Shareholder Short-Termism, Corporate Control and Voluntary Disclosure

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Abstract

- This paper examines how a manager uses voluntary disclosure to influence corporate control by a short-term shareholder.
- Because a short-term shareholder intervenes excessively, the manager's disclosure strategy is determined by the trade-off between excessive and insufficient intervention.
- In equilibrium, （1）when shareholder short-termism is not too high, the manager discloses both good and bad news and withholds intermediate news. Alternatively, （2）when shareholder short-termism is high, the manager only discloses good news and withholds bad news. （3）In both equilibria, withholding information is value-enhancing for the non disclosing firms.
- We also show that the likelihood of disclosure weakly decreases as the shareholder is more short-term-oriented. Moreover, non disclosing firms are more likely to face shareholder intervention than disclosing firms.

Research Framework

1.Introduction
2. Model
3. Shareholder Intervention
3.1. Shareholder's Intervention Strategy
3.2. Disclosure and Intervention Efficiency
4. Disclosure Equilibrium
4.1. Manager's Disclosure Strategy
4.2. Voluntary Disclosure Equilibrium
5. Comparative Analysis
6. Extensions
7. Empirical Implications
8. Conclusion

1.Introduction

Fights : shareholders VS managers

- Over the past few years, fights by shareholders for control over corporate decisions have become increasingly prominent.

- To maintain control, managers often try to influence shareholders' beliefs with voluntary disclosure, including information released via the media, letters to shareholders, or costly road shows

Such a corporate control role for voluntary disclosure receives limited attention in the literature.

In this paper, we study this issue by examining how a manager's disclosure strategy influences shareholder control over corporate decisions.

Related Literature

- the literature that examines the consequences of investor horizon on firms' policies.
  - affects the market response to disclosures(e.g., Bushee 1998, Hotchkiss and Strickland 2003), influences firms' payout policies, financing decisions, and investment strategies (e.g., Gaspar et al 2012, Derrien et al. 2013).
  - how and when shareholder intervention can change firm value (e.g., Bebchuk et al. 2015, Brav et al. 2015, Aslan and Kumar 2016)
  - the impact of shareholder intervention on the manager's incentive (e.g., Baldenius and Meng 2010, Edmans and Manso 2010, Keusch 2018)
- This paper:
  - how the threat of intervention by a short-term shareholder affects the voluntary disclosure of a firm.

Related Literature

- The literature largely focuses on the valuation implication of voluntary disclosure:
  - partial disclosure is mainly driven by capital market incentives. (前因)
  - voluntary disclosure can affect the firm's financing and investment decisions (Beyer and Guttman 2012) as well as alter information acquisition by analysts and managers (Einhorn and Ziv 2007, Langberg and Sivaramakrishnan 2008). （后果）
- In our setting,:
  - without capital market pressure, the manager still sometimes withholds information because it can improve intervention efficiency and, thus, firm value.
  - examining how disclosure changes the shareholder's intervention.

Contributions

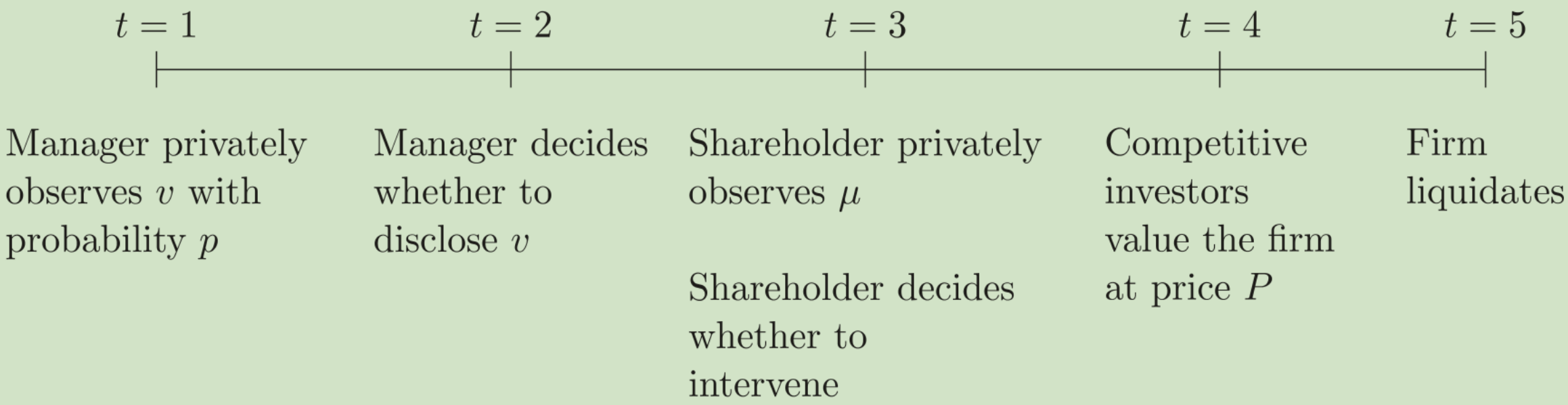
- A common complaint against active shareholders and institutional investors: force firms to adopt strategies that deliver a short-term boost to the stock price at the expense of long-term firm value

- We contribute to the literature by considering a parsimonious setting that incorporates the short-term incentive of a controlling shareholder and show that the withholding of information by a firm's manager can be optimal for the firm's long-term value.

2. Model

- We consider a firm with three types of risk-neutral agents: a manager, a shareholder, and competitive investors.
- The shareholder decides whether to intervene in the firm's operation, whereas competitive investors value the firm and reflect this value in the stock price.
- We use subscript M and S to denote the manager and the shareholder, respectively.

2. Model



At t=1, with probability p, the manager privately observes firm value v from implementing the current strategy.

