Shareholder Activism on Sustainability*

A Case Study on Cevian Capital's Investment in Tieto

Fabian Roeben**

Master Thesis

Department of Finance

Stockholm School of Economics

May 2019

ABSTRACT

The increasing prevalence of shareholder activism in Europe and the rising significance of corporate sustainability have motivated this paper to investigate the impact of shareholder activists on companies' sustainability performances. To examine this relationship, an event study on 59 shareholder activist campaigns from 2006 to 2017 is conducted utilizing Thomson Reuters' ESG database, which allows for a component analysis of the ESG framework. Further, this paper analyzes Cevian Capital's investment in Tieto to illustrate the complex relationship between the activist's involvement and corporate sustainability, gauged by the ESG framework. The event study reveals a positive affiliation between shareholder activism and environmental as well as social performance, while there is no affiliation with governance performance. However, it remains unclear to what extent these relationships are directly attributable to the activists' actions or are inherent in the target selection criteria indicating potential for further research. The case study's findings are partially in line with what the event study suggests. Further, Cevian Capital's engagement had both positive and negative influences on ESG performance at Tieto with the social dimension being affected the most.

Keywords: Shareholder activism, corporate sustainability, ESG, case, Tieto, Cevian Capital

Supervisor: Bo Becker, Gösta Olsson Professor of Financial Economics, SSE

Examiner: Jungsuk Han, Associate Professor of Finance, SSE

---

*I would like to thank Professor Bo Becker for his valuable guidance throughout the process of writing this thesis. Further, I am grateful to Lars Förberg, Harlan Zimmerman and Niko Pakalén from Cevian Capital for making this case study possible. Lastly, I thank the Swedish House of Finance for granting me access to the Bloomberg database.

**41249@student.hhs.se

Table of Contents

List of Figures IV
List of Tables V
1 Introduction 1
1.1 Purpose 2
1.2 Contribution 2
1.3 Outline 2
2 Literature Review 3
2.1 Trend Towards Sustainability 3
2.2 Measuring Sustainability 5
2.3 Investor Types 6
2.4 Sustainability Impact Of Activist Investors 8
3 Event Study 10
3.1 Introduction 10
3.1.1 Event Definition 11
3.1.2 Hypotheses 12
3.2 Methodology 13
3.3 Data 14
3.4 Results 18
3.5 Limitations And Potential For Further Research 24
4 Case Study Methodology 25
4.1 Research Design 25
4.2 Data Collection 26
4.3 Research Quality 27
5 Case Background 29
5.1 Cevian Capital 29
5.2 Constructive Shareholder Activism 31
5.3 Tieto 32
5.3.1 Business Overview And Historical Development in 2009 32
5.3.2 Tieto's Shape in 2009 33
6 The Case: Cevian Capital's Investment Decision 35
6.1 Investment Thesis 36
6.2 Operations 37

6.3 Corporate Governance 39
6.4 Corporate Restructuring And Strategic Re-orientation 40
6.5 Financial Restructuring 42
7 Discussion: Cevian Capital's Sustainability Impact 42
7.1 Environmental 43
7.2 Social 44
7.3 Governance 47
8 Conclusion 49
References 51
Published References 51
Online References 55
Appendix 58
Event Study Methodology 58
Additional Event Study Results 62
Cevian Capital 64
Tieto 65

List of Figures

Figure 1: Growth of Corporate Sustainability Reporting, 2000-2018……4
Figure 2: Investor Types……7
Figure 3: Number of Activist Campaigns in Europe, 2006-2017…… 11
Figure 4: Thomson Reuters ESG Data……15
Figure 5: European ESG Performance, 2006-2017……..18
Figure 6: European Environmental Scores around Announcement……21
Figure 7: European Social Scores around Announcement……...21
Figure 8: European Governance Scores around Announcement……..22
Figure 9: Value Creation at Cevian Capital……31
Figure 10: Tieto Business Overview……32
Figure 11: Tieto's Environmental Score…….. 44
Figure 12: Tieto's Social Score……46
Figure 13: Tieto's Governance Score……...48
Figure 14: Compared European Environmental Scores around Announcement……. 63
Figure 15: Compared European Social Scores around Announcement……... 63
Figure 16: Compared European Governance Scores around Announcement……..64
Figure 17: Tieto's Share Price Development……... 68

List of Tables

Table 1: Sample Selection……16

Table 2: Sample Breakdown by Geography……17

Table 3: Abnormal Scores subsequent to Announcement Date……...20

Table 4: Comparison of Successful and Unsuccessful Campaigns……..23

Table 5: Case Study Data Sources……... 27

Table 6: Environmental Score Measures……..58

Table 7: Social Score Measures……... 59

Table 8: Governance Score Measures……..60

Table 9: Abnormal Scores subsequent to Announcement Data – Alternative Sample……62

Table 10: Cevian Capital Holdings……..64

Table 11: Income Statement of Tieto in 2009……..65

Table 12: Income Statement (Divisional Breakdown) of Tieto in 2009……..66

Table 13: Balance Sheet of Tieto in 2009……67

Table 14: Key Financial Ratios of Tieto in 2009……68

1 Introduction

"When sustainability is viewed as being a matter of survival for your business, I believe you can create massive change" – Cameron Sinclair (2009)

On November 12th, 2009, Cevian Capital, a European hedge fund activist, announced that it had acquired a 5.6% stake in Tieto, a Finnish IT services company, and gradually raised it to 15.2% until the end of 2011 aiming to increase shareholder value. To achieve this, Cevian Capital entirely overhauled the company by a strategic re-orientation, significant operational and governance adjustments as well as financial restructurings. Thus, it had a major influence on all aspects of business at Tieto, which arguably not only impacted shareholder value, but also affected other facets, such as employee turnover, resource use efficiency and treatment of other shareholders, which all fall under the concept of *corporate sustainability*. In recent years, there has been a significant trend towards corporate sustainability, which has been induced and enforced by a variety of parties, including shareholders, the public and other stakeholders. The reason for this trend is the necessity and urgency of a sustainable development of the entire world, which is manifested in the *Sustainable Development Goals* of the United Nations and includes, *i.a.*, fighting climate change, eradicating poverty and ensuring responsible production patterns (United Nations, 2019). To reach these goals, a variety of measures need to be taken as well as actors involved that pull together. Arguably, through their operations and products large public companies have the ability to have a big influence on reaching those goals among these actors. Such large public corporations are targets of shareholder activists, who in 2018 have targeted companies with an aggregate market capitalization of c. $2.5 trillion (Thomson Reuters, undated) by deploying $65 billion in capital. Thus, shareholder activists have a significant impact on public markets and the potential to influence whether or not there is progress towards achieving the United Nation's *Sustainable Development Goals*. Therefore, this thesis' research question asks:

What is the impact of shareholder activism on corporate sustainability in general and in specific in the case of Cevian Capital's engagement in Tieto?

Previous research finds mixed results as to what impact activist investors have on corporate sustainability and whether they are effective in evoking change at their target companies. Due to the complexities of and ramified linkages between shareholder activism and corporate sustainability, the thesis includes a case study on Cevian Capital's investment in Tieto. The author finds that companies targeted by activist investors improve on environment

–and social-related measures relative to the market and perform in line with the market in governance-related measures. Further, Cevian Capital's engagement in Tieto shows that shareholder activists, although often not intended, do have an impact on corporate sustainability at their target companies.

1.1 Purpose

This thesis serves three distinct purposes: Firstly, it aims at illuminating the relationship between companies' corporate sustainability performances and shareholder activism in Europe by means of an event study. Secondly, as a case study Cevian Capital's investment in Tieto as a hedge fund activist shall be analyzed with particular focus on its impact on Tieto's corporate sustainability performance, substantiated by the preceding literature review and empirical analysis. Thirdly, the thesis shall serve as the foundation for a case for teaching purposes and is provided to the Department of Finance at the Stockholm School of Economics.

1.2 Contribution

Compared to other areas in academia, corporate sustainability is a novel topic that has not been researched extensively in the past. This has been partially due to the lack of quantitative data of good quality, which, however, has been developed more and more over the last few years by reputable providers, such as Thomson Reuters. Therefore, the event study conducted in this thesis is one of the few of its kind that utilizes such a database. Further, to the knowledge of the author, there is no previous research that systematically unravels and analyzes all components of the ESG framework quantitatively. Moreover, because of the only rather recent emergence of shareholder activism in Europe, there is no study that sheds light on the impact of shareholder activism on corporate sustainability as this thesis aims to. The case study that succeeds the empirical analysis is unique compared to other case studies that analyze shareholder activist investments, as it adds a perspective on corporate sustainability to analyze the investment more holistically.

1.3 Outline

Firstly, relevant previous research and literature is aggregated and summarized to provide a foundation on which the succeeding empirical analysis and case analysis will be based. Secondly, an event study on the impact of shareholder activist campaigns on corporate sustainability at target company level is performed. Thirdly, methodology and data collection for the subsequent case study are presented. Fourthly, a background on Cevian Capital and

Tieto – with particular attention on its constitution in 2009 – is provided as a basis for the succeeding case analysis. Fifthly, Cevian Capital's investment in Tieto is analyzed with respect to the investor's envisaged value creation levers. Sixthly, the paper discusses the investment's impact on Tieto's corporate sustainability performance during and after Cevian Capital's engagement and connects the findings to previous literature and empirical findings of the event study. Lastly, the thesis concludes with a summary of significant findings and suggestions for further research.

2 Literature Review

The succeeding literature review aims at providing a broad understanding of what corporate sustainability actually is, its relevance as well as its intricate measurability and issues with comparability as a non-financial metric. Further, different investor types and their potential impacts on corporate sustainability are discussed and Cevian Capital is classified within this investor universe. Lastly, previous literature and precedent cases on the impact of shareholder activists on corporate sustainability performance are critically investigated.

2.1 Trend Towards Sustainability

Before discussing the relevance and trends of sustainability at corporate level, a brief definition of the same needs to be provided to arrive at a mutual understanding of the matter and to serve as the basis for the rest of the thesis. The following definition on corporate sustainability has been given by Alexandra Spiliakos from Harvard Business School in 2018:

> *"Sustainability in business generally addresses two main categories: First, the effect business has on the environment and second, the effect business has on society. The goal of a sustainable business strategy is to make a positive impact on either one of those areas. When companies fail to assume responsibility, the opposite can happen, leading to issues like environmental degradation, inequality, and social injustice."*

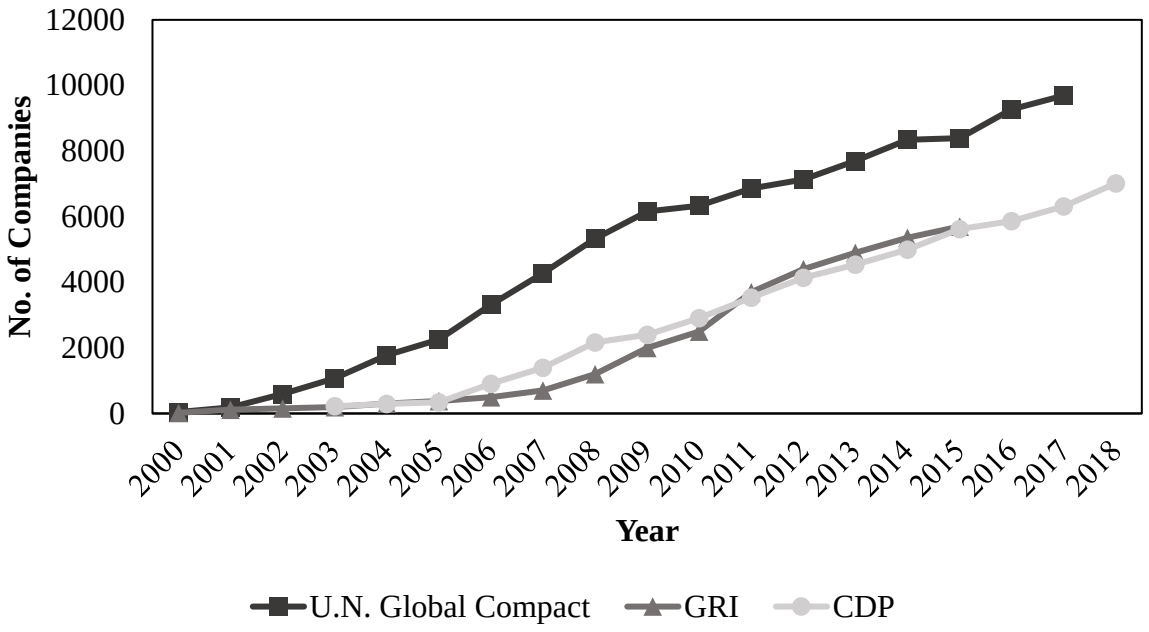
Both academics and practitioners agree to the notion that there has been an overall trend of firms to increase corporate sustainability efforts. However, it has been difficult for academia to validate this sentiment, due to the lack of mutually agreed on metrics, which is a result of different understandings of the matter. A prominent and quantifiable approach to this has been to consider the number of companies that engage in voluntary sustainability reporting. The

most established and popular reporting standards have been put forward by the United Nations with its Global Compact, the Carbon Disclosure Project (CDP) and the Global Reporting Initiative (GRI), all of which have experienced significant growth in recent years in terms of companies that adhere to their standards (see figure one).

