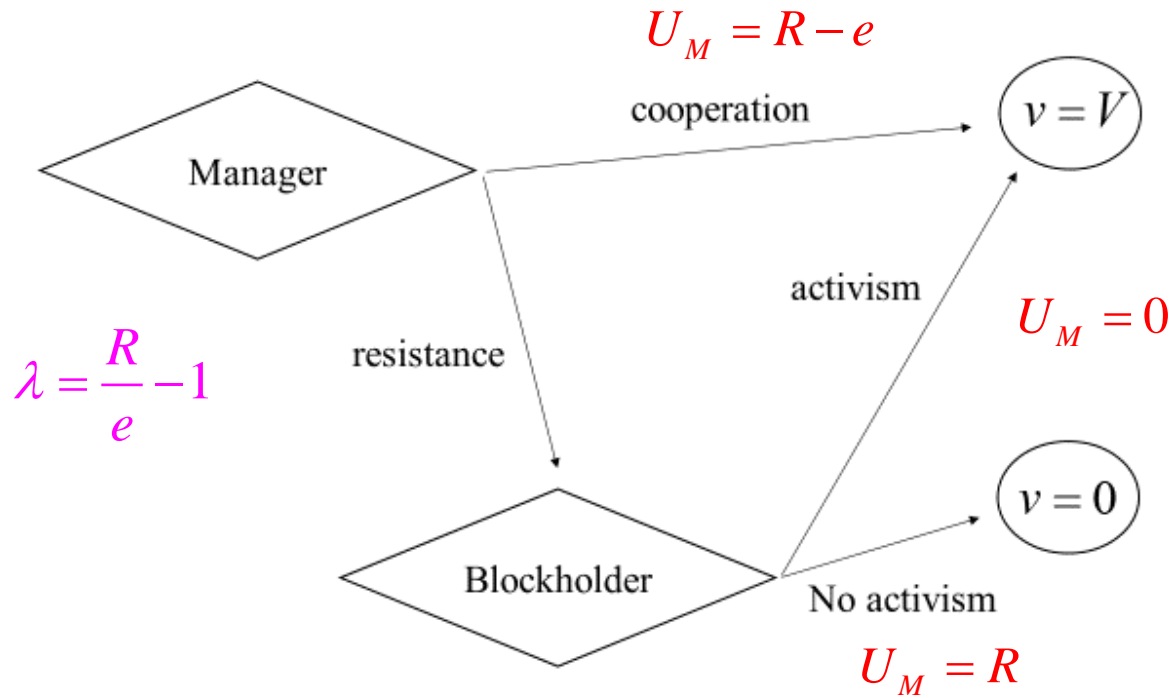
- WLRK petition to the SEC (March 2011)
- Main request: shorter reporting deadline (10 days in the US)
- Key issue: value creation by blockholders
- Aim of regulation : best interest of minority (uninformed) shareholders