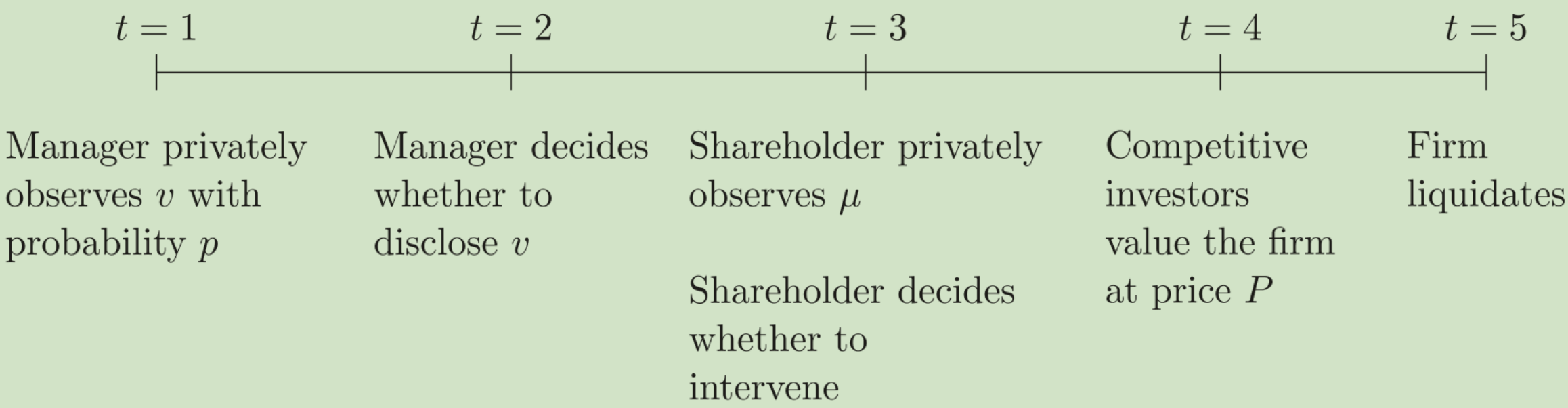
At t=2, the manager decides whether to voluntarily disclose v to the market.

At t=3, the shareholder privately observes the firm value μ from an alternative strategy and decides whether to let the manager continue with the current strategy or intervene and implement the alternative strategy.

At t=4, competitive investors price the firm.

Payoff V from firm liquidation is realized at t =5.

2. Model



At t=1, with probability p, the manager privately observes the firm value v from implementing the current strategy where v is the realization of a random variable $\tilde{v}$ uniformly distributed over $[\underline{v},\bar{v}]$

At t=2, the manager decides whether to voluntarily disclose v to the market , We denote an informed manager's disclosure strategy by d(v) and the disclosure decision by d $\in$ {v,ND}, where v represents truthful disclosure of v and ND represents no disclosure.

At t=3, the shareholder privately observes firm value from implementing an alternative strategy μ

Assumption 1. $\frac{\bar{\mu}}{2} < \underline{v} < \bar{v} < \bar{\mu}$.

Based on the manager's disclosure decision d and the shareholder's private information μ, the shareholder makes an intervention decision.

Denote the shareholder's intervention strategy by $a(\mu,d)$ and the intervention decision by $a \in \{0,1\}$ with $a=0$ if the shareholder does not intervene and $a=1$ if the shareholder intervenes.

- If the shareholder intervenes, the shareholder implements the alternative strategy. Then, the firm's liquidation value V becomes the alternative firm value μ.
- If the shareholder does not intervene and lets the manager implement the current strategy, the liquidation value V equals the current firm value v.

liquidation value V as

$$V = a \cdot \mu + (1-a) \cdot v. \qquad (1)$$

After shareholder intervention but before liquidation, risk-neutral investors price the firm at t = 4. The stock price P equals the expected liquidation value, that is,

$$P = E[V \mid d, a]. \qquad (2)$$

2. Model

The shareholder chooses an intervention strategy a(μ,d) to maximize the shareholder's utility

$$U_S(a) = \eta P + (1-\eta)V, \qquad (3)$$

where $\eta \in [0,1]$ is exogenous and reflects the horizon of the shareholder. It represents the extent to which the shareholder cares about the short-term stock price versus the long-term liquidation value

we assume that the manager maximizes the liquidation value V. Specifically, the manager chooses disclosure strategy d(v) to maximize

$$U_M(d) = V. \qquad (4)$$

abstracts away from a manager's myopic incentive

2. Model

- Assumptions of the model:

  - ✓ First, in our model, the shareholder is a controlling party who can influence the firm's decisions
  - ✓ Second, our model studies the impact of voluntary disclosure on shareholder intervention

- We study a perfect Bayesian equilibrium:
  - ✓ manager's disclosure strategy d(v)
  - ✓ the shareholder's intervention strategy a(μ,d)
  - ✓ the pricing function P(d, a).
  - ✓ In equilibrium, all beliefs are rational, including how competitive investors price the firm based on the manager's disclosure decision and the shareholder's intervention decision.

3.1 Shareholder's Intervention Strategy

✓ Shareholder expected utility

where $\eta \in [0,1]$ is exogenous and reflects the horizon of the shareholder

$$E[U_S(a) \mid \mu, d, a] = \eta E[P \mid d, a] + (1-\eta)E[V \mid \mu, d, a].$$

◆ Given the manager's disclosure decision *d*

● if the shareholder allows the manager to implement the current strategy

As competitive investors publicly observe that the shareholder does not intervene, they rationally price the firm at E[v | d]

$$E[U_S(a=0) \mid \mu, d, a=0] = \eta E[P \mid d, a=0] + (1-\eta)E[v \mid d]$$
$$= E[v \mid d].$$

a=0 if the shareholder does not intervene
a=1 if the shareholder intervenes

● If the shareholder intervenes and implements the alternative strategy

$$E[U_S(a=1) \mid \mu, d, a=1] = \eta E[P \mid d, a=1] + (1-\eta)\mu$$
$$= \eta E[\mu \mid d, a=1] + (1-\eta)\mu.$$

The shareholder intervenes if and only if ⇨

$$\eta E[\mu \mid d, a=1] + (1-\eta)\mu \geq E[v \mid d].$$

3. Shareholder Intervention

- Shareholder's Intervention Strategy

$$\eta E[\mu \mid d, a=1] + (1-\eta)\mu \geq E[v \mid d].$$

⇩ denote the intervention threshold as μ * (d).

