Under the agency theory, shareholder activism is used as an alternative control mechanism to solve agency conflicts between managers and shareholders. It can be defined as a “range of actions taken by shareholders to influence corporate governance and boards” (Rieh, Frank, Mayer, and Rossi, 2009). As underlined in previous research, the various characteristics of the activism process (motives for criticism, degree of influential activities, sponsor identity) all have an impact on the outcome. To date, all research has dealt exclusively with the Anglo-Saxon context.

Consequently, in this paper, we seek to extend shareholder activism literature to the French context, which proves to be of special interest in a continental European environment that markedly differs from the Anglo-Saxon systems in terms of ownership structure and legal framework.

At the beginning of the 1990s, the French economy consisted of a “financial network economy” governed by interlocking and controlling shareholders organized in cross-holdings (Morin, 2000). On average, the interlocking stakes held by these controlling coalitions exceeded 30% of the capital of French companies (Morin, 2000). This factor accounts for the fact that in French corporations, conflicts of interests are not only between management and dissatisfied shareholders but often oppose two coalitions: a controlling coalition of blockholders and a coalition of minority shareholders. However, at the end of the 1990s, the French system underwent drastic changes, such as an increase in foreign ownership and a visible decline in the number of cross-shareholdings, although family ownership remained a dominant factor (Faccio and Lang, 2002). These changes in French ownership structure came about as a response to financial resource requirement, driving French firms to adopt selective legal and institutional modifications tending towards the shareholder model (Lee and Yoo, 2008). Notably, the New Economic Regulation Law which came into force in May 2001 acted as a watershed in the evolution of French shareholder activism.

Before this date, the first steps towards better shareholder protection had been taken in 1989 with the recognition of investor associations’ rights to claim collective damages for expropriated shareholders. However, French civil law still provided comparatively weak protection for shareholders (La Porta, Lopez-de-Silanez and Shleifer, 1998) until the New Economic Regulation Law came into effect in 2001. Prior to this, activist shareholders could not vote by mail and the 10% of voting rights needed to adopt a resolution prevented shareholders from putting forward proposals. Obtaining this higher threshold presented a major obstacle because of the concentration of ownership in French corporations. After 2001, the Law reduced this threshold to 5%, thereby facilitating the recourse to proxy battles.

Our objective in this paper is to examine which characteristics of the French activism process are significantly linked to its success. First, which sponsors play a “pivotal” role and what degree of influential activity and motive are associated with success? Second, is the involvement of one of the numerous investor associations which emerged after the 1989 reform a significant factor of success? Third, has the 2001 New Economic Regulation Law, inasmuch as it has wrought profound changes in the characteristics of French shareholder activism, had a positive effect on successful outcomes?

In this paper, we define the beginning of a confrontational contest process as the first point at which minority shareholders voice their concerns in the French financial press. We analyse two samples of confrontational activist cases. Between January 1989 and December 2000, 155 confrontational activist cases are recorded, and from January 2001 to June 2008, there are 88 cases. The term “successful” indicates that the activist coalition gains at least one of its objectives. We observe an overall average success rate of 45%. We perform an empirical test using multivariate logit regressions. The main empirical findings are that: first, although there are currently more than twenty investor associations all specializing in judicial actions, they do not play a “pivotal” role in success. Secondly, it appears clearly that, in France, the nature of the influential activity has a positive effect on...
SUCCESS OF SHAREHOLDER ACTIVISM: THE FRENCH CASE

success over the whole period studied. We find that the more confrontational the activism process, typically resulting in a law suit, the greater the chance of the firm acceding to the activist’s demands. Thirdly, consistent with recent literature, since 2001 the involvement of proxy professionals has become a significant factor of success, and institutional investors have begun to play an active role in France taking advantage of legal and institutional reforms.

This paper proceeds as follows: in the first section we advance our theoretical model and propose our hypotheses. In the second part, we present the methodology and data sources while the third section we discuss the results.