Figure 1: Growth of Corporate Sustainability Reporting, 2000-2018

Annual overview of companies that comply with

U.N. Global Compact, GRI and CDP reporting standards



Source: United Nations Global Compact Data, Global Reporting Initiative (GRI) and Carbon Disclosure Project (CDP)

As can be seen, a growing number of companies is voluntarily committing to sustainability reporting and thus increasing their efforts to improve the effects they have on their environment and on society. Researchers (Waddock and Graves, 1997; Hillman and Keim, 2001) argue that this trend towards sustainability stems from a virtuous cycle, where affluent companies start to invest in sustainability initiatives, then realize that it also has a positive impact on financial performance and accordingly intensify their investments in the future. Therefore, the underlying reason for a multitude of companies to not invest in sustainability might be that they simply lack the necessary resources and an understanding of the impacts of investments in sustainability. Consequently, the trend towards sustainability is likely to continue, as the knowledge of its benefits will become more widespread and

potentially investors, such as activists or private equity companies, will serve as an accelerator in this development (O'Rourke, 2003).

2.2 Measuring Sustainability

Due to its ambiguous nature and the controversies around the definition of corporate sustainability, business practitioners and academics have toiled on identifying an appropriate set of measures for the former. In fact, Montiel and Delgado-Ceballos (2014) show that a standardized method to measure corporate sustainability does not exist. A commonly accepted and agreed on way to value corporate sustainability would imply a high degree of standardization and comparability among companies, comparable to accounting standards. This would lead to an increased sense of accountability at firm level as well as help companies identify and manage risks and seize new opportunities (GRI, 2019).

There is a variety of studies that investigate the measurability of individual dimensions of corporate sustainability (e.g., for the environmental aspect: Delmas, Etzion, & Nairn-Birch, 2013 and Walls, Berrone, & Phan, 2011), however, this thesis is interested in holistic methods that evaluate all dimensions at the same time. Most articles centered around corporate sustainability in fact do not rely on data from standardized frameworks, but rather present individual facts and success stories not contributing to making corporate sustainability measurable and comparable (Corcoran, Walker and Wals, 2004). Empirical studies on corporate sustainability on the other hand either create own criteria and scales for measurement, or use secondary sources by various service providers, where most studies fall in the latter category (Montiel and Delgado-Ceballos, 2014). The most prominent providers of such data are Kinder, Lydenberg, and Domini (KLD), the Dow Jones Sustainability Index, the Ethical Sustainability Index, the Calvert Social Index and Thomson Reuters ESG scores, which will be used as the basis for the empirical analysis in this thesis (section three). Next to those databases, researchers have relied on codes of conduct and sustainability guidelines provided by, *e.g.*, the U.N. Global Compact or the GRI. All of those providers and institutions identify environmental and social impact as core features of corporate sustainability. These features typically include categories of adherence to human rights, product responsibility, employee relations & satisfaction (social) and carbon emissions, efficient materials use, environmental reporting & policies (environmental) (Montiel and Delgado-Ceballos, 2014). However, beyond that there seem to be two trains of thoughts on what should be the third feature: On the on hand, economic considerations are set as a third feature, as a corporation can only run sustainably

when it is economically healthy (Waddock and Graves, 1997). On the other hand, corporate governance is commonly set as a third pillar of corporate sustainability and entails categories such as equal treatment of shareholders. At first sight the connection between corporate governance and corporate sustainability performance might not seem intuitive, however, research (Shrisvastava and Addas, 2014; Eccles, Ioannou, and Serafeim, 2012) has shown that in fact there is a causal correlation, as good corporate governance well predicts strong corporate sustainability performance along social and environmental dimensions. Due to this finding as well as the fact that initiating changes in corporate governance is at the core of a shareholder activist's toolbox, this thesis bases corporate sustainability on governance factors next to environmental and social considerations.

2.3 Investor Types

There are various types of investors in the financial services landscape, which differentiate themselves along numerous dimensions, such as investment style, investment horizon, value creation and ownership (McLachlan and Gardner, 2004). As a result, the investors' incentives to foster corporate sustainability at their investments differ as well as the ability and capacity to have an impact in that regard. The author classified the main relevant investor groups for this paper, *i.e.* index investors, traditional hedge funds, traditional activists, private equity investors and Cevian Capital as the subject of the thesis and a rather untraditional hedge fund and activist (see sections 5.1 and 5.2) along the typical level of ownership involvement and competition within the respective industry. This serves the purpose of illustrating the investor universe and its impact on corporate sustainability and introducing Cevian Capital in this setting.

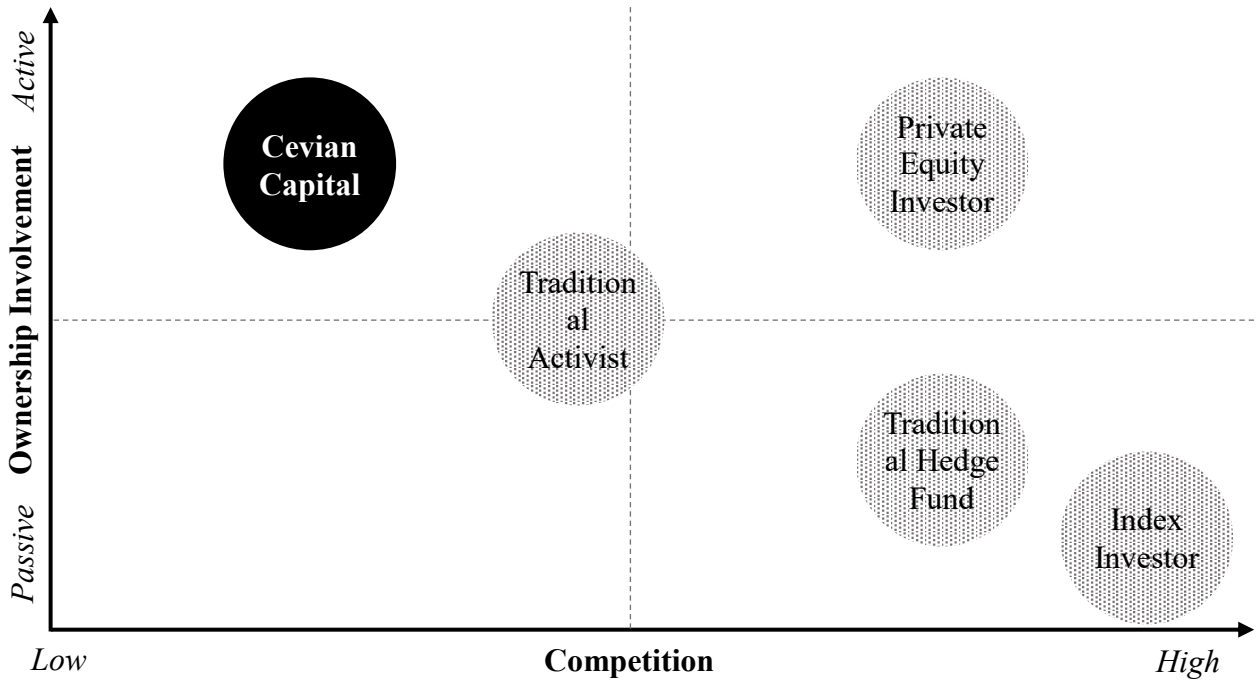
Arguably, increased ownership involvement by the respective investor implies a higher potential to influence corporate sustainability, as the investor is more involved in day-to-day operations and decision-making. However, high ownership involvement neither gives an indication of the direction of the influence (positive vs. negative) nor does it imply that the investor actively seeks changes in corporate sustainability, as it can well be an externality of other activists' actions. Further, the author argues that the more intense the level of competition in the respective investor's industry is, the lower the probability of that investor to actively seek improvements of corporate sustainability that is not motivated primarily by financial considerations. Increased competition implies high price pressures and higher control premia to be paid (Damodaran, 2005). Consequently, investors subject to fierce competition are likely

to be more preoccupied with fulfilling financial returns expectations than others, which arguably leads to less attention directed towards corporate sustainability.

Firstly, index investing refers to the practice of typically purchasing a mix of stocks and bonds to tailor risk and return to the investor's needs (Stoll and Whaley, 2015). Thus, it is a passive investment approach with passive ownership involvement and, due to the ease of replicating index investors' strategies, high industry competition. Secondly, traditional hedge funds, *i.e.* hedge funds with traditional investment strategies, face less competition than index investors and have a more active approach as owners, as stakes are higher and portfolios are significantly more risky (Tuchmann, 2013).

Figure 2: Investor Types

This figure summarizes different investor types along their level of involvement in their respective investments and the level of competition in their industry



Source: OECD, Cevian Capital and author's depiction

Thirdly, shareholder activists traditionally, and predominantly in the United States, invest in publicly traded companies, launch campaigns by, *e.g.*, writing public letters to management, and attempt to, *i.a.*, force a breakup or sale of the target, change management or force a takeover (Lipton, 2019; Gillan and Starks, 2007). Due to the increased amount of resources and expertise needed as an activist compared to the previous discussed investor types, competition is lower, albeit it has been steadily increasing in the United States (Gillan and

Starks, 2007) and in Europe (see section 3.1). Naturally, the nature of the activist's investment approach implies a higher ownership involvement, as operational and structural changes are directly sought after. Fourthly, private equity investors are comparable to traditional hedge funds in terms of industry competition, however, have a significantly more active ownership involvement, as they usually buy a large – and therefore controlling – stake in a private company with the clear aim of enhancing value through operational changes (Kaplan and Strömberg, 2009). Lastly, Cevian Capital is an untraditional kind of activist investor, as it also focuses on operational improvements, is willing to stay invested for a long time and has a very concentrated portfolio. The operational focus requires expertise, which other activists do not have, and therefore sets it apart from competition. Further, it requires Cevian Capital to be heavily involved in the targets' operations (L. Förberg, interview with 13D Monitor, January, 2012).

In conclusion, some players in the investor universe, namely shareholder activists and private equity funds, are better positioned than others to have an impact on the corporate sustainability performance of their investments. Furthermore, Cevian Capital is in a better position than its peers and other types of investors to influence its targets' corporate sustainability performance.

2.4 Sustainability Impact Of Activist Investors

There is limited previous research on the linkage between shareholder activism and corporate sustainability. This is attributable to two factors: Firstly, the relative novelty of the concept corporate sustainability leads to a limited amount of data to be investigated and its qualitative nature aggravates the process of collecting data of good quality. Secondly, the relationship between shareholder activism and corporate sustainability is not directly apparent when compared to, *e.g.*, activists' impact on financial performance of their targets, and therefore, arguably, is under-researched. However, as already discussed in previous sections, the author deems this relationship worthy to investigate, which is supported by extant literature on the topic (see below). Further, due to the complexity and individuality of activists' engagements and how those impact firm actions, some researchers have preferred conducting case studies over quantitative empirical analyses (*e.g.* O'Rourke, 2003). Another limiting factor of the relevance of existing literature for this thesis is that it mostly aims at activism in the United States, where corporate governance, culture and regulations are significantly different from

Europe (H. Zimmerman, 21.06.2016). The finite amount of research that exists can be divided into two categories.