$$\eta E[\mu \mid d, a=1] + (1-\eta)\mu^*(d)$$
$$= \eta E[\mu \mid d, \mu \geq \mu^*(d)] + (1-\eta)\mu^*(d) = E[v \mid d].$$

⇩

$$\mu^*(d) = \frac{2E[v \mid d] - \eta\bar{\mu}}{2-\eta}.$$

⇩ $\lambda = \frac{\eta}{2-\eta}$

$$\mu^*(d) = \frac{2E[v \mid d] - \eta\bar{\mu}}{2-\eta} = (1+\lambda)E[v \mid d] - \lambda\bar{\mu}. \qquad (5)$$

Lemma 1. (Intervention Strategy). *Given the manager's disclosure decision d, the shareholder does not intervene when* $\mu \in [0, \mu^*(d))$, *whereas the shareholder intervenes when* $\mu \in [\mu^*(d), \bar{\mu}]$ *with* $\mu^*(d) = (1+\lambda)E[v \mid d] - \lambda\bar{\mu}$.

3. Shareholder Intervention

Lemma 1. (Intervention Strategy). *Given the manager's disclosure decision d, the shareholder does not intervene when* $\mu \in [0, \mu^*(d))$, *whereas the shareholder intervenes when* $\mu \in [\mu^*(d), \bar{\mu}]$ *with* $\mu^*(d) = (1+\lambda)E[v \mid d] - \lambda\bar{\mu}$.

- **First, the intervention threshold depends on $\bar{\mu}$, the maximum value that can be achieved by shareholder intervention**
  - If $\bar{\mu}$ is so low that the shareholder's expected utility from intervention is always lower than no intervention, the shareholder never chooses to intervene.
  - if $\bar{\mu}$ is so high that the shareholder's expected utility from intervention is always higher than no intervention for all values of v, the shareholder always intervenes irrespective of the manager's disclosure decision.
- **Second, the shareholder's intervention strategy depends on the shareholder's short-term incentive λ**
- **Importantly, λ affects the intervention strategy only when the shareholder has an information advantage regarding the value of μ**
- **The stronger the short-term incentive, the more likely the short-term shareholder intervenes to benefit from the stock price at the expense of the liquidation value**

3.2 Disclosure and Intervention Efficiency

intervention decision by a $\in \{0,1\}$

Intervention Efficiency

- if the shareholder intervenes when $\mu \geq v$
- does not intervene when $\mu < v$.

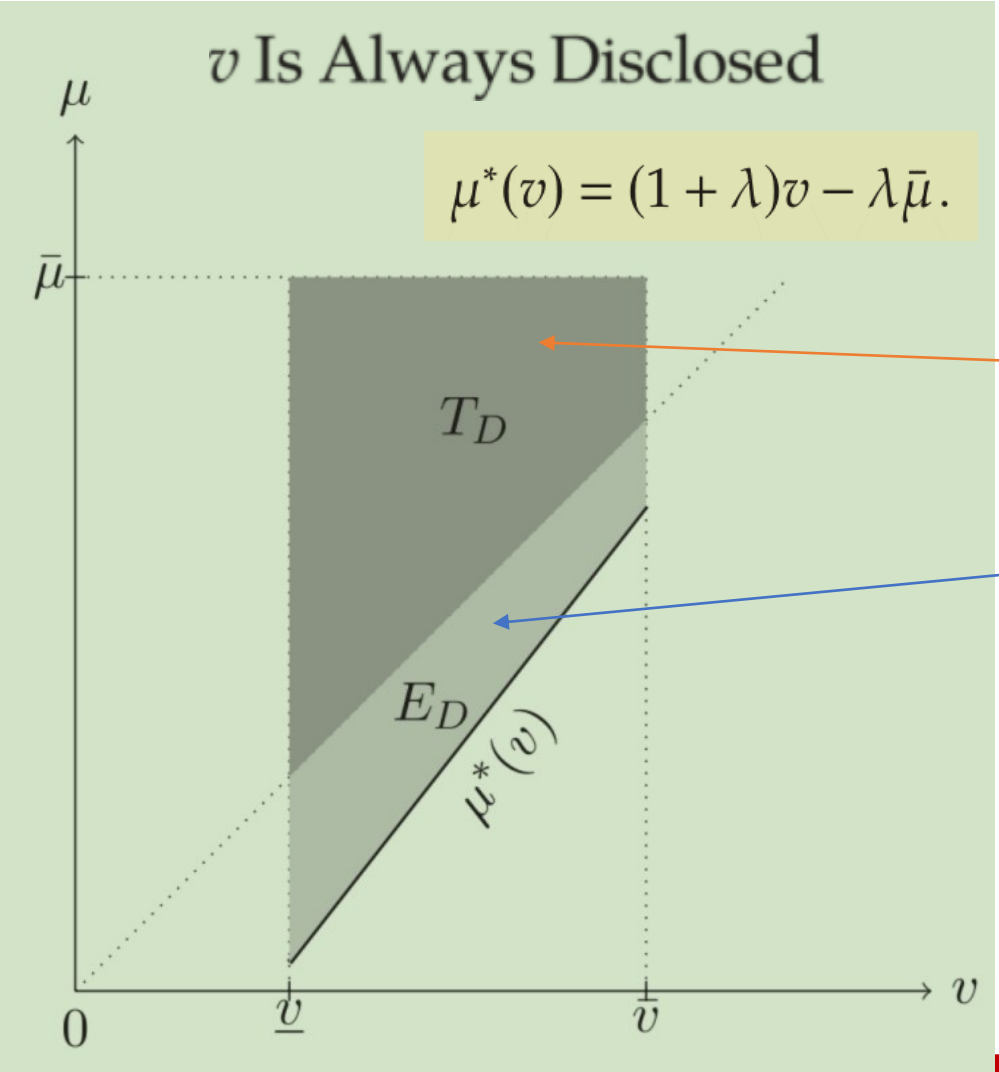
$$IE = [a - (1 - a)](\mu - v). \quad (6)$$

inefficient intervention

- intervention occurs when it decreases the liquidation value.(excessive intervention)
- intervention does not occur when it can increase the liquidation value(insufficient intervention)

3. Shareholder Intervention

- Disclosure and Intervention Efficiency



intervenes when $\mu \geq \mu*(v)$
does not intervene when $\mu < \mu*(v)$

If $\mu > v$, intervention is efficient and increases the firm's liquidation value.