I. THEORETICAL BACKGROUND AND HYPOTHESES

Dissident shareholders may opt for a range of strategies (Hirschman, 1971). In some cases they may use an exit strategy by selling their stocks in the firm. Alternatively, they may remain silent and vote with their feet, or become active and attempt to influence managerial decisions by use of a voice strategy. In most cases, rational shareholders will become active if the expected benefits of the influential activities exceed their expected costs. For Smith (1996), "the expected benefits of activism are equal to the probability of successful targeting times the shareholder’s private gain if successful", whereas the expected costs are those incurred by a “pivotal” shareholder to break the free rider problem and thus to monitor (Bhattachar-rya, 1997). These monitoring costs will increase as the degree of activism intensifies. As underlined by Wahal (1996), the degree which follows that of target selection linked to investment strategy consists of informal activities, in the form of numerous meetings and telephone calls with the management of the targeted corporation. However, if these private interventions should fail, active shareholders may move up to a more confrontational degree of activism, namely voting solicitation activities. This stage often involves media coverage either to solicit the vote of passive shareholders, or to threaten a proxy fight. Thus the proxy battle at the AGM (Annual General Meeting) constitutes the penultimate stage before the most confrontational degree of activism, that of pursuing a judicial action. To be able to carry this activism process through all the various stages, the sponsor has to dispose not only of the ability to collect and process information and the skills to mobilize other shareholders, but also the financial resources to meet the costs. Moreover, the sponsor has to have a thorough knowledge of laws and regulations governing shareholder access at each stage, thereby proportionately increasing the costs borne by activist shareholders.

As previously studied by Gizard (2001), in the French civil law context only investor associations seem to be in a position to combine the necessary means, information and knowledge. Furthermore, French investor associations tend to have a much longer lifespan than their American counterparts (Gillian and Starks, 2007).

### Table 1: Specialized influential activities by the most active investor associations in France

<table>
<thead>
<tr>
<th>Name</th>
<th>CEO (date of creation)</th>
<th>Influential activities</th>
<th>Targeted corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOS Petits Porteurs (SOS Small Holders)</td>
<td>Jean Claude Delarue (1987)</td>
<td>Media and judicial activities</td>
<td>Collect the accounts of retired customers badly advised by their bank.</td>
</tr>
</tbody>
</table>
As shown in Table 1, we observe that there are currently more than twenty investor associations in France, each specializing in specific influential activities.

As Table 2 also shows, French shareholder activism dates from 1989 with the recognition of investor associations’ rights to claim damages for expropriated shareholders. This reform was designed to reinforce consumer rights by developing shareholder-friendly saving schemes, which give shareholders similar protection to that of consumers under the law. Investor associations provide general protection to investors holding equity in any company. To be legally entitled to sue a targeted company, the association must have a written mandate from each of the claimant shareholders. In France, the law requires that when an activist shareholder is represented before the court, his or her own personal identity must appear in the procedure. This explains why an American-style class action is effectively ruled out by the French civil law system. At present, the closest approximation in France to a class action lawsuit is the “Representation Action” (action en représentation conjointe) enacted in 1992. This grants designated associations the right to file a joint compensation claim on behalf of financially exposed investors, but requires that each claimant be named individually. These associations play an important role in the defence of shareholders, as otherwise weak protection would inevitably result in a free rider problem.

In France, Girard (2001) showed that the “pivotal” role has been taken up by investor associations, which have often been praised for their defence of shareholder interests. For example, by means of the minority assessment (expertise de minorité), investor associations can force the targeted corporation to divulge private information. It therefore seems appropriate to determine whether success is positively related to the involvement of an investor association in the activism process. Therefore, we state this hypothesis as follows:

H3: Over the whole period studied, the involvement of an investor association as an activist sponsor will be positively related to the probability of French successful activism.

During the 1990s, the best-known French investor association was ADAM (Minority Shareholder Association). Girard (2001) pointed out that this association intervened in 31.4% of the 97 French companies targeted from 1989 to 2000, with a success record of 59.38%. ADAM was able to attain this relatively high rate of positive outcomes by using legal loopholes, such as concerted action, to force the individual shareholders to make a joint bid as a way of protecting the minority shareholders of controlled companies. Under French Law, one-third of voting rights are required to gain control. The notion of concerted action is defined as “an agreement to acquire or to sell voting rights or to carry out a common policy towards the corporation though the exercise of voting rights”.[2] Nevertheless, it is extremely difficult to prove conclusively the existence of a case of concerted action between two blockholders. The second loophole used is linked to the evaluation of the exit premium during a squeeze-out. In France, the right to demand a squeeze-out is comparatively recent. However, art.5-6-8 of the general regulation of the AMF specifies a multi-criteria evaluation of the exit bid, the loose definition of which gives dissident shareholders and ADAM an opportunity to negotiate a higher exit premium. This so-called “strategy of harassment” (Couret, 1996) was used to put a halt to proceedings or gain time in order to convince passive shareholders to become active, or to negotiate an agreement with the targeted corporation. The second advantage of lawsuits, such as the minority assessment, is to collect private information. If activism is used as an alternative control mechanism, the probability of obtaining damages for expropriated shareholders should be