Firstly, researchers have investigated the effectiveness of activist campaigns that are directly dedicated at improving corporate sustainability, which is primarily gauged by the ESG framework. Grewal, Serafeim, and Yoon (2016) find that proposals on ESG issues filed by shareholder activists indeed are effective, although the respective proposals hardly receive majority support among all shareholders of the target. Therefore, the target's management might be pressured internally or by other stakeholders and the general public to improve corporate sustainability, irrespective of its shareholders, once the activist pointed out ESG deficiencies (O'Rourke, 2003). This logic is similar to the argument Gantchev, Gredil and Jotikasthira (2018) make, who find that activist hedge funds not only have a positive effect on governance and performance at targeted companies, but also positively affect non-targeted peers. This dynamic is due to the threat of activism, which similar peers are subject to. Thus, even with no majority shareholder support or when the target is not being exposed to an activist campaign, activism can improve companies' corporate sustainability. Furthermore, Barko, Cremers and Renneboog (2015) find that activist campaigns on ESG issues, which are successful, *i.e.* when the activist was able to gain support of its proposals, outperform those that have not been successful on overall ESG performance. Contradictory to these findings, research has found that social shareholder activists find themselves trading off their goal to increase corporate social responsibility on the one hand and increasing return on investment on the other hand (King and Gish, 2015).

Secondly, few studies examine the impact of all types of activist campaigns on ESG performance of the respective targets, as, although growing, campaigns that are motivated by improving aspects of ESG performance are a minority with 30% in the United States (Deloitte, 2016). First of all, corporations with deficient corporate sustainability performance are more likely to be targeted by activists and are therefore more likely to increase corporate sustainability during and after the activist's engagement (Rehbein, Waddock, and Graves, 2004). A reason for this might be that overall economic performance correlates with corporate sustainability performance (Waddock and Graves, 1997; Hillman and Keim, 2001). This has been supported by O'Rourke (2003) with case studies that showed a trend to link corporate sustainability issues with financial and traditional shareholder issues. Further, the researchers argue that weak corporate sustainability performance can be leveraged by the activist to raise public awareness and support for their proposals from other shareholders. Thus, corporate

sustainability is improved as a byproduct of the activist's agenda to increase financial performance and shareholder value. Moreover, Johnson and Greening (1999) posit that activism has a disciplining effect on managers, as activists more closely monitor their targets' operations than passive shareholders. Although those activists might not dedicate their campaign towards corporate sustainability, managers feel pressured to improve in that area as well. On the other hand, David, Bloom and Hillman (2007) find that activism in fact reduces corporate social performance, as it causes the target's managers to detract resources committed to corporate sustainability, as a seemingly non-integral part of the business, and allocate them towards political activities and defense mechanisms to repel the activist attack. This finding begs the question whether activists that are perceived by management as more constructive than hostile still also exhibit the found behavior or stick to their original resource allocation. On governance-related issues, research has found that the engagement of hedge fund activists leads to a change in board composition towards less ethnic diversity and lower female representation, which negatively affects corporate sustainability as per the most common definitions (Borek, Friesner and McGurn, 2017).

In sum, the limited amount of previous literature suggests that shareholder activism directed specifically at improving corporate sustainability is effective in achieving its goals. Further, there are mixed findings on the effect of shareholder activism on corporate sustainability with a majority leaning towards a positive effect. However, in light of the research question that the succeeding event study attempts to answer, there is a dearth of a combined research approach on the individual impact of shareholder activism on the three components of ESG performance, *i.e.* "environmental", "social" and "governance" performance. Thus, the following event study incorporates theories and findings from previous literature, however, is rather exploratory in nature, due to the unprecedented approach to quantitatively analyze the components of the ESG framework.

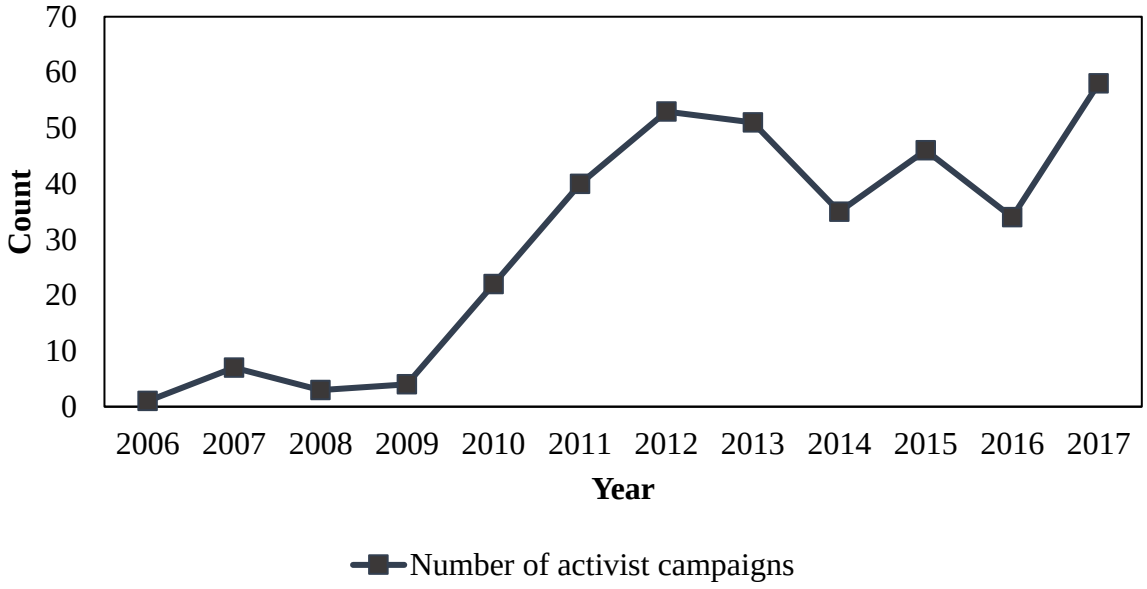
3 Event Study

3.1 Introduction

Investor activism activity in Europe has increased significantly since the financial crises in 2007/08, as the count of activist campaigns against European targets constantly grew since then with only few years with a lower count than the previous year (see figure three). Thus, activists have gained considerable importance in and influence on European public markets.

Figure 3: Number of Activist Campaigns in Europe, 2006-2017

Annual number of announcement of activist campaigns filed against European targets



Source: Thomson Reuters Activism Intelligence

That investor activism generates returns, which are significantly above market has been widely proven in various contexts and under numerous conditions (Stathopoulos and Voulgaris, 2016; Carrothers, 2017). However, it is yet to be reliably examined what effect activist campaigns have on the corporate sustainability performance of their target companies. Therefore, this event study aims at investigating the impact of activist investors on European targets' ESG performance, which is, as previously discussed used as a proxy for corporate sustainability.

3.1.1 Event Definition

Shareholder activism in this study is defined as the acquisition of a significant equity stake in a publicly traded company by an outside investor with the aim to initiate change within the company. These aims are manifold and range from operational changes to financial structure changes with differing investment horizons. The "event" is defined as the announcement time of the activist campaign, *i.e.* the date on which the respective shareholder's involvement in the company becomes apparent to the company. The choice of the event definition is straightforward, as the activist cannot initiate change before gaining the rights to do so, which mostly coincides with the announcement dates, due to individual country regulators requiring the reporting of significant shareholdings. Further, the event definition is driven by data

availability, as activist investors usually do not disclose their plan to engage actively in a company until they are required by law to do so.

3.1.2 Hypotheses

As there is limited previous research on the impact of shareholder activism on the individual ESG components, the following hypotheses are largely exploratory and based on the author's understanding and conceptualization of the topic rather than on empiric precedents.

Shareholder activists seek to improve companies and tend to put pressure on its margins to increase the company's value. Therefore, one could argue that targets will explore ways to increase their asset utilization by, *e.g.*, increasing the efficiency of resource usage, which would imply a positive impact environmental performance. However, this is very speculative and the positive environmental effect might take a long time to materialize.

> ***Hypothesis 1****: Involvement of active shareholders is not associated with subsequent environmental performance.*

The involvement of an activist shareholder might lead management to the reallocation of resources from non-integral parts of the business to measures to repel the activist (David, Bloom and Hillman, 2007). These non-integral operations might include community work and employee benefits programs. Further, the operational pressures activists exert on the company to increase profitability could lead to a decrease in workforce satisfaction.

> ***Hypothesis 2****: Involvement of active shareholders is negatively associated with subsequent social performance.*

Previous research (see section 2.4) largely has demonstrated that shareholder activists are effective at improving governance at target companies, irrespective of whether the campaign is dedicated towards ESG issues or not. Further, the engagement of an activist might elicit a disciplining effect on management with regards to governance.

> ***Hypothesis 3****: Involvement of active shareholders is positively associated with subsequent governance performance.*

In sum, the author hypothesizes that shareholder activism will have no impact on environmental performance, will negatively influence social performance and will positively influence governance performance. However, those hypotheses are only weakly rooted in empirically proven concepts and relationships and are rather exploratory in nature.

3.2 Methodology

The overarching methodology of this empirical analysis is in line with the event study methodology established by MacKinlay in 1997. This methodology has become the standard for event studies in economics and finance. Although the study conducted in this thesis is based on non-financial data, the event study methodology is still deemed appropriate due to the following two reasons: Firstly, the nature of the data is time-series, which spans a considerable time horizon. Secondly, the other main criteria to be fulfilled is whether the examined time series has a correlate that predicts its development (Mitra and Mitra, 2011). In the case at hand, it is assumed that the average broad European ESG score development correlates with the individual ESG performance of the analyzed companies that have been subject to activist campaigns. Therefore, the average European scores of the three ESG components are utilized to predict the expected individual ESG scores of the companies that have been subject to an activist intervention. This model is specified as follows:

$$E\left(R_{i,t}\middle|X_t\right) = \alpha_i + \beta_i \, x \, R_{M,t} \quad (1)$$

where $R_{M,t}$ is the respective ESG component score change at time t, α_i is the estimated intercept, and β_i is the estimated slope. Subsequently, the estimated changes are utilized to calculate abnormal changes, *i.e.* the difference between ex-ante expected changes and ex-post actual changes.

$$AR_{i,t} = R_{i,t} - E\left(R_{i,t}\middle|X_t\right) \quad (2)$$

where $AR_{i,t}$ is the abnormal change of the respective ESG component score at time t for company i, $R_{i,t}$ is the actual score at time t, and X_t represents the vector of independent variables, which explain the ex-ante expected respective ESG component score change.

Further, in a seconds step, this event study follows a novel approach that factors in unsuccessful activist campaigns, *i.e.* either withdrawn by the activist or management was victorious over the activist's proposals, to predict and draw conclusions about ESG performance of targets that have been subject to successful activist campaigns. This methodology is based on Malmendier, Moretti and Peters' (2014) analysis on the long-run effects of mergers and in this thesis' context aims at eliminating and controlling for factors that contribute to ESG performance, however, are not linked to the engagement of an activist investor. Factors this approach can account for are for example strategic or governance changes at the respective targets, which lead activist investors to engage in certain companies and at the

same time impact environmental, social and/or governance measures. The relevance and contentual validity of this approach will be revealed, if the difference in ESG performance between companies that have been subject to successful and unsuccessful activist campaigns is lower than between the former and the European market. This methodology implicitly assumes that companies subject to unsuccessful campaigns pose a valid counterfactual for the companies subject to successful campaigns. Rehbein, Waddock, & Graves (2004) show that companies targeted by shareholder activists exhibit similar characteristics, which leads to the conclusion that this implicit assumption is reasonable in the case at hand. However, an advantage of this methodology is that this claim can be tested by comparing the change in ESG performance of the two groups of companies prior to the activist campaign announcement. Should there be no significant difference, unsuccessful campaigns in fact are a valid counterfactual for successful ones and thus post-campaign announcement ESG performance of the two groups can be compared.