If $v > \mu \geq \mu*(v)$, excessive intervention occurs as it decreases the firm's liquidation value.

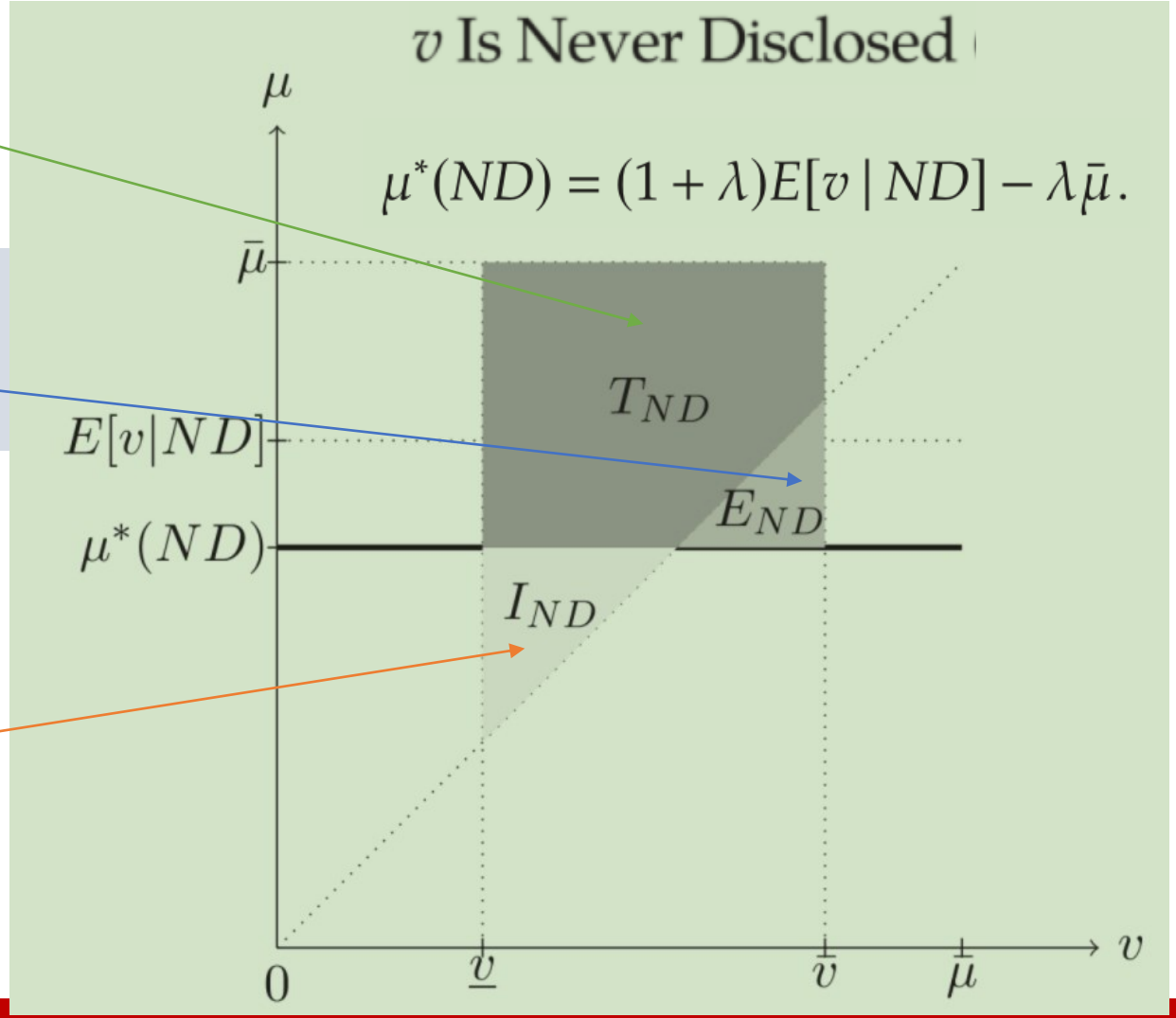
3. Shareholder Intervention

- Disclosure and Intervention Efficiency

Efficient intervention that increases the firm's liquidation value is captured by region T_{ND}

For high values of v, the intervention threshold can be lower than v, leading to excessive intervention, captured by region E_{ND}

For low values of v, there is insufficient intervention as the shareholder who can improve the liquidation value chooses not to intervene, captured by region I_{ND}



4. Disclosure Equilibrium

4.1 Manager's Disclosure Strategy

- ✓ **Manager's expected utility** $E[U_M(d) \mid v, d]$

- ✓ **When the manager discloses v to the market, the expected utility equals**

$$E[U_M(v) \mid v, v] = E[a \cdot \mu + (1-a) \cdot v \mid v, v].$$

  - ◆ If the shareholder intervenes, the liquidation value V is determined by μ

$$E[U_M(v) \mid v, v, a = 1] = E[\mu \mid v, v, a = 1].$$

  - ◆ If the shareholder does not intervene, the liquidation value depends on the current firm value v

$$E[U_M(v) \mid v, v, a = 0] = v.$$

- ✓ **Considering the probability of intervention, manager's expected utility from disclosure is**

$$E[U_M(v) \mid v, v]$$

$$= Pr(\mu \geq \mu^*(v))E[\mu \mid v, v, a = 1] + Pr(\mu < \mu^*(v))v, \quad (7)$$

$$\text{with } \mu^*(v) = (1+\lambda)v - \lambda\bar{\mu}.$$

4.1 Manager's Disclosure Strategy

✓ **Considering the probability of intervention, manager's expected utility from disclosure is**

$$E[U_M(v) \mid v, v]$$

$$= Pr(\mu \geq \mu^*(v))E[\mu \mid v, v, a = 1] + Pr(\mu < \mu^*(v))v, \quad (7)$$

$$\text{with } \mu^*(v) = (1+\lambda)v - \lambda\bar{\mu}.$$

✓ **if the informed manager chooses not to disclose, in which case the expected utility is**

$$E[U_M(ND) \mid v, ND] = Pr(\mu \geq \mu^*(ND))E[\mu \mid ND, a = 1]$$

$$+ Pr(\mu < \mu^*(ND))v. \quad (8)$$

4.2 Voluntary Disclosure Equilibrium

- **A benchmark case in which the shareholder only cares about the liquidation value.**
  - ✓ λ=0: Both the manager and the shareholder maximize the liquidation value
  - ✓ an informed manager always discloses v to the market
  - ✓ to ensure that the shareholder can efficiently intervene and improve the liquidation value