Table 2: Evolution of the minority shareholder rights in France

<table>
<thead>
<tr>
<th>Year</th>
<th>Legal Reforms</th>
<th>Fiduciary responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Law of August 2, 1989</td>
<td>Emergence of the squeeze-out</td>
</tr>
<tr>
<td>1992</td>
<td>Law n° 92-60 of January 18,1992</td>
<td>Consumer associations are permitted to sue in the name of at least two consumers who give them their prior written authorization</td>
</tr>
<tr>
<td>1994</td>
<td>Law n° 94-679 of August 8, 1994</td>
<td>Recognition of the right to claim individual damages for expropriated shareholders who give a mandate to investor association</td>
</tr>
<tr>
<td>2001</td>
<td>New Economic Regulation Law</td>
<td>Reduction in the threshold to 5% of voting rights Authorization to vote by mail</td>
</tr>
<tr>
<td>2003</td>
<td>Financial Security Law</td>
<td>Shareholder(s) with 5% of voting rights are allowed to put forward a resolution on the proxy statement sent 15 days before the AGM.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment management companies are required to draw up a report on the exercise of voting rights attached to the shares held by the collective owners.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Merger between French Securities Market Regulators to create the Autorité des Marchés Financiers, an independent public authority charged with investor protection.</td>
</tr>
<tr>
<td>2006</td>
<td>Decree n° 2006-956 of December 11, 2006</td>
<td>Adoption of the record date which ends the blocking of shares before the AGM. Shares are registered three days before the AGM.</td>
</tr>
</tbody>
</table>
positively related to the most confrontational degree of activism, which is constituted by the law suit. This leads to the following hypothesis:

H1: Over the whole period studied, a law suit action, inasmuch as it constitutes the most confrontational degree of activism, will be positively related to the probability of French successful activism.

However, recent legal reforms have largely encouraged proxy battles in France. The New Economic Regulation Law which came into force in May 2001 strengthened the rights of shareholders, hitherto poorly protected by French civil law.

As shown in Table 3, shareholders prior to 2001 remained passive during Annual General Meetings as they were denied the possibility of voting by mail. They also had to buy or solicit more than 10% of voting rights to be able to put forward a proposal in the proxy statement and more than one-third of votes to contest a proposal put forward by the management at the AGM. With 10% of voting rights they could enforce compliance with disclosure rules and demand a minority assessment. This type of assessment was useful not only as a way of reducing informational asymmetry in one or several operational decisions, but also as a delaying tactic to facilitate the mobilisation of shareholders. Moreover, to be able to vote, the shares of the activist shareholders were blocked for five days before the AGM. The cost of blocking their shares had a strongly dissuasive effect. In a well-known example in France, Albouy and Schatt (2004) calculate the cost incurred by a successful French proxy fight as around 250 million euros. They give the example of two institutional investors holding respectively 5% and 10% who sought to take total control of Vivarte by massively buying up shares in the targeted company. By the AGM, their joint holding had increased to roughly a third of Vivarte shares.

Since the adoption of the New Economic Regulation Law in 2001, the threshold of 10% of voting rights has been lowered to only 5%. This reduction makes it less expensive for activist shareholders to solicit voting rights in order to put forward a proposal, vote by mail and submit written questions to the AGM. Moreover, since the Financial Security Law of 2003, investment management companies are now required to report on the exercise of shareholder rights. Hitherto poorly protected by French civil law, institutional investors voted against certain specific proposals such as nomination of board members, capital increase without subscription rights, the repeal of anti-takeover amendments, and executive-level remunerations. Given all of the above, we put forward the following hypothesis:

H2: After 2001, the involvement of an institutional investor as an activist sponsor will be positively related to the probability of French successful activism.