3.3 Data

The sample was created by matching shareholder activism data from Thomson Reuters Shareholder Activism Intelligence with ESG data also from Thomson Reuters. As previously discussed, measuring and quantifying sustainability is a challenging endeavor and conclusions drawn based on this should be taken with a grain of salt. However, in line with the discussion in section 2.2, Thomson Reuter's data on ESG is deemed to provide a solid and objective foundation for analysis (see below). Furthermore, to substantiate and supplement the data collection process from Thomson Reuters, the following additional sources have been consulted on demand: S&P Capital IQ, Mergermarket and Retriever. Specifically, they have been used to validate and extend the activist campaigns listed by Thomson Reuters.

Thomson Reuters captures over 400 company-level ESG measures, on the basis of which it made a selection of measures (see appendix one for a complete overview), which it deemed most comparable and relevant and which are available for a majority of companies. Those measures are grouped into 10 categories, which are in turn grouped into the "environmental", "social" and "governance" aspect of the ESG fraemwork. As data quality is highly sensitive when dealing with non-financial metrics, Thomson Reuters made it an integral part in the data collection process. Ensuring the highest possible data quality entails automated quality checks, independent audits, weekly reporting and management reviews with monthly

quality deep dives. Other researchers, who have used Thomson Reuter's dataset have confirmed their quality (*e.g.* Auer and Schuhmacher, 2016).

Figure 4: Thomson Reuters ESG Data

This figure illustrates how Thomson Reuters collects and categorizes ESG data



Source: Thomson Reuters and author's depiction

The "environmental" category comprises of how well companies manage to reduce their usages of resources and if they are capable of finding more eco-efficient solutions by improving supply chain management ("resource use"). Further, it measures the companies' commitment and effectiveness towards reducing environmental emission in the production and operational processes ("emissions"). Lastly, it measures to what extent companies are able to innovate all along their supply chain to reduce environmental costs ("innovation"). The "social" dimension captures whether companies cater for their employees' job satisfaction and a workplace that is characterized by safety, equality, diversity and personal development ("workforce"). Next to that, it accounts for companies' adherence to and respect towards human rights conventions ("human rights"). Additionally, it measures if firms commit towards their communities, protect public health and respect business ethics ("community"). Lastly, it captures the companies' quality of produced and offered goods and services by paying particular attention to the customer's data privacy, safety, integrity and health ("product responsibility"). The "governance" category accounts for how well and effective companies act towards following best practice corporate governance principles ("management"). Secondly, it measures the responsible use of anti-takeover means and equal treatment of shareholders ("shareholders"). Thirdly, it captures the companies' communication practices on how it integrates financial, social and environmental considerations in its daily operations and decision-making ("CSR strategy").

Considering the sample selection process, all activist campaigns from Thomson Reuter's database from 2006 to 2019 have been collected (see table one), including – amongst others – announcement dates, activist names, target names, campaign status, target nations and activist demands. As shareholder activism globally lacks comparability, which is primarily due to differences in local regulations as well as corporate governance structures (H. Zimmerman, 21.06.2016), this study focuses on activist campaigns that target European companies. Thus, the respective campaigns have been eliminated, which led to a remainder of 395 European activist campaigns, which include targets from Switzerland, Russia and Turkey. Subsequently, activist targets with no ESG data available have been eliminated, which amounted to 256 eliminations. Further, targets that had no ESG data available immediately around the event, *i.e.* at times t-1, t and t+1, have been eradicated leading to a preliminary sample size of 87. Out of those 87 campaigns, 22 campaigns have been unsuccessful, *i.e.* either the activist's proposals have been withdrawn or the target's management has been victorious over the measures sought after by the activist. These 22 campaigns form an alternative sample used to compare pre -and post-announcement ESG performance with successful campaigns (cp. Section 3.2 on methodology). Lastly, the remaining campaigns have been manually adjusted to account for duplicate campaigns, *i.e.* the same campaign that has been listed twice, when two shareholders cooperated and have become active with the same agenda, and otherwise erroneous campaigns. This led to a sample size of 59 for successful campaigns and 16 for unsuccessful, *i.e.* withdrawn or management victory, campaigns.

Table 1: Sample Selection

Overview of sample selection process for successful activist campaigns

Item	**#**
Activist Campaigns (2006-2019)	**4177**
Less: non-European targets	-3782
European Activist Campaigns	**395**
Less: no ESG data	-256
Less: no ESG data around event	-52
Less: withdrawn or management victory	-22
Less: manual adjustments	-6
Total	**59**

Note: Manual adjustments include duplicate and unsuitable campaigns

The main sample of successful activist campaigns contains targets from 13 different countries (see table two). Campaigns with targets located in the UK are clearly over-

represented in this sample, followed by France and Germany. This distribution is due to two factors: Firstly, many activist investors, such as Cevian Capital, focus only on a few countries to invest in – mostly Northern European countries – based on, *i.a.*, favorable governance rules, presence of interesting investment targets and market knowledge. Secondly, reporting standards and regulations do differ among countries (Amel-Zadeh and Serafeim, 2018), which leads to discrepancies in ESG data availability among different countries. Naturally, this erratic geographical distribution poses a limiting factor with regards to the representativeness of the results.

Table 2: Sample Breakdown by Geography

Annual geographic breakdown of activist campaign announcements in final sample

Country	**'06**	**'07**	**'08**	**'09**	**'10**	**'11**	**'12**	**'13**	**'14**	**'15**	**'16**	**'17**	**Total**
Belgium	0	0	0	0	0	0	0	0	0	1	0	0	1
Denmark	0	0	0	0	0	0	0	1	0	0	0	0	1
Finland	0	0	0	0	1	0	0	2	0	0	0	0	3
France	0	0	0	0	0	1	3	1	1	3	0	0	9
Germany	0	0	0	0	1	1	0	1	1	1	1	0	6
Ireland	0	0	0	0	0	0	0	0	0	1	0	0	1
Italy	0	0	0	0	0	0	1	0	0	1	0	0	2
Netherlands	0	0	0	0	0	0	0	2	1	0	0	0	3
Russia Federation	0	0	0	0	0	0	0	1	0	0	0	0	1
Spain	0	0	0	0	0	0	1	0	0	0	2	0	3
Sweden	0	0	0	0	0	0	0	0	1	0	0	0	1
Switzerland	0	0	0	0	0	0	1	1	0	0	0	0	2
United Kingdom	0	1	0	0	1	2	3	3	4	5	5	2	26
Total	**0**	**1**	**0**	**0**	**3**	**4**	**9**	**12**	**8**	**12**	**8**	**2**	**59**

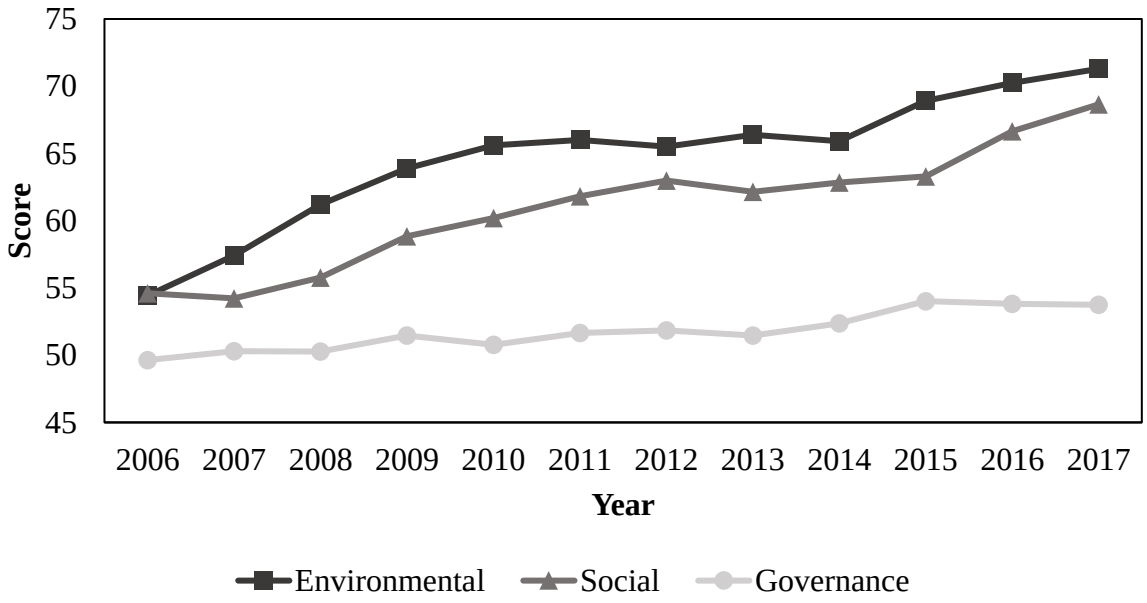
Note: Due to the ESG data availability criterion of covering t-1 to t+1, naturally only campaigns until 2017 are covered, as data only become available at the end of the year.

Before delving into the analysis, it is worthwhile to investigate the general ESG performance development in the European market, which comprises every European company with ESG data available from 2006 to 2017 (excluding within-sample companies to avoid distortions and prevent those companies from influencing the market). All three factors of the ESG model ("environmental", "social" and "governance") have followed a continuous upward sloping trend from 2006 to 2017, however, with differing magnitudes. Specifically, environmental scores have risen the most, followed by social scores and lastly, governance scores. An explanation of these patterns might be that companies have faced tremendous public, political and regulatory pressure with regards to environmentally and socially friendly

business operations (Fernandez-Feijoo, Romero and Ruiz, 2014). Further, trade unions, who amongst others fight for better working conditions, might be a reason for the positive change on the social scale. This is substantiated by (Ioannou and Serafeim, 2012). Corporate governance structures, however, are less subject to public opinion and its development is more self-regulated (Deetz, 2007). The upward sloping trend of overall ESG performance supports previous literature (section 2.1), which discerns a clear trend of companies to intensify their engagements in corporate sustainability.

Figure 5: European ESG Performance, 2006-2017

Average ESG performance of European companies for which ESG data is available in Thomson Reuters ESG database



3.4 Results

All event study results that concern the main sample of interest, *i.e.* successful campaigns, are summarized in table three below. Further, the author decided to display three different intervals around the event, *i.e.* the campaign announcement. Specifically, changes from one year before to one year, two years and three years after the event, respectively, are shown to gauge the sustainability of changes in ESG performance over time. The beginnings of the intervals have been deliberately chosen to be one year before the event, instead of the year of the event, as the activist already might have an impact on ESG performance in the year of the campaign announcement. These intervals are hereinafter referred to as intervals one, two and three. Typically, longer intervals are preferred in event studies (MacKinlay, 1997), however, due to

data availability and the annual character of the time series, the chosen representation is deemed to deliver the most meaningful results. The development of the average individual environmental, social and governance scores around the event are displayed in figures six to eight.

The results for the environmental score performance show a cumulative average abnormal change of 9.36% for the first interval, which is significant at the 1% level. Further, changes for intervals two and three are 7.67% and 7.23%, respectively, and are significant at the 1% level as well. Thus, there is strong evidence against the initial hypothesis that shareholder activism has no impact on the environmental dimension of ESG. Based on the discussed previous literature, this can be due to three reasons. Firstly, the engagement of activists has a holistic disciplining effect on management. Secondly, activists may leverage targets' poor environmental performance to increase public attention and gain support from other shareholders, which leads to the company's management intensifying efforts to become more environmentally friendly. Thirdly, activists' common target to increase return on assets can lead to a more efficient resource use, however, arguably this effect is not likely to be material as rapid as the findings suggest. The findings for the social dimension of the ESG framework exhibit weak evidence against the connected hypothesis, as only interval two displays a significant – at the 10% level – positive abnormal change of social performance. Thus, financial performance pressure put on the targets may not be passed on to employees as has been suspected. Further, the assumed disciplining effect as well as the public attention that the involvement of an activist entails potentially leads to management actions that compensate any other negative influence on social performance. Lastly, there is no sign of any abnormal change of governance performance when an activist is involved. In fact, the mean abnormal change has been negative for intervals one and three with -0.02% and -2.22%, respectively. This finding strongly contradicts previous literature, however, the measurement of governance performance might offer an explanation for this finding, as it incorporates equal treatment of shareholders and communication of a corporate social responsibility strategy next to best practice corporate governance principles (see section 3.3 and appendix one).

