



## MBA / M.Sc.

# 1231.5303 - Active Ownership, Governance and Firm Performance

## אחזקות אקטיביות, ממשל תאגידי וביצועי החברה

Prerequisites: Finance Management 1231.2410

Parallel requirements: N/A

Spring Semester -First Half– 2023/24

Section	Day	Hour	Final Task	Lecturer	Email	Telephone
01	Wednesday	15:45-18:30	Written Assignment ( no exam)	Julian Franks	jfranks@london.edu	

Teaching Assistant (TA): -----

Office Hours: -----TBC-----

### Course Units

Course units 1 YAS

1 course unit = 4 ECTS units

The ECTS (European Credit Transfer and Accumulation System) is a framework defined by the European Commission to allow for unified recognition of student academic achievements from different countries.

### Course Description

This half semester course consists of two parts. The first part will examine how and why ownership differs across countries and the implications for the governance of firms. It will look at the way institutions and law influence the landscape of ownership and how ownership evolves in response to changes in the institutions and the legal environment. The country comparisons will include China, Japan, France, Germany and Italy as well as the UK and the US.

The second part will examine the influence on company performance of different forms of shareholder activism by various types of shareholders particularly hedge funds, active asset managers and index funds. We will address the question, how do shareholders fare in response to engagement by the different asset managers? In addition, we shall address the question, how successful are engagements by asset owners and managers with respect to ESG? Included will be a case study of the Japanese Government's Pension Fund (GPIF) efforts to persuade its asset managers to engage portfolio companies on ESG and how successful they are.

### Grading for the course

For 75 percent of the grade students will have the option of presenting one of the papers listed below or submitting a referee's report evaluating one of the papers. Classroom participation will account for the remaining 25%.

## Course Objectives

Upon completion of the course, the student will be able to understand:

1. the different patterns of ownership we observe across countries
2. how law, regulation and other institutions influence the different forms of ownership
3. why some asset managers are active owners and others are passive. We will discuss criticisms of index funds which provide strong diversification but which are accused of being passive owners while at the same time they are criticized for reducing competition through their common ownership of stakes in competing companies
4. engaging companies on ESG, and whether they improve outcomes
5. the arguments around the issue of whether asset owners should internalise externalities such as climate in their engagement and voting decisions

## Evaluation of Student and Composition of Grade

Percentage	Assignment	Date	Group Size/Comments
75%	Presentation of a paper or a writing a referee's report on a paper in the readings		Groups of 2 for presentations and sole authored for referee's report
25%	Classroom participation		

\* Students who absent themselves from classes or do not actively participate in class may be removed from the course at the discretion of the lecturer. (Students remain financially liable for the course even if they are removed.)

## Course Assignments

See above

## Grading Policy

In the 2008/9 academic year the Faculty instituted a grading policy for all graduate level courses that aims to maintain a certain level of the final course grade. Accordingly, this policy will be applied to this course's final grades.

Additional information regarding this policy can be found on the Faculty website.

[Score Retention Policy](#)

## Evaluation of the Course by Student

Following completion of the course students will participate in a teaching survey to evaluate the instructor and the course, to provide feedback for the benefit of the students, the teachers and the university.

## Course Site (Moodle)

The course site will be the primary tool to communicate messages and material to students. You should check the course site regularly for information on classes, assignments and exams, at the end of the course as well.

Course material will be available on the course site.

Please note that topics that are not covered in the course material but are discussed in class are considered integral to the course and may be tested in examinations.

## Course Outline\*

\*Subject to change

The titles and readings of each session are listed below:

### **Week 1: The landscape of ownership across the world and the level of investor protection**

Readings:

- Julian Franks and Colin Mayer, [Evolution of Ownership and Control Around the World: The Changing Face of Capitalism, The Handbook of the Economics of Corporate Governance](#), editors Hermalin and Weisbach, North-Holland (pre-course reading)
- [The Threat of Common Ownership: real or imagined?](#) Julian Franks and Vikrant Vig, Agenda: Advancing Economics in Business, Oxera, October 2018.
- [FT Article Common ownership of shares faces regulatory scrutiny, Brooke Fox and Robin Wigglesworth](#)

## **Week 2: The influence of law and institutions on governance and ownership in different countries: a comparison of the UK & US with Europe and Japan**

### Readings:

- Gur Aminadav, Elias Papaioannou, [Corporate Control Around the World](#), Journal of Finance, January 2020
- Aggarwal, Reena, Isil Erel, Miguel A. Ferreira, and Pedro Matos, 2011, Does governance travel around the world? Evidence from institutional investors, Journal of Financial Economics 100, 154-181.
- Franks, Mayer and Miyajima, 2014, the Ownership of Japanese Corporations in the 20th Century, The Ownership of Japanese Corporations in the 20th Century, 2014, The Review of Financial Studies, 27 (9): 2580-2625.