Table 3: Comparative Company Law of General Meetings mechanics

| Judicial constraints          | United States | United Kingdom | France
|------------------------------|---------------|----------------|------
| Proxy by mail                | Yes           | Yes            | No   |
| Share Blocking/registration required | no/no         | no/no          | yes/yes |
| Minimum notice of AGM        | 28 days       | 15 days        | 15 days |
| Shareholder proposals        | 1%            | 5%             | 10%  |
|                             |               |                | 5%   |
II. DATA AND METHODOLOGY

II.1. SAMPLE SELECTION

There is no specific database of activist shareholders in France. Data were hand-collected from multiple data sources. The majority of the data were obtained from a review of the French financial press (La Tribune and Le Echo) from January 1989 to December 2000 and from the Factiva database from January 2001 to June 2008, using key words “activisme”, “actuante”, “attaquantes minoritaires” (minority shareholders) and “contestation” (contest). Our sample consists of all public announcements by an activist coalition threatening, planning or undertaking a proxy fight or lawsuit. Thus, confrontational activist events beginning with the first announcement in the French media of the activist’s influential activity were examined. The first step of the procedure enabled us to identify the names of target firms.

We then turned to other sources to collect our variables. First, we obtained documents from the AMF. Second, for each targeted firm in our sample, we searched the Factiva database for the characteristics of the activism process. Specifically, we performed keyword searches to identify all new items mentioning “association d’investisseurs” (investor association), “ADAM”, “APPACT” or any other investor association’s name in conjunction with the name of the firm. Third, we collected new items from the websites of proxy voting advisory firms. As a result of this three-step procedure, we were able to determine the degree of activism, the motive of activism, whether a proxy voting advisory firm was involved, and the activism outcome.

There are different ways of evaluating the effectiveness of shareholder activism. One potential measure would be the presence of abnormal stock returns around the date of the announcement of an activism process. However, this was not consistent with our objective of taking into account all corporations irrespective of their ownership structure. In this study, we do not refer to the date of the proxy mailing to determine the beginning of the activism process, as this information is not available in France. Hence, we focus primarily on the results of this process. Moreover, as we have seen French activism is generally a long process combining a range of distinct influential activities (proxy battle; law suit) with multiple motives, and with the likelihood that only one of the motives is actually achieved. To take into account this diversity of influential activities and motives, recent studies have measured success as being the overall achievement of the activist’s goals (Recht et al., 2009; Klein and Zur, 2009). We define success as the activist coalition having achieved one or more of its goals relating to a case of confrontational activism. For example, the case of Compagnie de Navigation Mixte, which succeeded in obtaining damages for only one of several claims in a lawsuit, is considered as a single successful confrontational case.

To constitute our database, we therefore obtained the outcomes of all judgements pronounced from Bulletin judiciare des sociétés and from the CDrom Juridique Lamy-ardois de la Cour de cassation. In Atos Origin Corporation, two activist hedge funds succeeded in obtaining board representation after a failed attempt to dismantle the company by private intervention. Since both motives were presented in the same targeted corporation at the same time by the same activist sponsors, they are also treated in our empirical test as a single confrontational activist event.

Though our sample might not be exhaustive of all potential confrontational activist events that occurred in the 1989-2008 time period, we are confident it includes all major events because any events that do not feature in our sample must also have failed to attract the attention of the media. In all, our sample is composed of 203 confrontational activist events in 157 French corporations.

There are 157 targeted French corporations which have been targeted only once while 28 French corporations have been targeted more than once. Where motives were presented more than one year apart in the same targeted corporation, each is considered in our empirical test as a separate confrontational activist event. The sample reflects the fact that there are approximately the same number of privately held corporations and publicly held corporations in the Paris Stock Market. Over the entire period leading up to 2001, 125 confrontational activist events were recorded, and since the 2001 reform, this number has already reached 88. Although the overall average success rate of activism is 47%, a marked decrease can be observed in the second sub-period. Prior to 2001, the success rate stood at almost 50% but between 2001 and June 2008, it fell to only 39%.

II.2. RESEARCH DESIGN AND VARIABLE DEFINITION

Our research questions are: first, what characteristics, in terms of “pivotal” sponsor, degree of influential activity and type of motive, are associated with successful outcomes? Second, is the involvement of one of the numerous investor associations which emerged in the wake of the 1998 reform a significant factor of success? Third, has the 2001 New Economic Regulation Law, inasmuch as it has brought about a change in the characteristics of French shareholder activism, had a positive effect on successful outcomes?

To address these research questions, our sample was divided into two sub-samples consisting respectively of a pre-2001 and a post-2001 sample.

The hypotheses are tested by proceeding in two interrelated steps. First, we provide descriptive statistics regarding French activism. Second, we conduct multivariate logit analyses of dependent variables to take into account simultaneous interactions between explanatory variables and highlight the marginal contribution to predicting activism success, and then a second multivariate analysis with control variables. Logit provides the same degree of reliability as probit estimation, but does not require normality of parameter distribution.

