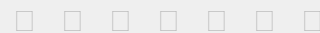


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## 6 Ways CEOs Can Be Prepared When Activist Investors Strike

At large publicly-held companies, one CEO after another is being battered or at least threatened by private-equity groups, celebrity corporate raiders and other activist shareholders that are holding company chiefs' feet to the fire as never before. Here are 6 ways CEOs can prepare and protect themselves and their companies when activist stockholders begin sniffing around.



□ Posted by: Dale Buss □ February 20, 2015

At large publicly-held companies, one CEO after another is being battered or at least threatened by private-equity groups, celebrity corporate raiders and other activist shareholders that are holding company chiefs' feet to the fire as never before.

Some of the latest companies that have been in the eye of this storm include General Motors, DuPont, Lear, Darden Restaurants and Tempur Sealy.

And activists are ending up with full or partial victories in 72% of proxy fights these days, according to executive search firm Egon Zehnder. "The days in which management got the benefit of the doubt are long gone," said Kim Van Der Zon, head of the firm's U.S. Board Practice.

So, CEOs not only must be prepared for a potential onslaught by activist investors, but also act strategically and decisively in the event of such an assault.

Here are 6 ways CEOs can prepare and protect themselves and their companies when activist stockholders begin sniffing around.

"Before any activist approaches your firm, put together a playbook of your best defense."

1. **Think like they do.** Especially if your company is under-performing, a CEO “should critically evaluate operational performance, business strategy, balance sheet” and so on and “honestly assess what can and should be done to improve in weak areas,” Christopher Hewitt, a corporate attorney with law firm Tucker Ellis LLP, told *CEO Briefing*. “They should not delude themselves that only external factors are affecting performance.” And, said Patricia Lenkov, principal of Agility Executive Search, CEOs “need to be kept up to date on the trends and developments in shareholder activism” generally.
2. **Hone in on financial performance.** Activist shareholders have targeted governance and sustainability issues, but financial performance is paramount for the head of a publicly held company, noted Roger Bolton, former chief communications officer at Aetna. “Articulate the financial strategy with [activists’] perspective clearly in mind,” he said.
3. **Get on the same page as rank-and-file shareholders.** CEOs need a clear understanding of their personal interests, their company’s interests and those of their shareholders, Bolton advised. “If they are perceived as fighting [only] for their own survival, shareholders are not likely to be sympathetic,” Bolton said.
4. **Form a “what-if” response team.** Creating or designating a team to deal with and respond to any activist overtures can help CEOs go a long way toward being ready for any such action—and having confidence in the future, Lenkov said. “The plan should also prepare and educate board members on how to respond,” she said.
5. **Recommit to the basics of good corporate governance.** Boards and CEOs must help a company meet its goals and objectives while simultaneously ensuring that it meets its obligations to multiple stakeholders, Nancy Falls, founder of corporate-consulting firm The Concinnity Company said. “Much of the fire of activist investors in America today has been fueled by CEOs and boards who have ignored this factor, she said.
6. **Prepare a pre-game “playbook”.** Before any activist approaches your firm, put together a playbook of your best defense, suggests Gardner Davis, partner in the Foley & Lardner corporate law firm. This should include cultivating relationships with major institutional investors, monitoring the shareholder base and their interactions with activist investors, assessing the balance sheet and potential financially-based stratagems, and evaluating potential structural defenses such as poison pills, staggered boards and bylaw provisions—while understanding the likely adverse response to such moves by institutional investors.

These tactics can help CEOs be as ready as possible for activist-shareholder initiatives.



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## ABOUT DALE BUSS



Dale Buss is a long-time contributor to *Chief Executive*, *Forbes*, *The Wall Street Journal* and other top-flight business publications. He lives in Michigan.

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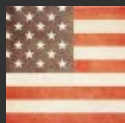
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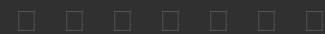
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