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How strategy can halt the excesses of activism

No industry or public company is immune to shareholder activism. Some activists are constructive, others confrontational.

Activist shareholders often wish to exploit a company's real or perceived vulnerabilities. Their scrutiny can include a company's performance and prospects, portfolio composition, capital allocation, and governance. In fact, activism, when combined with today's dynamic, disruption-filled environment, can bring about greater scrutiny than ever before.

While some shareholder activists are unconstructive, there are cases where senior executives and boards should view shareholder activism not just as a challenge to overcome, but as an opportunity for growth and value creation. That opportunity is best met with what has always

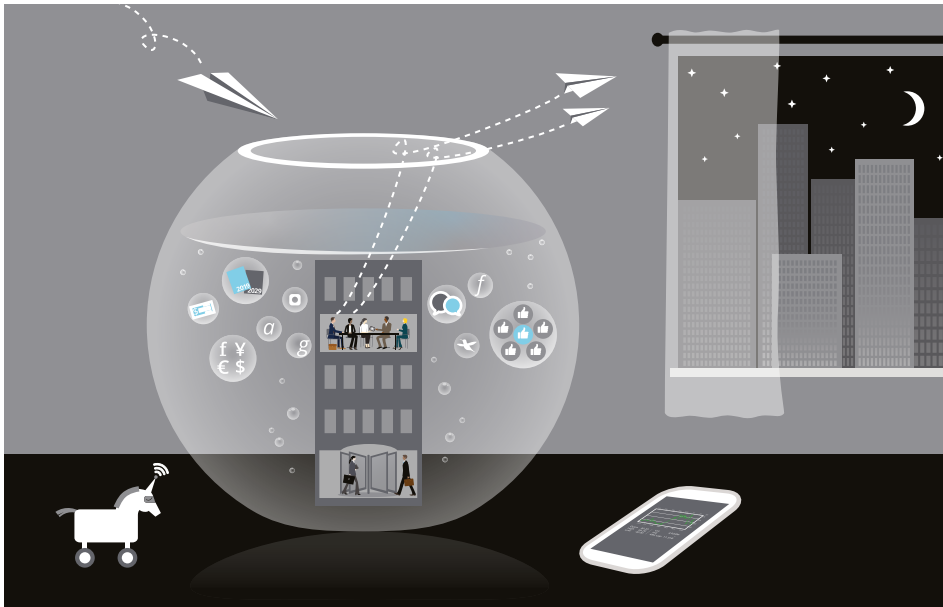
been the bulwark of a company's survival and future: a clear strategy.

No matter how large and complex or small and focused a company is, every company has a strategy. But simply having a strategy is not enough to defend against activism. Rather it's management's ability to convincingly articulate and execute a coherent and compelling strategy that helps manage activist challenges successfully.

The company's strategy should address where and how it intends to win and create value over the long term given its aspirations and the realities of how markets, customers, competitors, and advantages are changing. A good strategy reflects genuine choices and a continually improving value equation for the company's customers. ➤



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In this context, the board of directors has important responsibilities relating to activism and strategy. Some of these include:

- **Ensuring that management has a winning strategy.** Under every circumstance, the board should confirm that management has a winning, executable strategy in place and at work today. This is not a call for the board to take responsibility for strategy, but for the board to apply tough standards when weighing, vetting, and ultimately endorsing management's strategy.
- **Viewing a company's strategy through an activist lens.** Periodically, the board should instigate a stress test of the company's positions, prospects, and strategy through the lens of an activist investor. The intent is to challenge the direction of the company and the assumptions that underpin that direction. Do the assumptions hold up in the face of reality? Are there choices or moves that an independent and dispassionate actor

might suggest that merit consideration? What would an informed and aggressive activist investor say about the company?

- **Encouraging engagement rooted in strategy.** If faced with activist pressure, the board should encourage constructive and proportionate engagement. Such engagement is likely to be more compelling if it is coupled with a well-told and well-executed strategy.
- **Leveraging real or potential threats of activism.** Ultimately, the board should consider activist pressure as a potential opportunity. By listening and reflecting on signals from the marketplace, savvy boards can take advantage of possibilities for value creation and defend against the excesses of short-termism.

Far from being a supporting player in activist confrontations, strategy should occupy a central role for those management teams and boards hoping to see the benefits that can result from productive activism.

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