Our empirical research design requires meaningful binary classifications of activism success (SUCCESS), sponsor identity such as investor associations (ASSO) and institutional investors (INSI), involvement of a proxy voting advisory firm (PROXY), and categorical classifications of degree of activism and motive.
We rank the degrees of activism (DEGREE) from the least to the most confrontational. Due to differences in sample selection, we include neither contact with the existing management (Becht et al., 2009) nor negotiation to obtain board representation without a proxy contest (Brav et al., 2008). These differences lead us to discard non-confrontational interactions between the activist and its target firm, which could also influence activism outcomes. In contrast with Klein and Zur (2009) and Brav et al. (2008), we consider that the highest degree of activism is constituted by the law suit rather than by a proxy contest. Because of the concentration of ownership and the degree of inter-corporate holdings, hostile takeovers are more difficult to undertake in France (Gedajlovic and Shapiro, 1998). Thus, the DEGREE variable is a categorical variable with the value of 0 in the case of the activist coalition carrying out formal influential activities, such as publicly criticizing the company, threatening a proxy solicitation campaign or sending written complaints to the AMF. The DEGREE variable has the value of 1 in the case of the activist coalition launching a proxy contest in order to put forward shareholder proposals or to contest managerial proposals at general meetings. The value of 2 is used in the case of the coalition suing the company.

The motives (MOTIVE) giving rise to French activism can be classified into a number of major categories, each containing multiple sub-cATEGORIES. Wahal (1996) identifies three categories: “performance-related targeting” and “governance-related targeting”. A motive is classified as “performance-related targeting” when the activist coalition launches a contesting coalition opposing a take-over bid, denouncing a concerted action forcing individual shareholders acting conjointly to make a bid, or opposing a merger or a squeeze-out. The third motive is related to governance issues, such as a change of board composition, a demand for greater information disclosure, an accusation of the potential use of fraudulent information, executive remuneration and other corporate governance issues. In contrast with Klein and Zur (2009) and Brav et al. (2008), we do not categorize these motives according to the relative level of aggressiveness of the initially stated objectives. This level depends on whether the controlling coalition has been able to negotiate an arrangement with the activist coalition if it is thought that this would limit the financial prejudice to either the firm or itself. In fact, because our sample selection does not include cases involving a private degree of activism, all the motives taken into account in this study are considered as aggressive.

It could be thought that the success of a confrontational activist event is endogenous to the characteristics of the targeted corporation. Control variables have been found in previous research to be reliable determinants of shareholder activism outcomes (Gordon and Pound, 1993; Smith, 1996; Strickland et al., 1996; Alexander et al., 2006; Klein and Zur, 2009). Each control variable is measured at the end of the year prior to the announcement of a confrontational activist event.

We include three governance variables: the proportion of institutional ownership (INST%), the concentration of ownership (C1) and the proportion of outside directors on the board (ADMEXT). The size of the holding is an important factor since large shareholders such as institutional investors may protect smaller shareholders. Nevertheless, in France, large shareholders have not been observed to sanction underperforming management (Dherment-Ferere, Köke and Renneboog, 2006). From 1986-1995, Harbula (2007) pointed out that all of the largest 150 French firms with a reference shareholder holding ownership stakes superior to 50% were in fact underperforming. Empirical evidence suggests that beyond a certain level of ownership concentration, a greater possibility for the expropriation of minority shareholders outweighs the potential advantages of better monitoring. Thus, we include a measure of ownership concentration, C1, the most widely used in international literature (Gedajlovic and Shapiro, 1998), which represents the stakes owned by the largest shareholder in the firm.

To measure the size (SIZE), we include the log of the total assets of the targeted firm. Generally, victory against a larger firm is harder to achieve due to the political relationships of the targeted firm (Gordon and Pound, 1993). The targeted corporation’s financial performance (ROE) and leverage (LEVERAGE) may also influence activism success. ROE is the quotient of return on equity and LEVERAGE is the ratio of total debt on total assets. These variables are collected in the Diane data base for the pre-2001 period and the Thomson One Banker data base for the post-2001 period.

We also control for past confrontational activist events (PAST) that by conveying information may influence a passive coalition to become increasingly active, consequently creating an escalation of confrontation. We use a binary variable to indicate whether the corporation has been targeted more than once over the whole period studied.