- ✓ **if the informed manager chooses not to disclose, in which case the expected utility is**

$$E[U_M(ND) \mid v, ND] = Pr(\mu \geq \mu^*(ND))E[\mu \mid ND, a = 1] + Pr(\mu < \mu^*(ND))v. \quad (8)$$

4.2 Voluntary Disclosure Equilibrium

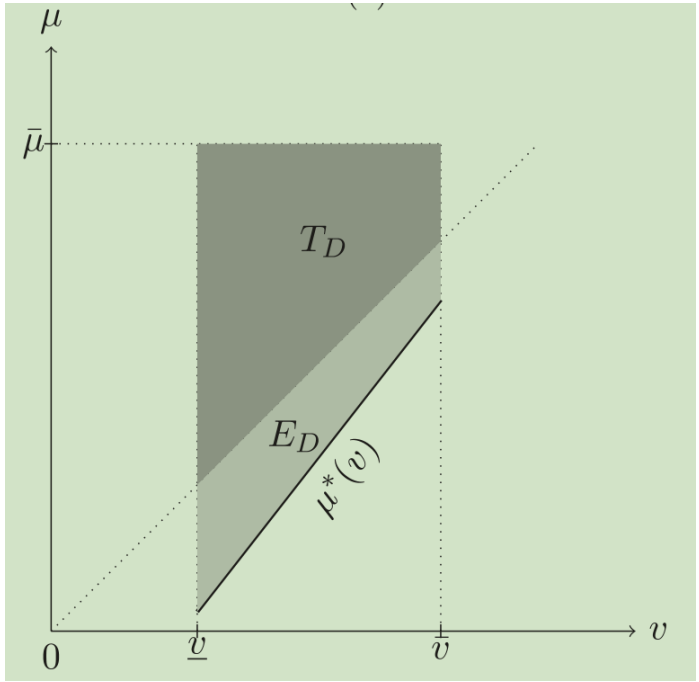
- **General case: $\lambda \in (0,1]$, in the presence of both short-term incentive and private information of the shareholder.**
  - ✓ **if the manager discloses v,** the intervention threshold $\mu * (v)$ is lower than v so that there exists excessive intervention that decreases the liquidation value
  - ✓ **if the manager does not disclose v**,(1) When the current firm value is high so that $v \geq \mu * (ND)$, the firm faces excessive intervention; (2)When the current firm value is low so that $v < \mu * (ND)$, there exists insufficient intervention.

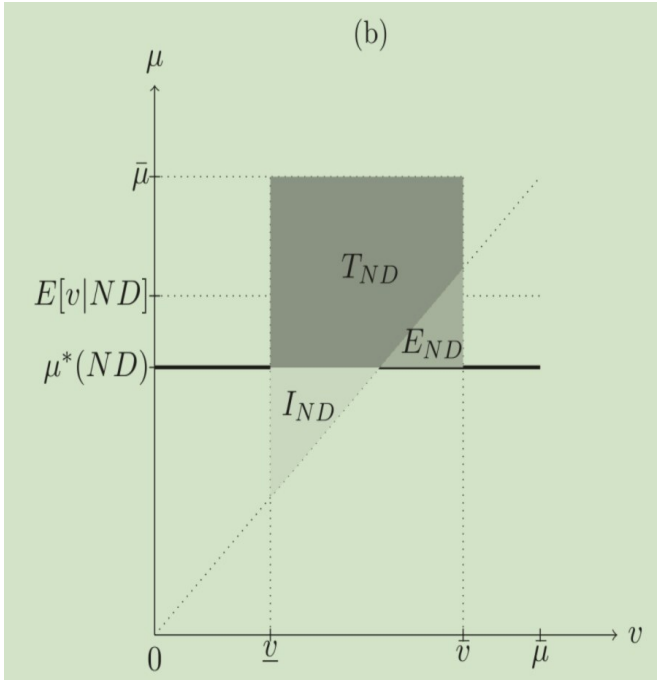
Inefficient intervention reduces the firm's expected liquidation value and, thus, the manager's expected utility. The manager discloses v if and only if the expected utility given disclosure is higher than no disclosure.

This trade-off differs between a manager who observes a high v and a manager who observes a low v

4.2 Voluntary Disclosure Equilibrium

- **（1）first consider a manager who observes a high v with v > E[v | ND]**
  - ✓ Compared with no disclosure, revealing the high value of v can raise the intervention threshold, reduce excessive intervention, and thus improve the expected liquidation value. Hence, the manager prefers disclosure.





4.2 Voluntary Disclosure Equilibrium

➢ **（2）consider a manager who observes an extremely low value of v**

- ✓ if the manager discloses v, there is excessive intervention by the shareholder.
- ✓ If the manager does not disclose v, there is insufficient intervention

⇩

The manager trades off these two inefficiencies in the disclosure decision

⇩

Which inefficiency is lower depends on the extent of shareholder short-termism λ,

low values of λ

① the intervention threshold given the manager's disclosure decision d is relatively high
② the extent of excessive intervention after disclosure is low
③ the extent of insufficient intervention after no disclosure is relatively high

$$\mu^*(d) = \frac{2E[v \mid d] - \eta\bar{\mu}}{2-\eta} = (1+\lambda)E[v \mid d] - \lambda\bar{\mu}. \qquad (5)$$

the intervention threshold decreases with shareholder short-termism λ

Therefore, the manager observing a low value of v is better off disclosing.

