

Compared to other developed financial markets, Australia's conditions favour shareholders when it comes to engaging with the companies they invest in. This is not only because of the rules in [Australia's Corporations Act of 2001](#), but also because of the large and growing pool of superannuation savings.

Like many other countries, shareholders in Australia vote on executive remuneration reports, commonly known as "say on pay". This is helped by an increased amount of quality information disclosed to shareholders and companies prioritising shareholder engagement before annual general meetings.

Shareholder activism is done mainly in meetings closed to the general public. Information is only made public if it's strategically beneficial to someone in the meeting. So it's hard to verify the exact role shareholder activists play.

According to [FTI Consulting](#), Australia ranks third in the world on the "activism threat level".

Australia's investing conditions

The greater power afforded to shareholders partly comes down to the [Corporations Act of 2001](#).

The first power is the two-strike rule, which allows just 25% of shareholders to vote down a company's remuneration proposal and ultimately spill the boards of directors. [According to a study](#) based on 4,145 say-on-pay votes between 2011 and 2013, 306 (7.4%) firms received first strikes, of which 51 (16.7%) received second strikes. This resulted in 12 board spills, with all but 8 directors returned to office.

The study also showed that directors' accountability increased as shareholders were allowed to vote on remuneration. However, the market considers this type of action, especially when shareholders vote against remuneration, as destroying some of the value of the company. This is reflected in a negative market reaction.

Another measure that affords shareholders some power is the relatively low threshold of 5% of issued shareholdings that's required to call an extraordinary general meeting. These meetings are used to convey shareholders' dissatisfaction and demand a change in board composition, or to force strategic business decisions, such as closing down an unprofitable business unit.

One more aspect of Australia's financial landscape that makes it attractive to shareholder action is its pension savings pool. It's [the fourth largest in the world](#), at approximately A\$2 trillion (forecast to be about A\$6 trillion by 2035). These super funds have the voting power to exert influence on board decisions and, given their long-term investments, they have genuine interest in the success of the firm.

Active shareholders in Australia

Many of Australia's shareholder activist groups or individuals, such as Sandon Capital, Sir Ron Brierley and Thorney Opportunities, are short-term investors. This means they target companies to change the board composition, business strategy and restructure capital.

For example, [after publicly releasing](#) an analysis of BlueScope in mid-2015, Sandon Capital worked with other shareholders and the company to restructure its operations. Sandon proposed mothballing the Port Kembla mill, to enable it to pay dividends, save costs and improve performance.

Sandon Capital also campaigned for substantial board changes in mid-2015 at biotech company [Alchemia](#) when it accumulated a loss of A\$145 million. This resulted in the retirement of Tim Hughes as chairman of the board and the appointment of Sandon's proposed Ken Poutakidis as a board director.

Shareholder activity is also concentrated around firms with small to medium-sized market capitalisation. Between 2013 and 2016, [86%](#) of the activists targeting Australian companies were from small domestic funds with a maximum of around A\$6 billion to invest.

Australia is ripe for shareholder activism

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Recently added to this list of activists are long-term investors such as UniSuper, Australian Super and the Australian Council of Superannuation (ACS). The ACS represents industry funds such as Cbus, HESTA and Hostplus.

In November, more than 25% of shareholders including these super funds voted down the remuneration proposal at Commonwealth Bank. This is an unprecedented event in the history of Australian markets. It signalled a new era of activism from passive super funds.

The three largest US-based passive funds - BlackRock, Vanguard and State Street – are also shoring up their presence in Australian companies.

According to [Morningstar research](#), BlackRock owns 5% or more of 43 companies on the ASX, including Bendigo and Adelaide banks, CSL, Rio Tinto, Suncorp and Transurban. State Street Global Advisors holds 5% or more of nine companies, mostly REITs, while Vanguard sits on 32 companies including Tabcorp, Aristocrat Leisure and Mirvac.

Australian regulatory and institutional environments favour more active shareholder engagements. There isn't much evidence, though, of any long-term benefits to all shareholders from this type of activism by short-term investors in Australia. [Evidence](#) from around the world on this is at best mixed.

[Other research suggests](#) the growing power of super investors, with the accumulation of retirement savings in superannuation, will translate into more engagement with the companies they invest in. This also increases the value for other shareholders of the company, its corporate governance and performance.

If we're looking to the future as to what this trend will bring, perhaps superannuation funds should consider strategically expending the regulatory "tools" afforded to them as shareholders, to add value to companies they invest in with a long-term, rather than short-term, focus.

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