III. RESULTS

First, we examine descriptive statistics regarding activism. Second, using logit models, we determine the characteristics of successful French shareholder activism before and after 2001.

III.1. SUMMARY STATISTICS

Table 4 provides descriptive statistics regarding activism. The most common activist sponsor remains the investor association. Whereas before 2001, they intervened in 47% of confrontational activist events, after 2001 this proportion increased to 68% and the involvement of institutional investors was correspondingly reduced. Before
2001, the latter were sponsors in 35.5% of confrontational activism events, but this percentage has declined to 20.5% of cases since 2001. Surprisingly, a new category of activists such as hedge funds has emerged. Since 2001, these activist hedge funds have been sponsors in only five confrontational cases, but their success rate (8%) is extremely high. In contrast, we observe a decline of the success rate of investor association over the same period. This is supported by the findings of Brav et al. (2008) in the U.S. context. Using extensive data hand-collected from 2001 to 2006, they also calculate a high success rate (75%) achieved by 102 activist hedge funds in 781 non-confrontational and confrontational cases. Brav and al. explain this phenomenon by the fact that activist hedge funds are better positioned to act as informed investors than other institutional investors because they employ highly incentivized managers who make use of the voting rights of a large unregulated pool of funds.

We observe that prior to 2001, 63% of influential activities took the form of a law suit, the most confrontational degree of activism, but that subsequently this proportion has fallen to less than one-third. As explained by Girard (2001), this decline in judicial actions has been brought about by legal reforms to close loopholes. At the same time, the proportion of less confrontational activities is increasing. Since 2001, public interventions and proxy contests have each accounted for almost one-third of influential activities.

Prior to 2001, the most common motives were related to takeover and performance issues. Activist shareholders who targeted French companies were seeking an exit opportunity because they were dissatisfied with the financial performance of their invested companies and wished to exert pressure to negotiate a higher control premium during a takeover bid. Since this time, the most common grounds have been those related to corporate governance recommendations. Activist shareholders have elected independent board members, and criticized both executive remunerations and the presence of non-independent board members. Over all the period studied the number of anti-takeover amendments constituting the motive has remained constant, a result which is consistent with those of Governance for Owners. In its survey of French shareholder activism in 2008 AGMs, it found that the level of contested anti-takeover resolutions remained high. Surprisingly, in some targeted companies such as Veolia Environment and Essilor, the activist coalition did not contest the adoption of a new poison pill known as “Breton warrants” introduced in 2006. We also observe that while before 2001, the success rate of each motive was approximately 50%, after 2001, it fell to around 33% for performance-related motives and to 31% for takeover-related motives. Only the success rate of governance-related motives has continued to show a positive evolution throughout the two periods studied.

We also observe an increase in the activity of Proxy voting advisory firms who intervened in 10% of activism campaigns before 2001, but have been involved in 28% of cases in the later period.

### III.2. LOGISTIC MODELS

Table 5 reports the results of logit regressions of targeting outcomes where the dependent variable is equal to one if the outcome of targeting is successful and zero otherwise. Each of the four logit regressions in Table 5 estimates
the effect of independent variables on the probability of activism success. For each regression, we include non-correlated variables and results for the two sub-samples; the pre-2001 period and post-2001 period.

The first model specification reported in Table 5 contains our basic specification linked to the characteristics of the French activism process. This model indicates that the probability of an activist coalition winning is positively and significantly related to the degree of activism (DEGREE) in both sub-periods. Before 2001, the most confrontational degree of activism is associated with an increase in the probability of an activism success by 90.8 percentage points. After 2001, this percentage is equal to 73.3 and the probability of activism success is also positively and significantly related to the involvement of a proxy voting advisory firm (PROXY) and an institutional investor (INST). In the post-2001 sample which includes the 88 confrontational cases observed, the DEGREE continues to be positively and statistically significant.

