



Thomas Knipp

Brunswick Group GmbH

Talking With The Rebels

Shareholder Activism – Challenges For Communication

Christine Graeff, Partner, and Thomas Knipp, Senior Partner/Business Management Spokesman, Brunswick Group GmbH, Frankfurt (Main)

Activist investors: to some, they are the barbarians at the gates of German industry. To others, they are the ones who get dozing managers to wake up. Whichever side of the argument one tends toward, demonising them will not help. The activists are here to stay – even in the crisis. So it is necessary to listen, learn and communicate clearly.

The traditional relationships between companies and their shareholders have been changing all over the world at unprecedented speed. Rising yield expectations are forcing many investors to manage their investments much more actively than was the case only a few years ago. Hedge funds with aggressive investment strategies stir up the relationships between companies and shareholders and so-called activist investors actively influence the company strategy. This is accompanied by much more intensive dialogue between the companies and their stakeholders, who sometimes represent opposing interests.

Prominent Reporting In The Media

The subject of shareholder activism is being covered prominently in the media. This makes it comparatively easy for the activists, who love to work with aggressive headlines to gain a high profile for their story. There is great demand for news, while journalists have less and less time to research the facts intensively. Activist investors are well-versed in using the media for their purposes. With well-prepared information and pre-researched stories they win the journalists over to their view of things and thus place their messages in the media. In this respect, the communication of the activists has become much more professional during the past few years and it is now established practice to call in external communication advisers. Frequently, the activist investors only criticise the development of the share-price at first, and deliberately keep their own intentions to themselves. This then results in

speculation, putting the company under pressure. This allows an activist to test the reaction to particular ideas as well as to wear down the company.

Proactive Communication Can Offer Protection

The integration of media and investor relations is an important part of successful corporate communications. A company cannot directly influence the communication of the stakeholders among each other; but corporate communication is obliged to make the same information available to all participants. The information is adapted to the requirements of each group, but essentially the same message is sent. Target-group-appropriate corporate communication should fill in gaps in perception, because divergence between a company's perception of itself and outsiders' perception of it can present a possible point of attack for the activist. Proactive corporate communication with good media and investor relations provide a certain degree of protection against activists. This includes the active marketing of the company's equity story.

Addressing Investors Directly Is Helpful

Activists are not only extremely well prepared but often also put forward well-founded suggestions, which are in many cases enriching for the company. One should therefore not see the activist as an enemy per se that needs to be fought. The work of the investor relations department is outstandingly important because it is the first contact point for investors. The direct, regular and above all personal contact with the shareholders is enormously helpful for understanding how they regard the company and/or where they see a need for improvement. In equal measure, it is a matter of

developing a durable working relationship that enables open exchange even in difficult situations. While direct communication takes place via investor relations, the task of media relations is more indirect. Direct contact with the media acts to complete the understanding of the public perception, firstly via personal contacts and secondly via the evaluation of the statements of capital-market participants that are disseminated in the media. Here, for example, there is the opportunity to analyse who is talking to whom and what content is being conveyed by this.

Do Not Forget To Communicate With Original Shareholders

Normally, an activist only holds a small percentage of the target company (under the notification threshold). In other words, the original shareholders continue to be in the majority. The activist will therefore first of all attempt to build up so-called wolf packs – alliances of several shareholders. But activist investors can only build up significant holdings if original shareholders sell on a large scale. This situation absolutely must be avoided. As well as communicating with the "new" (activist) investor, the company should also communicate more with the original shareholders. Here, unlike in the public discussion, the demands of the activist certainly should be addressed and compared with the views of the management. This central task of the investor relations department is continued in the communication with the media. There, however, the focus is more strongly upon conveying one's own messages than upon a resolute discussion of the individual demands. Ideally, it may even happen that original shareholders make public statements regarding the demands of the activist and support the strategy of the management. ■