Table 3: Abnormal Scores subsequent to Announcement Date

Cumulative average abnormal returns for the full sample of successful activist campaigns between 2006 and 2017. The campaign announcements have been collected from Thomson Reuters, Mergermarket, S&P Capital IQ and Retriever. The ESG data is from Thomson Reuters ESG database

	Cumulative Average Abnormal Changes		
Interval	Mean	t-statistic	Percentage positive
Environmental (N=59)			
-1 to +1	9.36%***	3.87	70%
-1 to +2	7.67%***	3.17	74%
-1 to +3	7.23%***	2.99	55%
Social (N=59)			
-1 to +1	3.59%	0.88	47%
-1 to +2	7.16%*	1.76	53%
-1 to +3	5.81%	1.43	61%
Governance (N=59)			
-1 to +1	-0.02%	-0.01	40%
-1 to +2	0.33%	0.07	47%
-1 to +3	-2.22%	-0.50	55%

*Note: * = p < 0.1; ** = p < 0.05; *** = p < 0.01*

The average environmental score of companies that have been targets of successful shareholder activist campaigns exhibits an overall similar pattern to the overall European environmental score, as it has an upward sloping trend (cp. figures five and six). Specifically, the environmental score tends to decrease from t-3 to t-2, however, subsequently increases thereafter until t+1 and then remains reasonably flat until t+3. The fact that environmental performance increases as of two years before the engagement of the activist shareholder is an indication that the significant abnormal changes (cp. table three) are not evoked by the activists' actions, but other influences. Further, it might well be that activists tend to target companies that exhibit this pattern in the first place, as strong environmental performance is connected to sound financial performance (Horváthová, 2010) and reduces a company's downside risk (Hoepner, Oikonomou, Sautner, Starks, and Zhou, 2018).

Figure 6: European Environmental Scores around Announcement

Average environmental score in successful campaign sample around campaign announcement date (time "t") from 2006 to 2017

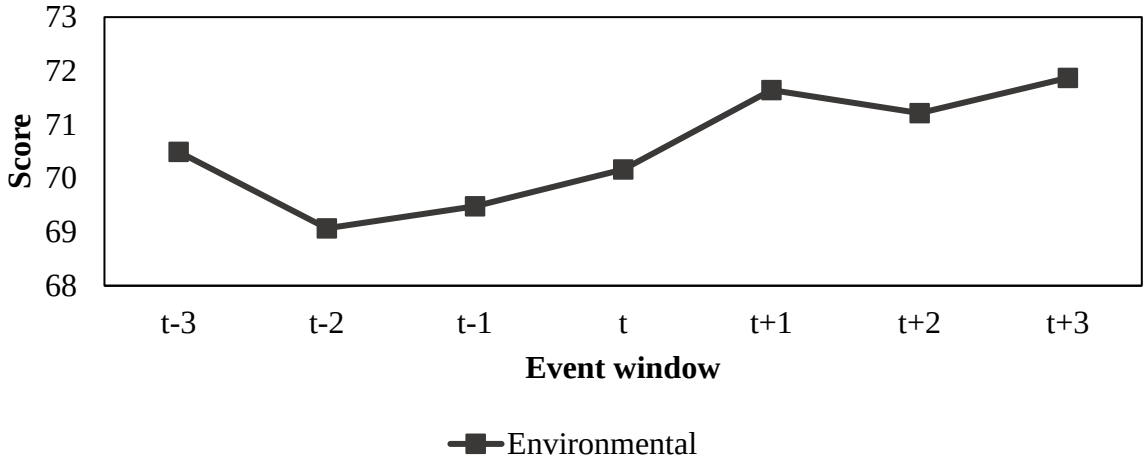
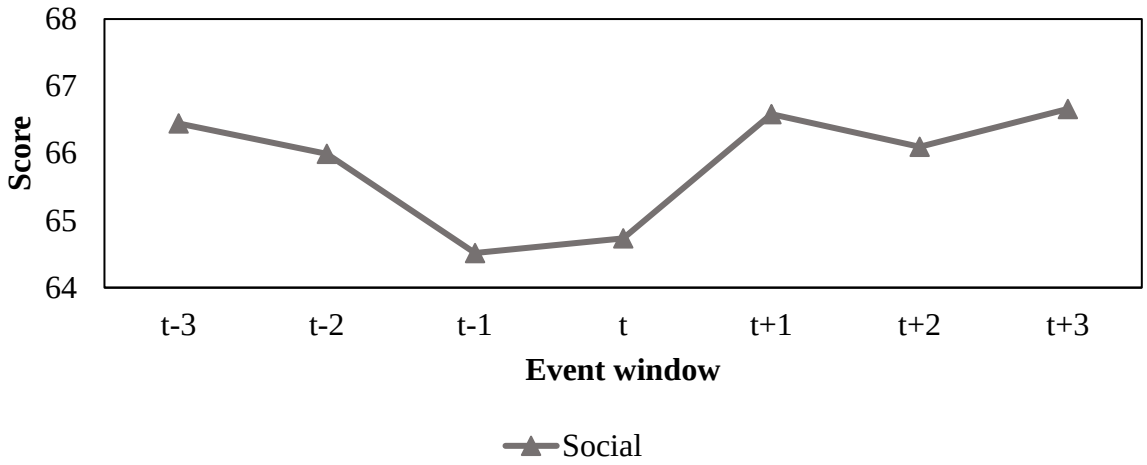


Figure 7: European Social Scores around Announcement

Average social score in successful campaign sample around campaign announcement date (time "t") from 2006 to 2017



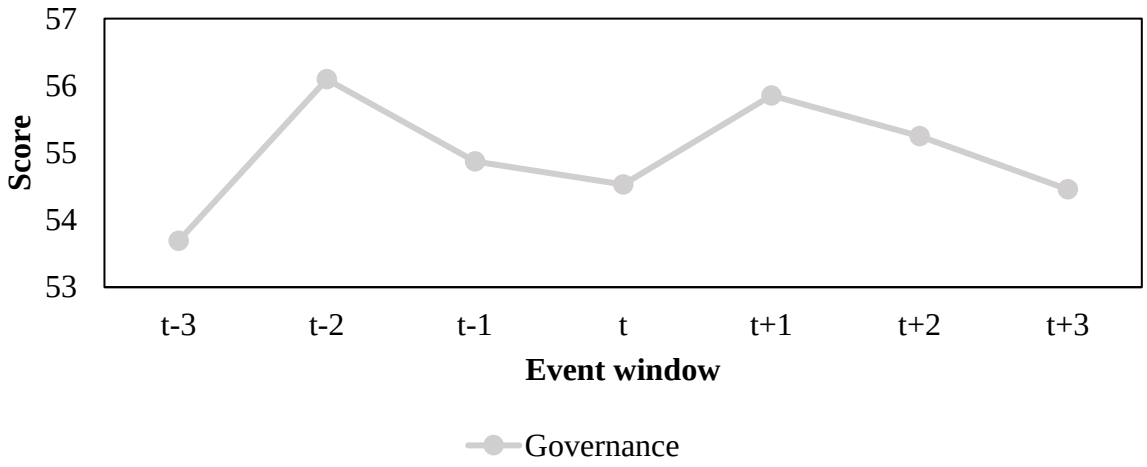
As compared to the environmental performance, the average social score of companies subject to successful activist campaigns has not increased over the event horizon of this study, *i.e.* from three years before until three years after the campaign announcement (see figures five and seven). Particularly, the average social score of the sample decreased from t-3 to t-1 and remained moderately steady until the event, as of when it increased until three years after the event to a local maximum. In this case, the positive and partially significant abnormal changes (see table three) are potentially attributable to the involvement of the shareholder activist, as

there is no positive, but a negative trend preceding the event. Consequently, this observation is additional evidence against the initial hypothesis of activists negatively influencing social performance of targets.

Lastly, the rather stagnating average governance score of companies subject to successful activist campaigns is somewhat comparable to the overall European governance score trend, as the latter is only marginally upward sloping (see figures five and eight). Specifically, the former increases from three years to two years before the event to decrease thereafter until the year of the event. Subsequently, it increases until one year after the campaign and then decreases until the end of the horizon of this study. As already shown by the event study results (table three), this pattern leads to no conclusive results as to the impact of shareholder activists on governance performance of their targets and further contradicts the initial hypothesis.

Figure 8: European Governance Scores around Announcement

Average governance score in successful campaign sample around campaign announcement date (time "t") from 2006 to 2017



In sum, when considering the results of the event study in combination with the average performances of the ESG components around the event, the role that activist investors actually play in the corporate sustainability performance of their targets is not entirely transparent. However, it seems that activists tend to invest in companies that are increasing their environmental performance, compared to the entire European population of companies, anyways. On the other hand, activists' involvement appears to positively influence their

targets' social performance. Lastly, governance scores exhibit no affiliation to the advent of shareholder activism in the respective company.

To further scrutinize the activists' role in and impact on corporate sustainability of their targets, the ESG performance of unsuccessful campaigns, *i.e.* when it was withdrawn by the activist or target's management was victorious over the activist's demands, will be examined and related to the previous findings. Firstly, as discussed in the methodology (section 3.2), it needs to be established whether unsuccessful campaigns pose a valid counterfactual for successful campaigns. A paired independent samples t-test (see table four) shows that the abnormal changes before the event between the two samples do not differ significantly. From this, one can conclude that the necessary condition to compare post-event ESG performance is fulfilled. Therefore, a second paired independent samples t-test has been conducted to test whether post-event ESG performance is significantly different between the two samples. In line with the initial hypotheses, the author suspects that the abnormal changes of the successful sample's environmental scores will not be significantly different, social scores will be significantly lower and governance scores will be significantly higher than those of the unsuccessful sample. However, this analysis yielded that also post-event performances are not significantly different from each other in none of the ESG components. However, comparing the t-statistics of pre-and post-event abnormal changes as well as considering the percentage of positive differences between abnormal changes indicates that governance performance tends to be worse when activists are involved. The differences between the other two ESG components do not allow for alike interpretations, as discrepancies are too small. Also see appendix three for a comparison and graphical representation of average pre –and post event ESG scores between both samples.

Table 4: Comparison of Successful and Unsuccessful Campaigns

Paired independent sample t-test to compare mean abnormal changes of ESG performance of successful campaigns with withdrawn/management victory campaigns before the event (left hand side) and after the event (right hand side)

	Pre-event		**Post-event**	
	t-statistic	Percentage positive	t-statistic	Percentage positive
Environmental	0.48	50%	0.23	67%
Social	-0.68	50%	-0.50	33%
Governance	0.34	50%	-1.53	0%

*Note: * = p < 0.1; ** = p < 0.05; *** = p < 0.01*

Based on the preceding analysis on successful campaigns and based on discussed literature (see section 2.4) this finding supports two partially contradictory theories on the connection between shareholder activism and corporate sustainability. Firstly, it supports the hypothesis that shareholder activists potentially target firms that exhibit certain ESG characteristics and developments anyways and therefore do not impact corporate sustainability themselves during their engagements. This is in line with Rehbein, Waddock, and Graves' (2004) finding that shareholder activists' targets display similar characteristics, albeit they do not specifically cover corporate sustainability or ESG characteristics. Secondly, this analysis supports the theory of hedge fund activists having spillover effects on peers that are not subject to an activist involvement (Gantchev, Gredil, and Jotikasthira, 2018). Thus, companies, which have repelled an activist intervention, might take measures that decrease the possibility of another intervention in the future leading to a similar ESG performance development and a relative improvement of corporate governance practices.