Table 5: Models predicting French activism outcomes

This table reports the estimated marginal effects from logit regressions explaining French activism successes (1 = activist coalition achieves one or more motives, 0 = activist coalition does not achieve any motive) in terms of the activism process characteristics. The main independent variables are ASSO (equal to 1 if investor association is the sponsor, zero otherwise), INST (equal to 1 if institutional investor is the sponsor, zero otherwise), DEGREE (a categorical variable taking the value 0 if the influential activity is a public intervention, value 1 if it is a proxy battle and value 2 if it is a lawsuit), MOTIV (a categorical variable taking the value 0 if the influential activity is a public intervention, value 1 if it is a proxy battle and value 2 if it is a lawsuit) and PROXY (equal to 1 if a proxy voting advisory firm is involved in the activism event, zero otherwise). All other independent variables are control variables. PAST is a dummy variable equal to 1 to indicate if the corporation has been targeted more than once, zero otherwise. SIZE is the log of total assets of the targeted corporation. %INST is the percentage of institutional ownership. C1 is the percentage of ownership held by the largest shareholder. ADMEXT is the proportion of outside directors on the board. ROE is the return on equity. LEVERAGE is the ratio of total debt on total assets. HEDGE is equal to one if hedge fund is the sponsor, zero otherwise.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Pre-2001 period</th>
<th>Post-2001 period</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSO</td>
<td>0.006 (0.088)</td>
<td>0.030 (0.044)</td>
</tr>
<tr>
<td>INST</td>
<td>–0.011 (0.008)</td>
<td>0.016 (0.012)</td>
</tr>
<tr>
<td>DEGREE</td>
<td>0.908* (0.005)</td>
<td>–0.211 (0.027)</td>
</tr>
<tr>
<td>MOTIV</td>
<td>–0.007 (0.005)</td>
<td>0.006 (0.005)</td>
</tr>
<tr>
<td>PROXY</td>
<td>0.169 (0.024)</td>
<td>–0.578 (0.126)</td>
</tr>
<tr>
<td>PAST</td>
<td>5.528* (0.008)</td>
<td>–0.578 (0.026)</td>
</tr>
<tr>
<td>SIZE</td>
<td>–0.012† (0.011)</td>
<td>0.001 (0.002)</td>
</tr>
<tr>
<td>%INST</td>
<td>0.735† (0.009)</td>
<td>0.001 (0.001)</td>
</tr>
<tr>
<td>C1</td>
<td>0.043* (0.003)</td>
<td>0.001 (0.001)</td>
</tr>
<tr>
<td>ADMEXT</td>
<td>0.005 (0.001)</td>
<td>0.001 (0.001)</td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>0.097* (0.005)</td>
<td>0.002 (0.001)</td>
</tr>
<tr>
<td>HEDGE</td>
<td>0.1313 (0.071)</td>
<td>0.101 (0.020)</td>
</tr>
</tbody>
</table>

Note: *** p<.001, **p<.01, *p<.05, †p<.10

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Interestingly, in the post-2001 period, it does not appear the marginal effects increase for all these determinants. Conversely, the concentration ownership variable (C1) is positively and significantly related to targeting success. This result suggests that these variables account for confrontational activism outcomes. This finding suggests that these variables mobilize passive shareholders by raising their expectations of making imminent private gains rather than by the probability of winning the confrontational case (Smith, 1996). However, in the pre-2001 period, the level of ownership concentration and leverage increased the probability of an activism success. This result suggests that these variables affect the expected benefits from targeting because the activist coalition is seeking damages to compensate the ability of the controlling coalition to extract private benefits.

The second model adds in a control for the fact that the targeted corporation has been the object of two or more confrontational activism events. This, it can be observed that whether the corporation has been targeted once or more than once over the two sub-periods studied is not an important determinant of the activism outcome. This result can be explained by corrective influential activities exercised by the controlling coalition during and after the activism process. For example, in the case of French corporations targeted for performance between 1989 and 2000, Girard (2004) shows that new sub-committees were constituted in anticipation of the activism process whereas immediately after the public announcement of confrontation, she observes an intensification of communica- tion activities and an increase in executive turnover. In the case where management does not react to signs of impending shareholder confrontation, Ertimur, Ferri and Stubben (2002) show, even in the case of unsuccessful activism, targeted corporations are sanctioned by negative media coverage and by downgrades by governance rating firms. Furthermore, their directors are less likely to be re-elected. As these corrective and coercive actions are also accompanied by ensuing modifications in ownership structure, each case can be seen as being independent from the preceding cases.