## **Week 3: How activist hedge funds engage with portfolio companies and their performance.**

### Readings:

- Marco Becht, Julian Franks, Jeremy Grant and Hannes Wagner, 2017, "[Returns to Hedge Fund Activism: An international study](#)", Review of Financial Studies, 30, 9: 2933-2971.
- \*Brav, A., W. Jiang, F. Partnoy, and R. Thomas. 2008. Hedge fund activism, corporate governance, and firm performance. Journal of Finance 63:1729–75.
- [Elliott Advisors \(UK\) Limited Public Letter](#), 7 December 2021
- FT Article [Hedge fund Elliott builds \\$2.5bn SoftBank stake](#)
- FT Article [Elliott's \\$2.5bn gamble that SoftBank founder Masayoshi Son will play ball](#)
- FT Article '[TCI boss calls for fund managers to be fired over emission failures](#)', Financial Times Monday 2 December 2019 (page 1)
- FT Article [Toshiba investors secure landmark win in clash with management](#), Leo Lewis and Kana Inagaki March 2021
- Marco Becht, Julian Franks, [Why Has International Shareholder Activism Flourished?](#), *English Language manuscript of article published in [Nikkei Online](#)*, January 2020

## **Week 4: How active asset managers and index funds engage with portfolio companies and how they differ from hedge funds.**

### Readings:

- Marco Becht, Julian Franks, Hannes Wagner, [The Benefits of Access: Evidence from Private Meetings with Portfolio Firms](#) Download [The Benefits of Access: Evidence from Private Meetings with Portfolio Firms](#), ECGI working paper, 2023 Under revision with The Journal of Finance
- Dimson, Elroy and Karakaş, Oğuzhan and Li, Xi, Active Ownership (August 7, 2015). [Review of Financial Studies](#) (RFS), Volume 28, Issue 12, pp. 3225-3268, 2015.;
- Miguel Ferreira and Pedro Matos, The Colors of Investors' Money: The Role of Institutional Investors around the World, 2007, [Journal of Financial Economics](#), july: 499-533

## **Week 5: Asset owners and their engagements on ESG. Included will be a case study of the Japanese Government's Pension Fund (GPIF) experience of paying its asset managers to engage with portfolio companies on ESG.**

## Readings:

- Marco Becht, Julian Franks, Hideaki Miyajima, Kazunori Suzuki, [Does Paying Passive Managers to Engage Improve ESG Performance](#)[Links to an external site.](#), presented at the PRI Conference in Tokyo, October 2023

## Required Reading

### Readings will include:

#### Part 1: Landscape of ownership around the world and their differences

Evolution of Ownership and Control Around the World; The Changing Face of Capitalism, Julian Franks & Colin Mayer, Chapter 10 in the Elsevier Handbook of the Economics of Corporate Governance editors, & Weisbach, 2017.

\*Gur Aminadav and Elias Papaioannou, 2017, Corporate Control around the World, NBER working paper No. 23010 December 2016

\*Miguel Ferreira and Pedro Matos, The Colors of Investors' Money: The Role of Institutional Investors around the World, 2007, Journal of Financial Economics, july: 499-533

Franks, Mayer and Miyajima, 2014, the Ownership of Japanese Corporations in the 20<sup>th</sup> Century, The Ownership of Japanese Corporations in the 20<sup>th</sup> Century, 2014, The Review of Financial Studies, 27 (9): 2580-2625.

Franks, Mayer and Wagner, 2016, the Survival of the Weakest, Flourishing Family Firms in Germany, Special Issue of Journal of Applied Corporate Finance on Corporate Governance and Financial Markets in Germany,

#### Part 2: Shareholder activism by different asset owners, including hedge funds and institutional investors

Marco Becht, Julian Franks, Grant and Hannes Wagner, 2017, Returns to Hedge Fund Activism: An International study, *Review of Financial Studies*, 30, 9, September, 2933-2971.

\*Brav, A., W. Jiang, F. Partnoy, and R. Thomas. 2008. Hedge fund activism, corporate governance, and firm performance. *Journal of Finance* 63:1729–75.

\*Aggarwal, Reena, Isil Erel, Miguel A. Ferreira, and Pedro Matos, 2011, Does governance travel around the world? Evidence from institutional investors, *Journal of Financial Economics* 100, 154-181.

Dimson, Elroy and Karakaş, Oğuzhan and Li, Xi, Active Ownership (August 7, 2015). *Review of Financial Studies* (RFS), Volume 28, Issue 12, pp. 3225-3268, 2015.;

McCahery, J. A., Sautner, Z., & Starks, L. T. (2016). Behind the scenes: The corporate governance preferences of institutional investors. *The Journal of Finance*, 71(6), 2905-2932.

Brad Barber, Adair Morris, Ayako Yasuda, 2017, Impact Investing, January working paper, <https://ssrn.com/abstract=2705556>