3.5 Limitations And Potential For Further Research

Due to the novelty of analyzing the ESG framework by its components and the limited scope of this event study, there are several limitations and potential biases to the presented results and implications. Firstly, although Thomson Reuters is a proven and reliable provider of financial data, there is a risk that some activist campaign announcements have been missed and that some companies' ESG scores have been assessed wrongly. The former concern has been attempted to be minimized by additionally utilizing the databases of S&P Capital IQ, Retriever and Mergermarket, however, the concern still remains. Secondly, the size of the samples, especially that of the unsuccessful campaign sample, are rather small raising doubt as to the representativeness of the results. Thirdly, the high diversity among shareholder activism campaigns in terms of scope and level of engagement (Goranova and Ryan, 2014) limits the applicability of the general conclusions drawn from the event study. Connected to this, point, even with the various approaches this event study takes to analyze and interpret the data, it has proven difficult to disentangle the real effect of activist investors on corporate sustainability from meaningless correlations. To isolate the effect shareholder activism, meaningful control variables need to be factored in, however, current research and theory on corporate sustainability lacks grounds for those variables. Others (*e.g.* David, Bloom and Hillman, 2007) have incorporated variables such as size, target's industry and target's return on assets, however, it is yet to be shown whether those meaningfully aid in isolating shareholder activism

effects on corporate sustainability. Lastly, reliable quantitative ESG data availability is still limited, decreasing the robustness of results derive from such data. Future studies on this topic will have access to more and better ESG data and thus will be able to produce more robust results.

There is ample opportunity as well as necessity for further research. As already hinted at before, the determinants and underlying dynamics of corporate sustainability need to be better understood in order to further examine what role shareholder activism plays and potentially can play in influencing corporate sustainability at their targets. Moreover, further research needs to be conducted on the differences of successful and unsuccessful shareholder activist campaigns and how they differ in the impact they have on the targets, particularly in the field of corporate sustainability.

4 Case Study Methodology

In light of the overarching research question and the novelty of the subject, the second part of this thesis will be concerned with a case study on the impact of shareholder activism on corporate sustainability by analyzing a specific activist campaign. This format is chosen to ensue the preceding event study, as it shall exemplify and illuminate the complex relationship between investment and operational decisions by the activist and sustainability-related externalities at firm level. The basis for the case study is formed by a multitude of sources: Personal interviews, company publications, articles, press releases, annual reports, letters from Cevian Capital to its limited partners, equity research reports, internal company presentations, and Thomson Reuters' ESG report on Tieto. Subsequently, the case study methodology will be illustrated more in-depth, including its scientific validity.

4.1 Research Design

The case study methodology is widely approved and supported by academia to analyze complex dynamics (e.g. Noor, 2008; Stake, 1995; Zainal, 2007). Yin (2014) contents that "case studies are the preferred strategy [...] when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context". Although Yin (2014) does not direct this to any specific line of research, he explicitly classifies economics as a field in which case studies can be applied. Moreover, Dubois and Gadde (2002) find that the case itself, theory, framework and empirical environment continuously interact in

a method they coin *systematic combining*, which implies that neither the case solely shapes theory nor the case only supports the underlying theory, but that there is symbiosis, which sheds light on the researched phenomenon. This is supported by Glaser (1978), who states that a case study approach enables the researcher to combine theory and reality without being biased towards forcing real-life observations into existing theoretical frameworks. This thesis' case study includes a multitude of data sources in an attempt to relate the empirical findings from section three to the case and develop new dimensions to answer the thesis' research question. The types of data can be categorized into *passive* and *active* data. The former is data that can be extracted by purely relying on existing data sources, whereas the latter need to be discovered and developed by the researcher and ultimately meaningfully synthesized with the former. The search for and acquisition of active data, *e.g.* through personal interviews, allows the researcher to continuously develop and refine the research direction (Dubois and Gadde, 2002). Furthermore, the use of different types of sources allows one to take multiple perspectives on the researched phenomenon and therefore discover a multitude of behavioral and external factors and layers, which have not been evident before and increase both reliability and validity of the ultimate results (Yin, 2014).

4.2 Data Collection

Given the significant amount of previous research that validates the case study methodology, a case study forms the second part of this thesis. Cevian Capital's engagement in Tieto, a Finnish IT-services company, has been selected due to the following reasons: Firstly, Cevian Capital, as Europe's biggest activist hedge fund (in assets under management), is particularly attractive for this research, as with its resources is able to target and initiate change at most of the European companies there are. Therefore, Cevian Capital has a significant potential impact on corporate sustainability in European public markets. Secondly, the long investment horizon in combination with the nature of the investment (see succeeding section) yields a variety of different measures Cevian Capital took to increase value increasing the materiality and grounds of analysis of this research. Thirdly, data availability and data access have been best for this investment, due to personal networks within Cevian Capital and Tieto's transparency in reporting. Next to the consideration of passive data, *i.e.* press releases, articles, ESG data and annual reports, the author decided to also pursue the collection of active data to enrich the analysis (see table five for an overview). Specifically, personal interviews have been conducted as well as non-public material collected. Interviews have been held with Cevian Capital representatives, whereas scheduled interviews with Tieto representatives unfortunately have

been cancelled with short notice. Due to the active involvement of Cevian Capital in Tieto, the conducted interviews are deemed to be sufficiently informative and serving the purpose of the thesis well. However, the author acknowledges that personally interviewing only one side of the investment may lead to potential biases, which are intended to be minimized by carefully comparing and squaring passive and active data.

Table 5: Case Study Data Sources

Overview of the main data sources for the case study of Cevian Capital's investment in Tieto

Source	Description / Use	Role
L. Förberg	Co-Founder and managing partner at Cevian Capital	involved
H. Zimmmerman	Senior partner for investor relations at Cevian Capital	involved
N. Pakalén	Partner at Cevian Capital and board member at Tieto	involved
Cevian Capital AB	Internal letters & presentations, website, press releases	involved
Tieto Oyj	Press releases, annual reports and website	involved
Thomsom Reuters	International news agency and data provider	independent
Morgan Stanley	Market research reports	independent

All interviews were conducted over telephone with substantial efforts put into preparing and afterwards transcribing the interviews word-for-word to maximize the utility of the held interviews. The transcription of the interview allowed to reliably and precisely give account of what was being said and retroactively incorporate quotes in the case study. Although for each interview a question list was prepared, the layout of the interview allowed for a flexible evolution. This is in line with the approach of systematic combining of Dubois and Gadde (2002). Over the course of the case analysis and discussion, the various data sources have been combined and data from interviews has been complemented, substantiated and validated by other active and passive sources.

4.3 Research Quality

Although the case study methodology has found wide acceptance in the academic community, there are still controversies as to the scientific value and representativeness of case studies, which are accused of not delivering generalizable results (Yin, 2014). However, as a response to the criticism, the proponents (Yin, 2014) of case studies have developed a variety of tests based on Kidder, Judd and Smith's (1986) model to assess the methodological quality of case studies. Those tests are *internal validity, external validity, reliability,* and *construct validity* (Yin, 2014).

Internal validity measures the extent to which it is possible to draw causal conclusions from the presented case study (Drost, 2011). This is ensured by the dependent variable – in this case *corporate sustainability performance* – to be only influenced by the anticipated independent variable – in this case *engagement of an activist investor* – instead of any other external variable (Yin, 2014). This case study maximizes internal validity by comparing the findings from the case study to previous research and a tailored event study (see section seven). However, Yin (2014) further contents that this is more applicable to explanatory rather than exploratory case studies, where causal relationships are not clear ex ante. Although there is a clear relationship that the case study aims to examine, the author acknowledges that the researched phenomenon is rather complex and based on the preceding event study cannot rule out that dependent and independent variable might switched around, *i.e.* activist investors target companies that exhibit certain corporate sustainability patterns anyway.

External validity refers to the main point of critique of case studies, *i.e.* their extent of statistical generalization. One can argue that the natural sample size of *one* in a case study is not enough to derive significant results, due to the lack of statistical generalizability. However, others (Siggelkow, 2007) counterpose this lack with the concept of *analytical generalizability*, which does not rely on drawing conclusions from data to a population, but generalizes a case study to theory and assumes the case study results can be replicated in other case studies. The author attempts to increase external validity by relating the case study to other cases and academic theory (see section six and seven). Furthermore, this mitigates the concern of Corcoran, Walker and Wals (2004), who identify a lack of theorizing in case studies in the field of sustainability.

Reliability is measured by whether or not another researcher would be able to replicate the case study given it is the same case and the same methodology is pursued. That is, a case study is considered reliable, when there is no subjectivity or other biases involved that would skew the results and make them un-replicable (Yin, 2014). To ensure reliability it is imperative to document accurately and detailed the case study methodology and overall process to create a case study database. Given that an integral part of this thesis' case study is based on the Thomson Reuters ESG database, implies a high degree of reliability. However, personal interviews as the second pillar of this study are less reliable, as the interviews have not been conducted following a strict question list and it cannot be ruled out that interviewees change their perception of events over time. The former concern has been attempted to be counteracted

by meticulous transcription of the interviews and adherence to a general structure and theme of the interview, whereas the latter concern remains a limitation of the study.

Construct validity refers to the extent to which the case study actually measures what it is intended to measure, *i.e.* the a priori constructed theoretical causal relationship – in this case between shareholder activism and corporate sustainability – is actually tested in the case study (Drost, 2011). Some argue that this premise cannot be fulfilled, as in case studies researchers already have a subjective hypothesis in mind to which data collection, in particular collection of active data, is geared (Flyvbjerg, 2006). Yin (2014) suggests that this accusation can be weakened by incorporating multiple independent data sources as well as by establishing a chain of evidence, *i.e.* a documented process that leads to the reader drawing the same conclusions as the author. Construct validity is maximized in this study by a transparent representation of the data sources and using data collected in personal interviews only in the same context as it has been used by the interviewee.

In sum, the criticism of the academic community towards case studies is mitigated by considering a variety of tests to ensure that research quality in this case study is maximized. Thus, the results presented and derived from the case study are deemed to be transferable to other settings and produce reliable, valid and objective inferences that valuably add to the empirical research on shareholder activism and corporate sustainability.