4.2 Voluntary Disclosure Equilibrium

➢ **（2）consider a manager who observes an extremely low value of v**

high values of λ

① The intervention thresholds, given disclosure and no disclosure, both decrease
② This gives rise to more excessive intervention when the manager disclose
③ less insufficient intervention when the manager does not

Therefore, manager with a low value of v prefer not to disclose

4.2 Voluntary Disclosure Equilibrium

➢ **Proposition 1 (Equilibrium). When the manager maximizes the liquidation value V, there exists a threshold value of shareholder short-termism λ denoted by λ ∗ such that**

1. When λ = 0, an informed manager always discloses the current firm value v;
2. When λ ∈ (0,λ ∗] for v ∈ ND=(v_1 ,v_2), an informed manager does not disclose the current firm value v; for v ∈ [$\underline{v}$,v_1] [v_2 , $\bar{v}$], the informed manager discloses the current firm value v with

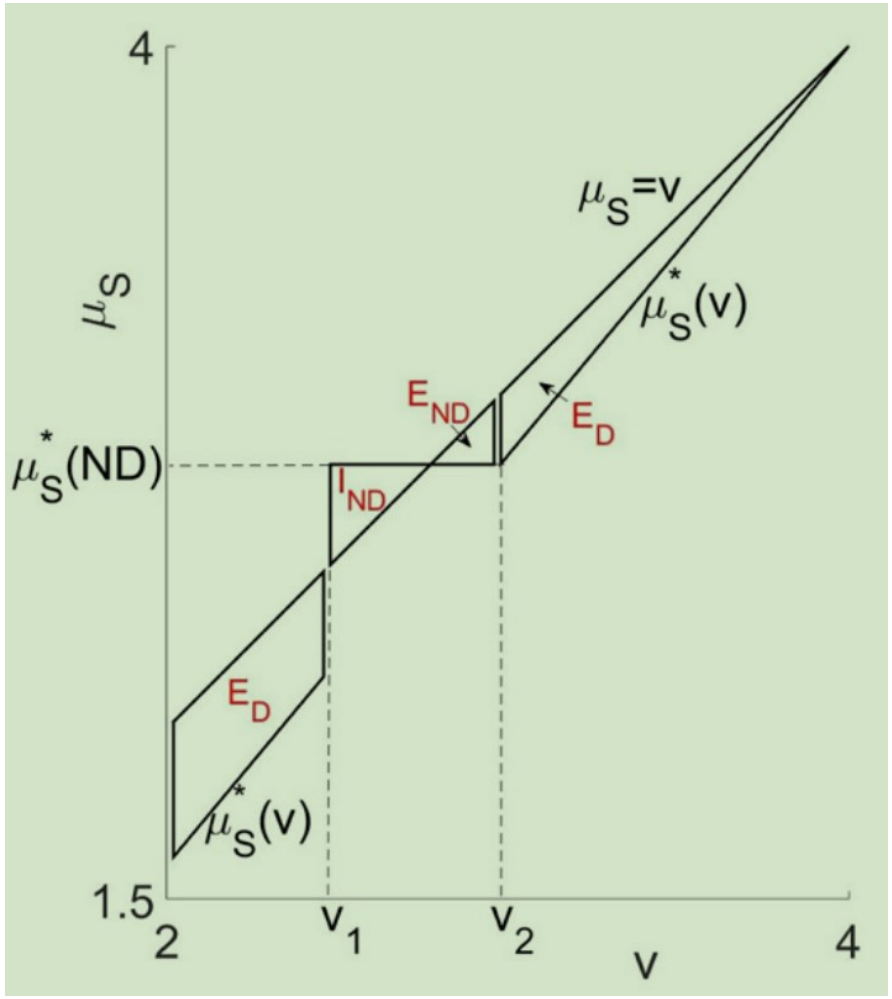
$$v_1 = \frac{1+\lambda}{1-\lambda} v_2 - \frac{2\lambda}{1-\lambda}\bar{\mu},$$
$$v_2 = E[v \mid ND];$$

3. When λ ∈ (λ ∗ , 1] for v ∈ ND =[$\underline{v}$,v'), the informed manager does not disclose v; for v ∈ [v', $\bar{v}$], the informed manager discloses v with v' =E[v | ND];
4. For a given nondisclosure region ND, the market's and the shareholder's beliefs about v equal