The third model includes controls for governance variables and financial indicators. In the pre-2001 period, there are 115 confrontational activism events in total, but in only 66 cases do we have complete data on all control variables. In the post-2001 period, we have complete data on all control variables in 76 out of a total of 88 cases. Once again, the degree of activism is positively and significantly related to activism success over the two sub-periods. After 2001, the involvement of a proxy advisory firm and the sponsorship of an institutional investor are also significant. Moreover, there is no reduction in the magnitude related to activism outcome; on the contrary, the marginal effects increase for all these determinants. Interestingly, in the post-2001 period, it does not appear that firm size, ownership structure and financial variables account for confrontational activism outcomes. This result can be explained by corrective influential activities exercised by the controlling coalition during and after the activism process. For example, in the case of French corporations targeted for performance between 1989 and 2000, Girard (2004) shows that new sub-committees were constituted in anticipation of the activism process whereas immediately after the public announcement of confrontation, she observes an intensification of communication activities and an increase in executive turnover. In the case where management does not react to signs of impending shareholder confrontation, Ertimur, Ferri and Stubben (2002) show, even in the case of unsuccessful activism, targeted corporations are sanctioned by negative media coverage and by downgrades by governance rating firms. Furthermore, their directors are less likely to be re-elected. As these corrective and coercive actions are also accompanied by ensuing modifications in ownership structure, each case can be seen as being independent from the preceding cases.

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SUCCESS OF SHAREHOLDER ACTIVISM: THE FRENCH CASE

This study contributes to agency theory literature by determining the characteristics of French successful shareholder activism. It was observed that the development of shareholder activism is a relatively recent phenomenon in France. From the period January 1989 to June 2008, there were only 203 recorded cases of confrontational activism in French corporations and the average rate of success was 45%. By “successful activism” we mean that activist shareholders achieve at least one of their objectives. The empirical evidence confirms that over the whole period studied, the more confrontational the activism process, the greater the chance of success. In addition, we also observe that investor associations do not play a “pivotal” role because the legal environment tends to privilege the activist coalition’s demand. Moreover, we also observe that the type of activism motive is not significant for three reasons (hypothesis rejected). First, activism outcomes do not depend on the requirement that activist sponsors disclose the way they vote their shares in invested corporations (Cremers and Romano, 2007), but rather on the way they use confrontational tactics. Second, motives vary very considerably over time as a result of corporate activity takeover activity (Karpoff, Malatesta and Waddock, 2001) and new concerns such as corporate governance issues imposed by Anglo-Saxon institutional investors (Aquella and Cuervo-Cazurra, 2004) investing in foreign firms (Durney and Kim, 2009). Third, individual shareholders may lack the financial knowledge to evaluate the expected benefits of a given activism motive. To illustrate this possibility, we note the following quote from the Financial Times in 1997 made by a French individual Eurotunnel shareholder: “I didn’t know what shares were. I thought they were saved like loans”. We thought they were saved like loans. 8.

IV. Conclusion

has been discernible change in their behavior. While some of the investors interviewed describe themselves as “money managers” with no ability to intervene in the management of invested corporations, others declare themselves to be active. Prior research has demonstrated that institutional investors are more or less active (Ryan and Schneider, 2002) depending on whether the existence of legal constraints or internal/external management. For example, the decision to manage a fund’s portfolio internally or externally has implications on the fund’s activism degrees. Ryan and Schneider argue that external portfolio managers are likely to hold a large quantity of the same shares across the portfolios they manage, giving them a greater chance of success. Hedge funds are able to act similarly whilst internalizing the costs of activism by exploiting the voting rights of passive investors held in a pool of funds. This appears to be an explanatory variable of the activism outcome.

In addition, the type of activism motive is not significant for three reasons (hypothesis rejected). First, activism outcomes do not depend on the requirement that activist sponsors disclose the way they vote their shares in invested corporations (Cremers and Romano, 2007), but rather on the way they use confrontational tactics. Second, motives vary very considerably over time as a result of corporate activity takeover activity (Karpoff, Malatesta and Waddock, 2001) and new concerns such as corporate governance issues imposed by Anglo-Saxon institutional investors (Aquella and Cuervo-Cazurra, 2004) investing in foreign firms (Durney and Kim, 2009). Third, individual shareholders may lack the financial knowledge to evaluate the expected benefits of a given activism motive. To illustrate this possibility, we note the following quote from the Financial Times in 1997 made by a French individual Eurotunnel shareholder: “I didn’t know what shares were. I thought they were saved like loans.” 8.

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1. Recently, certain investor associations have launched class actions not in France but in a common law country where the parent is registered. For example, several investor associations from EADS have filed this type of action in the Netherlands, where the pan-European company is registered. Despite this innovation forms of influential activity available to French shareholders, class action still remains the exception.
9. For example, during the Alcatel Origin confrontational activist event, ADAG supported the two activist hedge funds whereas Dannon, an advisory firm, decided to support the CEOs of the CEOs.
References

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