5 Case Background

5.1 Cevian Capital

Cevian Capital, as already shortly introduced before, is a European hedge fund activist investor, which is a self-proclaimed "active ownership investment firm" and has advisory offices in Stockholm, London and Zurich (website, undated). It has historically focused their investments on the Nordic countries, United Kingdom, Germany and Switzerland, as those countries from Cevian Capital's point of view exhibit a combination of clear governance rules favoring shareholders, good transparency and interesting companies (H. Zimmerman, June 21, 2016). The fund has more than €13 billion in assets under management (AUM) dedicated by, *i.a.*, pension funds, endowments, foundations and sovereign wealth funds for investments (website, undated) and a total number of 10-12 investments at the same time. It is currently invested and engaged in, amongst others, Thyssenkrupp, Nordea and Bilfinger (see appendix three for a

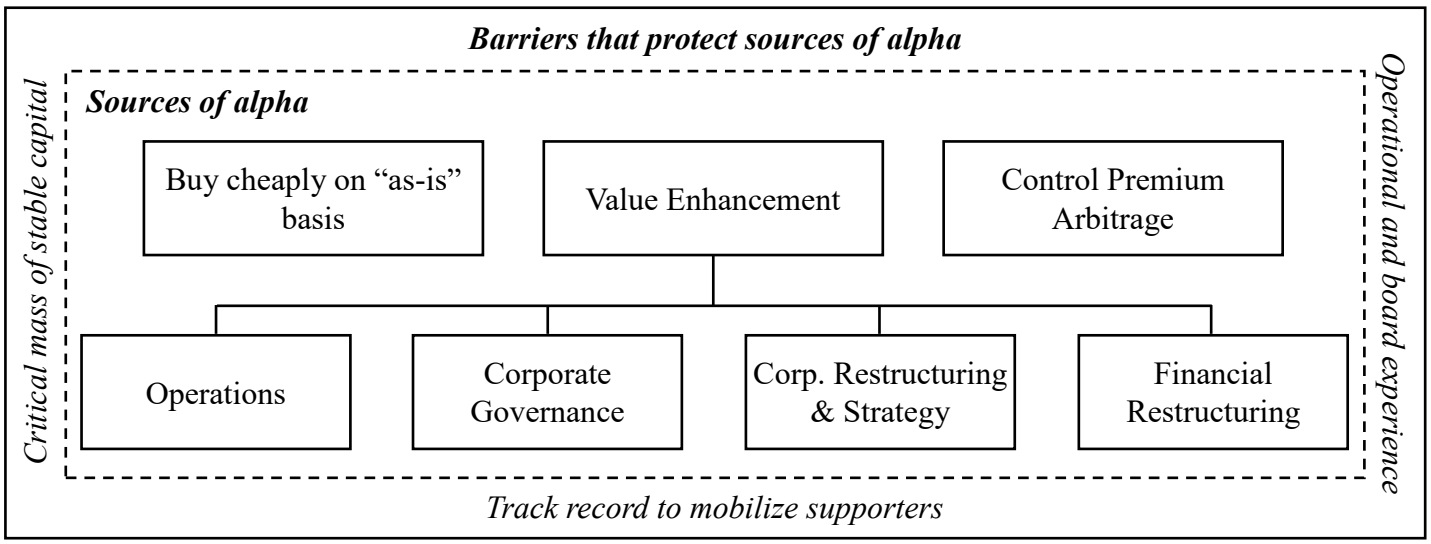
complete holding overview). For its investments, Cevian Capital does not take on leverage and neither hedges nor shorts stocks, but takes a long-term view in its investment (N. Pakalén, 25.04.2019; Shanley, 2014).

Cevian Capital was founded in 2002 by Christer Gardell and Lars Förberg, who have previously collaborated at the private equity company *Nordic Capital*. With the aim to apply the private equity approach of value creation to public companies, they joined the investment firm *Custos* in 1996 as chief executive officer and chief investment officer, respectively. Specifically, their goal as of then was to acquire significant shareholdings of c. 10% in public companies to be able to initiate change without paying a control premium. They continued with this approach, when they left Custos and founded Cevian Capital. Cevian Capital does not disclose their returns, however, the return on their second fund in 2014, which has been launched in 2006, is estimated to be 180%, as opposed to the MSCI Europe Index, which has returned 36%. Despite Cevian Capital's sole focus on European targets, their investors are mainly from the United States (Shanley, 2014).

Cevian Capital's investment philosophy can be summarized as follows: It aims at holding companies for three to seven years, while at least doubling the respective company's value after three years. In a worst-case scenario Cevian Capital intends to not lose more than 20% of its invested capital. Thus, they are unlikely to invest in risky industries, such as pharmaceuticals, technology and biotechnology, but rather in industrial companies, service companies and niches in the financial services industry (C. Gardell, 27.08.2015). Further, Cevian Capital targets to be the largest shareholder to, on the one hand, gain board representation, and, on the other hand, swiftly enforce its envisaged changes to the company (H. Zimmerman, 26.06.2016). Moreover, Cevian Capital's investments rely on three sources of value creation (see figure nine for a complete overview).

Figure 9: Value Creation at Cevian Capital

Graphical representation of Cevian Capital's robust value creation levers



Source: Cevian Capital and author's depiction

Firstly, it seeks companies that are cheap on an "as-is" basis, *i.e.* companies that have an attractive valuation compared to their intrinsic value. This valuation mismatch is often due to a strong main business that is confronted with the underlying industry having gone out of favor or a very short-term focused market, which undervalues companies that are fundamentally attractive but not performing well at the moment (H. Zimmerman, 26.06.2016). Secondly, and this is the core of Cevian Capital's value creation strategy, is its active ownership strategy working towards realizing the potential of a company and creating additional value. The most important component of this source of value creation is operational enhancements, such as improvements of asset utilization and product mix, next to strategic corporate restructuring, governance changes and balance sheet management (see section six for further descriptions and examples of this value creation pillar). Lastly, Cevian Capital engages in control premium arbitrage, *i.e.* buy cheaply at market and sell at premium by timing the market. This value creation approach is protected by three distinct barriers to entry: Cevian Capital has a critical mass of stable capital, vast board and operational experience, and strong enough credentials to mobilize supporters for their cause (Cevian Capital, undated).

5.2 Constructive Shareholder Activism

As already pointed out earlier (see section 2.3), Cevian Capital is not a traditional hedge fund activist, especially when compared to its peers from the United States. It considers itself as a

constructive activist as opposed to a hostile one, who seeks short-term returns at the expense of the long-term value of the respective firm. Cevian Capital does not engage in proxy fights nor publicly attacks target's management, but instead takes a long-term view and take actions where they deem necessary to increase the target's fundamental value (H. Zimmerman, 26.06.2016). This approach is in line with Cevian Capital's investment style, however, is facilitated by European corporate governance being more favorable for shareholders than governance in, *e.g.*, the United States (Cziraki, Renneboog and Szilagyi, 2010). This allows Cevian Capital to be in a powerful position in a company by owning only 5% to 15% of it. Further, this approach is also due to the different culture in Europe compared to the United States (H. Zimmerman, 26.06.2016).

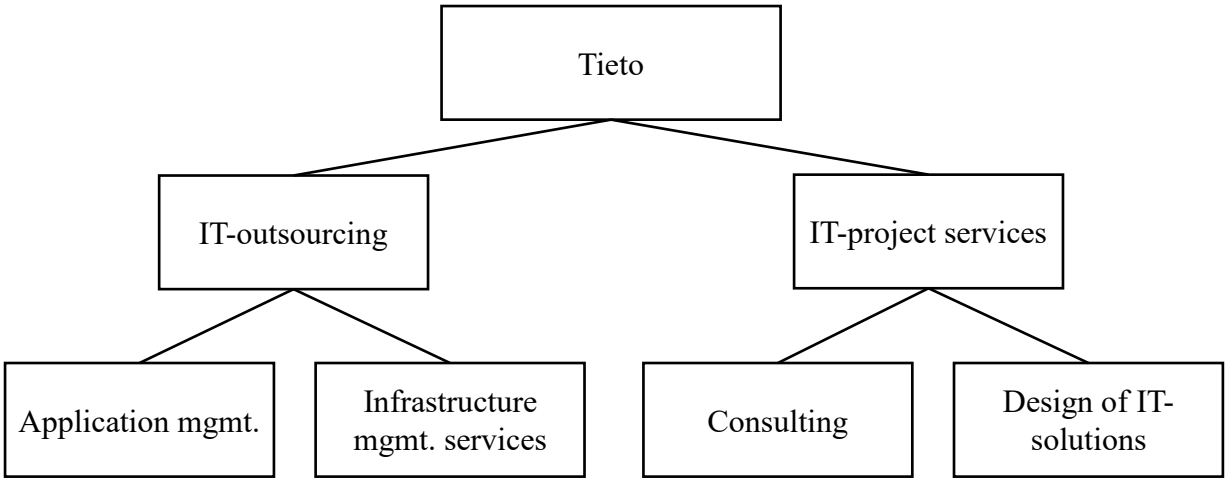
5.3 Tieto

5.3.1 Business Overview And Historical Development in 2009

Tieto is a leading IT-services provider in the Nordic region with Finland and Sweden as its main markets. The company also has international operations, employing c. 16,000 people in 30 countries. Tieto is mainly engaged in IT-outsourcing and IT-project services

Figure 10: Tieto Business Overview

Overview of Tieto's Core Business Areas in 2009



Source: Author's depiction

Tieto was founded in Finland in 1968. After a large number of acquisitions and a merger with the *Swedish Enator* corporation in 1999, it was renamed "TietoEnator" and in 2009 re-branded "Tieto". It has historically generated an average operating margin of 9% (1999-2008), with large differences across its active markets (see appendix four). The profitability has been

higher in Finland than in Sweden partly due to a more favorable market structure and an industry-leading position. "International", *i.e.* all markets except Sweden and Finland, have experienced low profitability in years before 2009, with more profitable markets offset by more problematic geographies such as the UK. In 2006 to 2007 the company delivered weak results due to an overly rapid expansion in continental Europe, aggravated by problems associated with acquired companies. Further, Tieto's organizational structure had proved to be too vertically and industry focused, hampering Tieto's ability to rapidly and flexibly adjust to industry changes and resulting in low resource utilization rates. Moreover, it encountered large overruns, *i.e.* on time and money, on a number of projects. These problems were addressed in a restructuring program and earnings bounced back to normal levels in 2008 (see appendix four).

For most of the last decade the company has enjoyed a premium valuation to the Nordic IT-services sector due to its resilient business mix and strong margin delivery (see appendix four). However, the share price dropped from €35 in early 2006 to below €10 in early 2009 following a series of disappointing results in 2006 and 2007 and the financial market turmoil and economic downturn of 2008 and 2009. After exceeding analyst forecasts in Q2 2009 and Q3 2009, the share price has now appreciated to €15 (see appendix four).

5.3.2 Tieto's Shape in 2009

Tieto has been affected by the economic downturn, but has held up well compared to many other industries and IT companies. Revenue declines (see appendix four) have been moderate (-4% YTD through September 2009, adjusted for currency effects), reflecting the resilience and recurring nature of the majority of the business. As would be expected, revenue decline has been most significant in project services, particularly in Telecom research and development services. However, the company has reacted to the changed environment and has been implementing a major cost reduction program targeting savings of €100 million (of which €70 million materialize in 2009). Consequently, margins have held up better than expected and the company's YTD operating margin of 5.5% (excluding one-off items) was strong given the depressed economic environment at that time. Furthermore, Tieto has a solid balance sheet with net debt amounting to €119 million, which corresponds to net gearing of 24% (see appendix four).

Tieto's board of directors in 2009 had nine members, consisting of seven shareholders and two employee representatives. The chairman, Anders Ullberg (former CEO of Swedish

steel company SSAB), was appointed in 2008. As is typical for Finland, the board was entirely non-executive. The current CEO at that time, Hannu Syrjäla, assumed his role in early 2008. Mr. Syrjälä's background is mainly with GE and he has extensive experience of restructuring. Cevian Capital had a good relationship with several existing and former board and management members and was confident that the CEO was taking the company in an appropriate direction and support their plans an initiatives. Ownership was dispersed and dominated by Nordic institutional investors. In addition to Cevian Capital, the largest three shareholders are Pohjola holding with 5.7% (combined stake of an independently operating insurance company, asset manager and central holding of Pohjola), Swedbank Robur Funds with 5.0% and Ilmarinen with 3.9%.

Tieto generated revenues of €1.86 billion in 2008 and is among the largest IT companies in the Nordics. Tieto has an extraordinarily high share of recurring and sticky revenues for an IT-services company, as about 60% of revenues come from outsourcing of applications and IT-infrastructure and other maintenance revenues. The outsourcing services, which account for c. 50% of revenues, are in essence long-duration contracts (three to five years) for Tieto to manage customer's IT needs, often taking its clients' IT personnel on its own books. It is generally complicated and costly for clients to switch away from Tieto once they are in-place, as Tieto works closely with its clients on alterations, improvements and new developments. Competitors for larger outsourcing contracts include global players such as IBM and Capgemini, as well as regional players such as Logica and EDB. Indian outsourcers compete only for larger contracts, and then only occasionally, as they are hampered by weaknesses in distribution and customer access. Tieto has a particularly strong position in the more stable and less competitive mid-sized corporate segment and with public entities. Tieto enjoys other sticky revenues from software licenses and maintenance contracts in the product division. Approximately 30% of Tieto's revenues are derived from project services, which include Industry solutions (where Tieto assists companies in strengthening business and information process), research and development services for the telecom industry (Tieto develops applications and specific features for telecom customers) and traditional consulting work (such as ERP-consulting and other ad-hoc projects). These services are less resilient in a downturn than the application and infrastructure outsourcing and product sales. However, as a whole Tieto is not highly cyclical, as many of the projects are not easily delayed by the clients, mostly integral to the business and are incremental expenditures relating to prior work done by Tieto. The research and development services are closely connected to the level of research and

development spending for companies such as Nokia and Ericsson. The competitors vary depending on size and scope of project and can include international players (*e.g.* Capgemini), regional players (Logica/WM data), as well as smaller niche players. Indian competitors (Wipro, Infosys, Sasken) are important in research and development services for the telecom industry. Tieto's clients include many Nordic blue chip companies, *i.e.* "superior" companies defined by high stability, high share price during recession, high profit growth and large market share (Koh, Meng, Gupta and Ramakrishna, 2000). The most important segment for Tieto is *Telecom & Media*, which accounts for c. 35% of sales. Example clients in this segment are Nokia, Ericsson and TeliaSonera. The second largest segment is *Finance*, which accounts for c. 20% of sales and includes, *i.a.*, Nordea, Handelsbanken and Swedbank. Other important customer groups are *Governments, Manufacturing & Retail, Forest & Energy, and Healthcare & Welfare*.