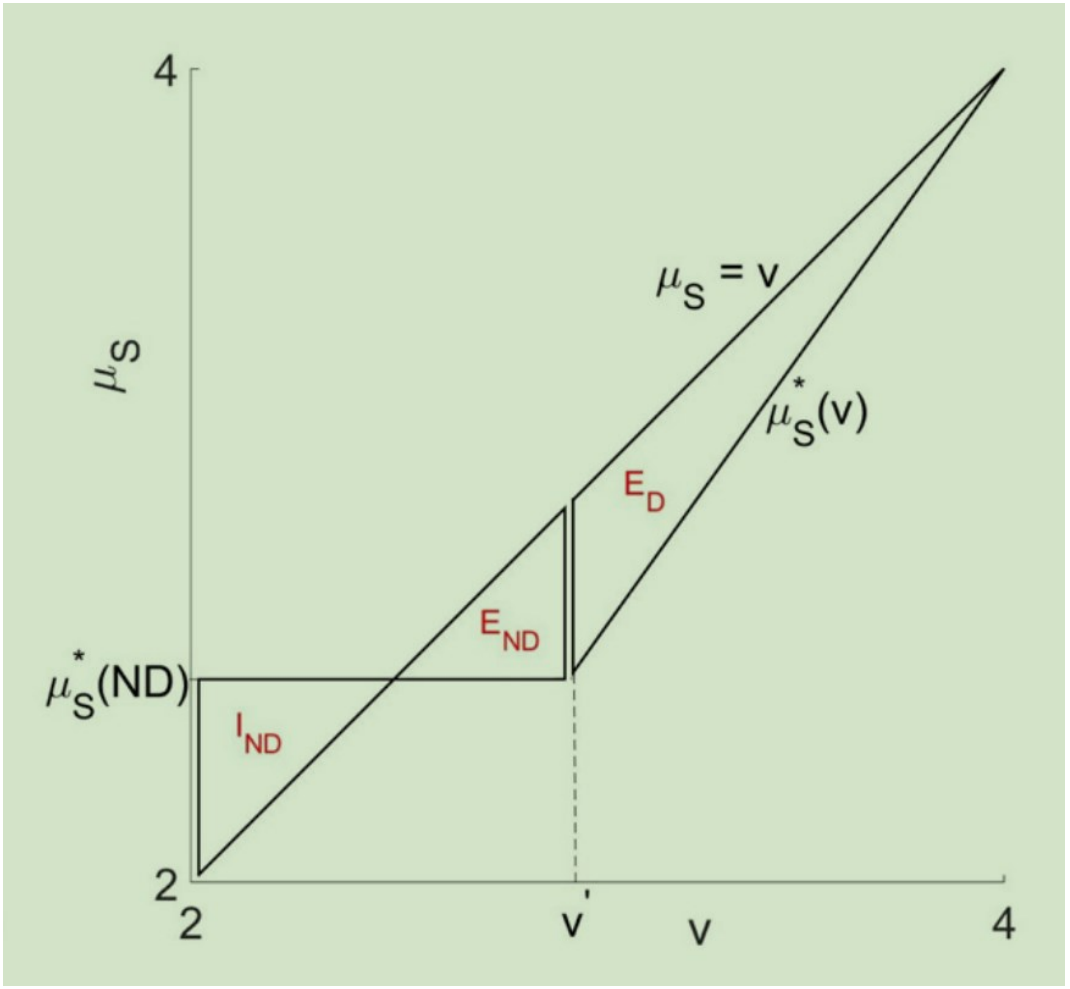
$$E[v \mid ND] = \frac{pPr(v \in ND)E[v \mid v \in ND]}{pPr(v \in ND) + 1 - p} + \frac{(1-p)E[v]}{pPr(v \in ND) + 1 - p};$$

5. The shareholder's intervention strategy a(μ,d) is as described in Lemma 1

4.2 Voluntary Disclosure Equilibrium



λ =0. 2



λ =0. 4

4.2 Voluntary Disclosure Equilibrium

Proposition 2 (Nondisclosure and Liquidation Value). *For a firm facing intervention by a short-term-oriented shareholder, when shareholder short-termism is low with* $\lambda \in (0, \lambda^*]$, *no disclosure increases the firm's expected liquidation value for current firm value* $v \in ND = (v_1, v_2)$; *when shareholder short-termism is high with* $\lambda \in (\lambda^*, 1]$, *no disclosure increases the firm's expected liquidation value for current firm value* $v \in ND = [\underline{v}, v')$, *where* v_1, v_2, *and* v' *are as defined in Proposition* 1.

- In Kumar et al. (2012), because the manager is myopic, nondisclosure is always chosen to obtain a higher stock price at the expense of a lower liquidation value
- In our model, the manager only cares about the liquidation value, nondisclosure is always chosen to obtain a higher liquidation value.

5.1 Disclosure and Shareholder Intervention

Corollary 1 (Disclosure and Probability of Intervention). Shareholder intervention is more likely to occur for a nondisclosing firm than for a disclosing firm.

Corollary 2 (Disclosure and Value from Intervention). When shareholder short-termism is low, that is, $\lambda \in (0,\lambda*]$,the likelihood of disclosure decreases with the expected alternative firm value. When shareholder short-termism is high, that is, $\lambda \in (\lambda*,1]$, the likelihood of disclosure is independent of the expected alternative firm value.

5.2. Role of Shareholder Short-Termism

Corollary 3 (Shareholder Short-Termism and Expected Probability of Intervention). The expected probability of intervention increases with shareholder short-termism λ.

- When λ is high, the upper-tailed disclosure equilibrium arises, and only good news about v is disclosed. In this case, the disclosure threshold is independent of λ
- when λ is low, a two-tailed disclosure equilibrium arises in which the manager discloses both extremely bad and extremely good news about v. In this case, λ changes the manager's disclosure strategy.

Corollary 4 (Shareholder Short-Termism and Likelihood of Disclosure). When shareholder short-termism is low, that is, $\lambda \in (0,\lambda^*]$, both disclosure thresholds v_1 and v_2 decrease with λ. The likelihood of disclosure also decreases with λ. When shareholder short-termism is high, that is, $\lambda \in (\lambda^*,1]$, the disclosure threshold v' and the likelihood of disclosure are independent of λ. v_1, v_2, and v' are as defined in Proposition 1.

5.3. Role of Probabilistic Information Endowment

Corollary 5 (Managerial Information Endowment and Expected Probability of Intervention). The expected probability of intervention is independent of the managerial probabilistic information endowment p.

- The shareholder's intervention depends on the shareholder's belief about the current firm value
- The managerial information endowment p only changes the manager's disclosure strategy and not the expected current firm value.

5.4. Market Reaction to Intervention

Corollary 6 (Disclosure and Short-Term Market Reaction to Intervention). There exist two thresholds of shareholder short-termism λ_1 and $\lambda 2$ ($\lambda_2 < \lambda_2$) such that, for $\lambda \in [0, \lambda_1]$, the market reaction to intervention is higher for nondisclosing firms than for disclosing firms; for $\lambda \in [\lambda_2, 1]$, the market reaction to intervention is higher for disclosing firms than for nondisclosing firms.

- The market reacts more strongly to the news of intervention in a disclosing firm.
- the market expects intervention to add more value to nondisclosing firms, implying a stronger market reaction to intervention in a nondisclosing firm.
- When shareholder short-termism is low, the expected value added by intervention is sufficiently higher for nondisclosing firms relative to disclosing firms.
- When λ is sufficiently high so that the expected value added by intervention is low, the market reaction to intervention is driven by the expected likelihood of intervention. Because disclosing firms are less likely to have shareholder intervention, these firms then experience a stronger market reaction after an intervention.