Timing of the model

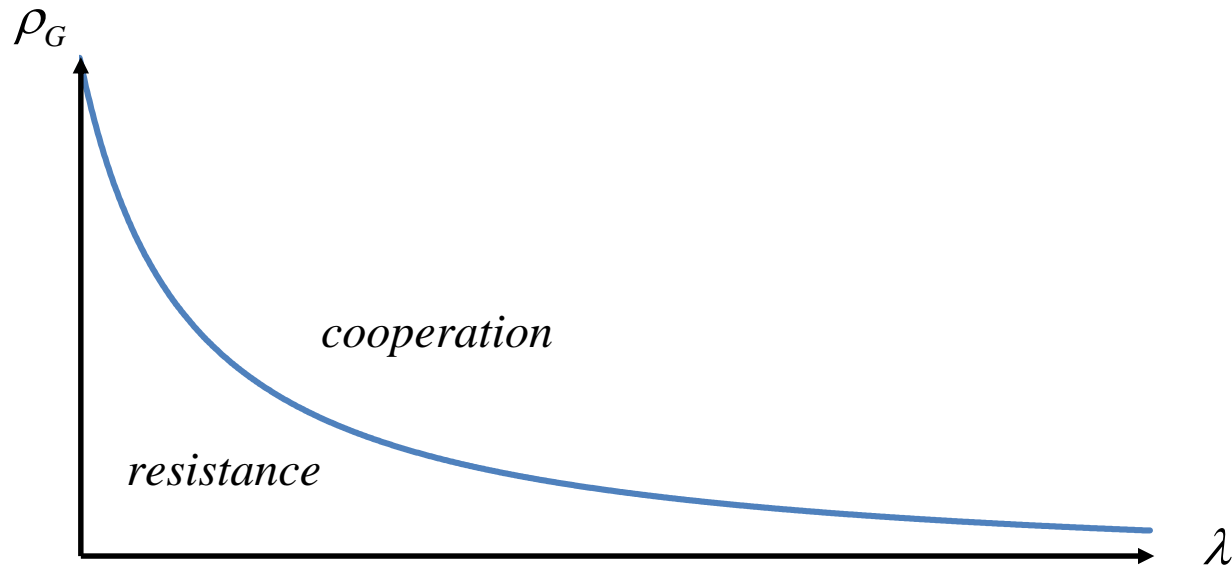


GOVERNANCE STAGE

Governance stage



Manager's attitude



Disclosure strategy (1)

TRADE-OFF

Trading stage benefit of
late disclosure

$$L(p_{2a} - p_{2b})$$

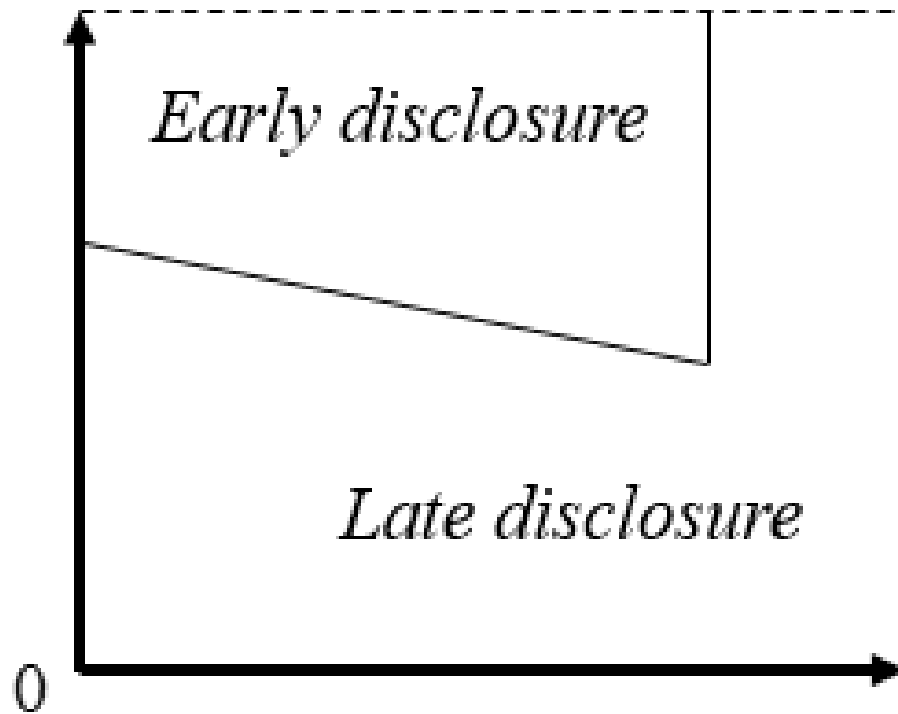
VS

Governance stage benefit
of early disclosure

$$c(k_a - k_b)$$

Results (1)

Relative cost of
activism



Prior belief about
blockholder's type

Results (2)

- Shortening the disclosure delay would only reduce the net profit of the blockholder when
 - Relative cost of activism is low
 - Total profit is high
- Such a reform would favor minority shareholders

Summary

- Model explaining voluntary early blockholder disclosure
- Predictions compatible with empirical findings (*e.g.* Bebchuk *et al.* 2013) :
 - Disclosure timing concentrated on late (7-10) and early (0-1) disclosure
 - Early disclosure + market impact + accumulation
 - No correlation between disclosure timing and ownership
 - Negative correlation between #days before disclosure and initial hostility
 - Positive correlation between #days before disclosure and short run AR

 ***But opposite conclusion !***

- Schedule 13d regulation still under debate

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