



## companies, management & people

Shareholder Activism

# Dissidents Rankle Status Quo

REXENE'S MANAGEMENT DOES NOT WANT THE COMPANY TO become just a captive styrene source for Huntsman Corp. Petrolite's top brass did not want to leave their jobs so that their businesses could be absorbed by Baker Hughes. And management at Dexter has no intention of selling the company's controlling interest in a biotech company—but that choice may not be theirs to make.

The power that shareholders wield over U.S. companies has been growing for half a century (p. 45), but in the past year it has crested in the chemical industry.

New York-based arbitrageur Guy P. Wyser-Pratte started buying Rexene's stock when its managers made it clear they could not come to terms with unsolicited suitor Huntsman Corp. Wyser-Pratte quickly acquired more than 10% of Rexene's equity and was able to carry enough votes to call a special shareholders' meeting to discuss sacking the board for his own slate of candidates.

Wyser-Pratte's modus operandi is to find a company that, in his view, has abdicated its responsibility to shareholders. Other companies attracted Wyser-Pratte by mispending their cash or adopting restrictions that limit the free market for the shares (box).

"The just-say-no defense tends to fall apart when you push people into a special shareholders' meeting," Wyser-Pratte says. "We're not involved in a philanthropic venture," Wyser-Pratte says, "but we're on the side of the angels. I'm amazed how people line up to help us." When asked if he has his eye on any other chemical companies, he answers, "You never can tell."

Less dramatic, but at least as effective, were efforts by Petrolite's largest shareholder. William S. Barnickel, a fund established by the estate of the company's founder, owned roughly 47% of Petrolite and was dissatisfied with the stock's flat performance. By pressuring corporate officers to dispose of the company before it stepped in and appointed new directors

who would, Barnickel was able to get management to sell out to Baker Hughes.

At Dexter a group of shareholders led by Richard C. Blum & Associates (San Francisco) has been urging management since October 1995 to sell its interest in Life Technologies (Gaithersburg, MD). Blum's group holds 5.3% of Dexter.

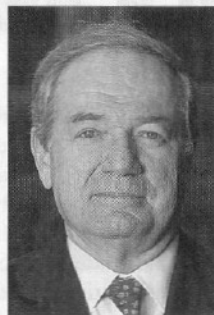
"We understand your desire to hold what has been a profitable investment. Unfortunately, holding this investment means that you are forgoing the greater opportunity to reinvest in your core business," the dissident shareholders said last year in a letter to CEO K. Grahame Walker. Dexter "has determined not to pursue the proposal," the company replied. There was no mention of the issue on this year's proxy statement, and Dexter still holds 55% of Life Technologies.

But shareholders' clout is increasing. The California Public Employees' Retirement System (CalPERS; Sacramento) has become a force for shareholder activism over the past 10 years. The largest U.S. pension fund, CalPERS has \$108 billion invested on behalf of 1 million members, and its strategy emphasizes over-seeing management as a way of maximizing value. "It really makes economic sense for us," a spokesperson says. "It gives us \$150 million/year in additional returns."

Still, even CalPERS's investments are spread so thin that "our vote won't even make a ripple" at most shareholder meetings, the spokesperson says. Rather, the fund's strength is in its ability to form alliances with other large institutions that could vote as a block. CalPERS has never taken drastic action at chemical companies but is credited with bringing down CEOs at IBM, Eastman Kodak, and American Express.

That, of course, is a last resort. CalPERS generally starts by meeting with executives and asking to review plans to improve a stock's performance. If that does not work, the fund moves toward filing shareholder proposals to be voted upon at the annual meeting. If that fails to improve the share price, a proxy war could be imminent.

—WILLIAM FREEDMAN



Wyser-Pratte: Side of the angels.

## ACTIVISTS' GOVERNANCE OBJECTIVES

**ELIMINATE 'POISON PILLS':** Executives call them "shareholder rights plans." Investor advocates believe that, by placing restrictions on the trading of the stock, poison pills subtly drive down the share price. They may also not-so-subtly entrench mediocre managers.

**DE-STAGGER BOARD ELECTIONS:** If all directors face reelection at the same time, then outside shareholders can, with greater speed and less difficulty, vote them out.

**SEVER THE CHAIRMAN AND CEO JOBS:** The chairman is the investors' ombudsman and should oversee management

rather than be part of it, activists say.

**LINK EXECUTIVE PAY TO PERFORMANCE:** Making paychecks sensitive to shareholder returns could motivate managers to maximize share prices or dividend payments.

**REQUIRE INDEPENDENT DIRECTORS:** By ensuring that a majority of the board are neither company employees or the CEO's longtime acquaintances, shareholder activists hope to make maximizing shareholder value a greater imperative.

Sources: *Institutional Investor*, *CW* sources.