UA professor studies causes, consequences of corporate infighting

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Published: Sunday, July 12, 2009 at 3:30 a.m.

The public might never see the closed-door arguing on the nightly news, but corporate boardroom brawls can send stock prices plummeting and have long term effects on companies, their employees and investors.

That's why heated disputes among corporate directors piqued Anup Agrawal's interest.

Agrawal, a University of Alabama finance professor, and Mark A. Chen, a finance professor at Georgia State University, teamed up to do one of the first empirical studies on causes and consequences of boardroom brawls.

Agrawal said he got interested in the topic after reading an article in 2005 on how the Securities and Exchange Commission had strengthened its rules to require quicker public disclosure when corporate directors resign or do not stand for re-election.

"There is a huge amount of research in corporate governance," he said.

But there were no detailed studies of boardroom brawls even though there were data that could be mined in SEC filings, he said.

The researchers went to the SEC Web site and examined Form 8-K filings. The SEC requires publicly traded companies to file 8-Ks to report any major current events that stockholders have an immediate right to know about. Among those events are director departures. The filing must include directors' reasons for leaving and the text of their resignation letters. Companies also are allowed to state their position in a dispute.

Not all 8-Ks cover director departures, but in examining 8-Ks from 1995 to 2006 the researchers found 181 boardroom disputes involving 168 companies.

Most of the companies were small, but there were some major players — Wal-Mart Stores Inc., General Motors Corp., Smith & Wesson Holding Corp., Cigna Corp. and Janus Capital Group Inc.

Even an Alabama-based company, Compass Bancshares Inc., made the study's list of major players. Three directors left Compass following a highly publicized effort in 1995 to sell the Birmingham-based bank. That boardroom battle started when Compass founder and retired chairman Harry Brock couldn't get a majority of his fellow directors to back his proposal to sell the bank.

Brock then took the fight to shareholders, who voted not to sell. Brock and two directors who supported him left the board shortly thereafter.

In 2007, Compass merged with a Spanish banking company to become BBVA Compass in a move that was endorsed by Compass directors.

Agrawal said "boardroom disputes often reveal serious issues facing the firm."

He said an analysis of the data on the companies studied showed that public revelation of problems may lead to large declines in stock prices, result in changes to top management and can even put a company in play for a takeover.

Companies with boardroom brawls "experience poor operation performance in the years surrounding the dispute episode," he said. The stock price performs poorly in the 12 months leading up to the publicizing of the dispute and performs poorly in the 12 months afterward.

There also is a significantly greater chance that a stock will be delisted by a stock exchange in the 12 months following a dispute, he said.

Agrawal said "conflicts in the boardroom typically appear to be the result of power struggles between management and directors."

Two-thirds of the time, the director who leaves because of a dispute is an outside director as opposed to a director who has an executive position with the company, he said.

Directors most likely to be involved in a boardroom brawl share some characteristics, he said.

"Directors who are ostensibly more powerful or independent such as entrepreneurs, VCs [venture capitalists] or investment bankers are more likely to be involved in a dispute," he said.

Directors who are CEOs or chairmen of other companies and outside directors with greater stock ownership are less likely to become embroiled in a dispute, he said.

The companies that have CEO founders, CEOs with shorter tenures, higher independent blocks of stock holdings, bigger or less independent boards and no independent audit or compensation committees also are more likely to see boardroom differences go unsettled and become public.

Even so, Agrawal said the boardroom disputes that go public are relatively rare.

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