5.4. Market Reaction to Intervention

Corollary 7 (Disclosure and Long-Term Stock Returns After Intervention). When shareholder intervention is efficient, nondisclosing firms have higher long-term stock returns than disclosing firms; when shareholder intervention is inefficient, nondisclosing firms have lower long-term stock returns than disclosing firms.

- When the shareholder intervention is efficient ,this happens because nondisclosing firms, on average, have lower current firm value and benefit more from efficient intervention than disclosing firms
- When shareholder intervention is inefficient , this happens because nondisclosing firms, on average, have lower current firm value, which leads to more excessive intervention in these firms.

6.1. Communication Between Manager and Shareholder

Our analyses show that informative private communication can be sustained in equilibrium.

- For firms with low current firm values, private communication can be a better information-sharing channel to improve intervention efficiency than public disclosure.
- The private message allows the manager to both communicate a low current firm value to *avoid insufficient intervention* without being exposed to high *excessive intervention* from the short-term shareholder.

6.2. Myopic Manager

- A manager who cares about the stock price P and the liquidation value V with utility

$$U_M = \gamma P + (1-\gamma)V.$$

γ ∈ [0,1] indicates the extent to which the manager cares about the stock price P

- The manager makes the disclosure decision to maximize the manager's expected utility

$$E[U_M(d)\,|\,v,d] = Pr(\mu \geq \mu^*(d))E[\mu\,|\,v,d,a=1] + Pr(\mu < \mu^*(d))(\gamma E[v\,|\,d] + (1-\gamma)v).$$

The manager's myopic objective, thus, reduces the manager's incentive to disclose bad news about v.

6.2. Myopic Manager

Proposition 3 (Equilibrium). When the manager has myopic incentives, there exists a threshold value of managerial myopia γ denoted by γ 'and a threshold value of shareholder short-termism λ denoted by λ'such that

1. *When* $\gamma \in (0, \gamma']$ *and* $\lambda \in [0, \lambda']$ *for the current firm value* $v \in ND = (v_1^\gamma, v_2^\gamma)$, *the informed manager does not disclose the current firm value* v; *for* $v \in [\underline{v}, v_1^\gamma] \cup [v_2^\gamma, \bar{v}]$, *the informed manager discloses* v *with* v_1^γ *and* v_2^γ *defined in the appendix.*

2. *Otherwise, for* $v \in ND = [\underline{v}, v'_\gamma)$, *the informed manager does not disclose* v; *for* $v \in [v'_\gamma, \bar{v}]$, *the informed manager discloses* v *with* $v'_\gamma = E[v \mid ND]$, *and* $E[v \mid ND]$ *is as defined in* Equation (11) *in Proposition* 1.

3. *The shareholder's intervention strategy* $a(\mu, d)$ *is as described in Lemma* 1.

6.2. Myopic Manager

The key difference from our main setting

- with a myopic manager, which equilibrium arises not only depends on shareholder short-termism, λ, but also on managerial myopia γ
- the myopic incentive motivates the manager to disclose good news but withhold bad news about v

6.2. Myopic Manager

Corollary 8 (Managerial Myopia and Likelihood of Disclosure). When both shareholder short-termism and managerial myopia are low, that is, $\lambda \in [0,\lambda']$ and $\gamma \in (0,\gamma']$, both disclosure thresholds v_1^γ and v_2^γ decrease with γ. The likelihood of disclosure also decreases with γ. For all other cases, the likelihood of disclosure is independent of γ.

Corollary 9 (Managerial Myopia and Expected Probability of Intervention). The expected probability of intervention is independent of managerial myopia, γ, for $\lambda \in [0,1]$.

- Although managerial myopia influences the disclosure strategy, it does not affect the expected current firm value and, thus, the expected probability of intervention.

7. Empirical Implications

- Our paper generates several empirical implications on how voluntary disclosure influences intervention by an activist shareholder

key features of the shareholder include

- having private information about firm value
- an ability to influence the firm's strategy,
- an interest in the firm's stock price

⇐ These features are consistent with hedge fund activists and certain types of block holders

1. First, we find that the manager is less likely to provide voluntary disclosure when dealing with activists. Without potential intervention from an activist, a manager who only cares about firm value always discloses the manager's private information.
2. Second, we show that disclosing firms, on average, are less likely to face intervention than nondisclosing firms.
3. Third, we predict that managerial probability of information endowment has no impact on the expected probability of intervention.
4. Finally, we find that an increase in shareholder short-termism increases the expected probability of intervention

7. Empirical Implications

- Our paper also generates implications for the relation between shareholder horizon and voluntary disclosures.

1. First, we predict a relation between shareholder horizon and the type of news that firms disclose
2. Second, we demonstrate that an increase in shareholder short-termism reduces the likelihood of voluntary disclosure as the manager reduces disclosure to deter excessive intervention from a short-term shareholder.
3. Third, we find that an increase in shareholder short-termism has contrasting effects on the disclosure of good and bad news.
4. Fourth, our model predicts that the likelihood of disclosure decreases when the market expects more value addition from intervention.

7. Empirical Implications

- We also show that the relation between the market reaction to intervention and firms' disclosure decision is mixed.
- For the role of managerial myopia, we expect that a more myopic manager is less likely to disclose, but we do not expect to empirically observe a relation between managerial myopia and the expected probability of intervention.
- For managerial choice between different communication channels, our model predicts that private communication and negotiations between the management and the activist are more likely to occur when the activist has a longer investment horizon.

8. Conclusion

- This paper examines how a manager strategically uses voluntary disclosure to influence shareholder intervention
- A short-term shareholder can intervene excessively when the shareholder knows the current firm value and can intervene either excessively or insufficiently when the shareholder does not know the current firm value.
- The manager, thus, trades off excessive and insufficient intervention in the manager's disclosure decision.
- We find that, when the shareholder is relatively long-term-oriented, the manager discloses both extremely good and bad news about current firm value to improve intervention efficiency. But, when the shareholder has a strong short-term incentive, only good news is disclosed.

Thank you!