The Finnish market accounts for c. 50% of sales, and Tieto is the clear market leader in Finland. In Sweden, Tieto's second most important market, it generates c. 25% of sales, and it is among the top three players in Sweden in terms of market share. The remaining c. 25% of sales are derived from numerous other countries with the most important being Germany, Denmark, Norway, UK and Russia. In these markets Tieto is typically a niche player focused on particular industries. Tieto's international operations also comprise off-shore based Global Delivery Centers in low-cost locations such as India, Czech Republic and China. Currently 27% of employees are employed in low-cost countries.

6 The Case: Cevian Capital's Investment Decision

Already in the beginning of the 2000s Cevian Capital started scrutinizing Tieto as a potential investment, as it regarded the IT services industry as fundamentally attractive. However, Tieto's valuation remained largely too unattractive for Cevian Capital to invest, *i.e.* it was not in line with its first value creation pillar (see section 5.1). In 2008, Tieto approached Cevian Capital to investigate whether they would be interested in helping to repel Nordic Capital's – Nordic private equity company – takeover bid by becoming a "white knight", *i.e.* by acquiring Tieto to prevent it from being acquired by Nordic Capital (Smiley and Stewart, 1985). Cevian Capital refused the offer due to an unattractive valuation level, however, recognized potential value enhancement opportunities at Tieto, which lead to an investment a year later, as Tieto's share price dropped by more than 50% (see appendix four) in subsequent quarters after Nordic

Capital's takeover offer. Nordic Capital's offer was not successful, due to Tieto's shareholders rejecting it, as the "offer materially undervalues the company and is ill-timed, given all the ongoing positive initiatives and outlook of the company" (P. Viljakainen on behalf of Tieto's shareholders, 16.05.2008). Cevian Capital started to build a stake and exceeded 5% ownership in November 2009. The already extant relationship with Tieto's management in combination with the urgency for change created by the economic environment enabled Cevian Capital to engage in constructive discussions already early in the process (N. Pakalén, 25.04.2019).

In the following, Cevian Capital's initial investment thesis is elaborated on, which is largely based on a letter from Cevian Capital to its limited partners and personal interviews, but also on external sources, such as press articles. Subsequently, the measures Cevian Capital actually took at Tieto along its four value creation levers are displayed based on interviews with Cevian Capital decision makers. This will serve as a basis for the succeeding discussion on Cevian Capital's impact on corporate sustainability, as for this the author deems a thorough understanding of the investment dynamics to be indispensable. However, note that at the core of the case study is Cevian Capital's sustainability impact, which limits the depth of this section's case analysis.

6.1 Investment Thesis

Cevian Capital's investment decision was due to the fact that it regarded Tieto as fundamentally undervalued and thus cheap on "as-is" basis and recognized a significant scope for value enhancement in line with its overall value creation strategy (see section 5.1) (N. Pakalén, 25.04.2019). As of November 23, 2009, Tieto was valued at an EV/sales level of c. 0.7x, compared to a historic average of c. 1.0x (excluding IT boom years, where EV/sales reached more than 5.0x). The earnings multiples based on analyst forecasts were in line with peers despite the fact that Tieto's business mix, arguably, was more attractive than those of its peers (L. Förberg, 05.05.2019). While Tieto's results have been below historical averages in 2009 as well as below trend over the succeeding quarters, the valuation at investment according to Cevian Capital did not reflect the quality of the company's business and long-term performance potential. Specifically, Cevian Capital regarded the investment as attractive due to the following reasons:

Firstly, Tieto's valuation led to an implicit long-term EBITDA-margin of c. 6%. However, the company's valuation has historically implied a margin of at least 9% and has deteriorated due to the problems Tieto encountered in 2006 to 2007 (see section 5.3). Since

then steps taken to address these problems were obfuscated by the pressures and concerns connected to the global recession. Thus, the market has been erroneously continuing to value Tieto like a c. 6% EBITDA-margin company. Cevian Capital, however, was confident it could increase the EBITDA-margin to c.10%, due to the said improvements of 2006/07, significant and sustainable cost reductions made in 2008, restructuring and reorganization potential, as well as Cevian Capital's experience with the IT-services sector suggesting that 10% is a realistic target. Secondly, Tieto was misunderstood by the market as an average IT-company with a volatile project business, whereas the majority of its business was in fact characterized by sticky customers and recurring revenues, which warranted a premium valuation (L. Förberg, 05.05.2019). Thirdly, Tieto's strong outsourcing business was anti-cyclical, as revenues from that area increase in recessions, due to companies striving to make their cost structures more flexible. According to Cevian Capital, the market often underestimates the time it takes for those outsourcing deals to be completed, however, those deals do come (N. Pakalén, 25.04.2019). Lastly, Tieto's asset-light (see appendix four) business model, with limited net working capital, generated strong free cash flows. Historically, this has enabled the company to return significant amounts of cash to shareholders, even while growing the business. Cevian Capital was confident that Tieto would be able to continue to grow while generating double-digit free cash flow yields and returning significant capital to shareholders, where in 2004 to 2008 dividends and share buy-backs combined averaged 11.2% of market capitalization in 2009, *i.e.* c. 50% of market capitalization have been distributed to shareholders in this time period. Presumably, this will be appreciated by the market in the years after 2009 in environments of low interest and narrowing corporate bond spreads (Braun and Körber, 2011).

Tieto's report for the third quarter in 2009 (see appendix four) has been strong – the market reacted positively and Tieto's shares gained c. 9% on the reporting day – and supported Cevian Capital's investment hypothesis and led it to further increase its stake in Tieto (Cevian Capital's stake exceeded 10% in August, 2011, and 15% in December, 2011).

6.2 Operations

From the beginning of Cavian Capital's engagement until now, 2019, Tieto has managed to increase its EBITDA-margin from 5.5% to 11% targeting 13% at a 5% revenue growth in the long-term (N. Pakalén, 25.04.2019). Cevian Capital claims the majority of Tieto's margin improvement to be attributable to their induced operational improvements. However, this linkage might not be as straight forward as it presents it, as, arguably, value enhancements are

a product of the activist's and company's collaboration. The fact that operational measures were a decisive factor in this investment proves Cevian Capital's strong focus on operations. Although all envisaged changes were implemented over time, it took Cevian Capital and Tieto longer to do so, which is reflected in the above average holding period (N. Pakalén, 25.04.2019). However, that implementing changes takes longer than expected is not highly unusual, but rather unavoidable at times due to, *e.g.*, changes in the business environment (H. Zimmerman, 21.06.2016). The following provides an overview of the operational changes Cevian Capital initiated at Tieto.

Firstly, which has also constituted the biggest and most impactful operational change, Cevian Capital has outsourced a significant share of Tieto's workforce to countries with lower cost bases. Specifically, it engaged in *nearshoring* and *offshoring*, *i.e.* relocating operations to inside and outside of Tieto's headquarters region, respectively (Ellram, Tate and Petersen, 2013). For the former, it shifted operations to Czech Republic, Latvia, Poland and Lithuania, whereas for the latter, operations in India and China were intensified. This has increased the rate of outsourced employees from 27% in 2009 to over 50% in 2019. This rate is still increasing, however, no employees in the Nordics are laid off anymore, but only employees are added in near –and offshore locations. Cevian Capital deemed this a necessary step in order to stay globally competitive in the IT services industry, especially in light of its Indian competitors (N. Pakalén, 25.05.2019). That this operational decision can have a severe impact on cost structure shows a comparison of average labor cost, as average labor cost in the services industry is, *e.g.*, c. four times higher in Finland than in Latvia (Eurostat, 2017). In connection with closing down operations in continental Europe (see section 6.4) the outsourcing decision has led to a workforce reduction of 1,400 (Tieto, 2012). Cevian Capital expected resistance against this endeavor, especially from Solidium – the second largest and government-owned shareholder of Tieto –, as Finnish jobs were at stake, which, however, failed to materialize. Solidium as well as other shareholders, management and the public largely accepted this measure, as it was recognized as a necessity to protect Tieto's future and with it even more jobs (N. Pakalén, 25.05.2019).

Secondly, Cevian Capital aimed at increasing utilization and billable ratios of front-office employees, *i.e.* increase the share of working hours that is billed towards clients and decrease the portion that is billed internally. This "slack time" reduction was crucial in increasing productivity at Tieto and has led to further layoffs on the one hand, but also improved the company culture on the other hand, as operations were running more efficiently

with less redundancies (N. Pakalén, 25.05.2019). This has been achieved, *i.a.*, by introducing a new operating model that allowed for more efficient staffing of projects, and automation and industrialization in the managed services division (Tieto, 2012). Associated with this, Tieto had significant problems with project overruns, *i.e.* projects that run longer than planned and cost more than budgeted, which have been identified as major drivers of low operating margins. This has partially been solved by more efficient operations and increased productivity through outsourced operations (N. Pakalén, 25.05.2019).

Thirdly, connected to the foregone productivity measure, Cevian Capital has transformed a significant share of back-office operations to customer service positions or has allocated customer service work to back-office employees to further cut "slack time" (N. Pakalén, 25.05.2019). This is one important measure of an overall attempt to become a more customer-centric organization (Tieto, 2012), which, in this case, only conceals the target to allocate a higher share of billable hours to clients.

Lastly, which is the initiative that turned out to be least impactful in terms of profitability increases, Cevian Capital did changes to Tieto's organizational structure. Specifically, it eradicated several layers of middle management, mainly to make the structure leaner and reporting relationships more transparent for employees (N. Pakalén, 25.05.2019). Naturally, the savings on personnel cost were gladly welcomed as well. This organizational initiative, however, had no notable effect on profitability as compared to the first three.

6.3 Corporate Governance

In this area of value enhancement, Cevian Capital, if deemed necessary, ensures a qualified, skilled and committed board composition, strengthens management, clearly defines roles and responsibilities, implements appropriate management incentive plans and improves reporting procedures (Cevian Capital, undated). At Tieto, both the board as well as entire management have changed since Cevian Capital's investment. Although some of the fluctuation was natural given the long time period, most of it was initiated by Cevian Capital (N. Pakalén, 25.05.2019). Especially, the CEO change in 2011 was strongly enforced by Cevian Capital, as its predecessor did not deliver the results he was expected to deliver and thus considered incapable to drive the needed change at Tieto. Comparable to the outsourcing decision, Cevian Capital did not face any opposition from other shareholders or stakeholders in replacing management, as it was a straight forward decision to take stemming from the lack of sufficient results delivered (N. Pakalén, 25.05.2019). However, according to the press, Hannu Syrjälä – previous

CEO – has been dismissed unjustly, as he led Tieto successfully through the financial crisis and prepared the company for a prosperous future (Talouselama, 2011). Thus, there might have been more controversies than Cevian Capital perceived in that regard. Further, L. Förberg (05.05.2019) asserts that while in other cases Cevian Capital enters a company with the clear agenda to replace the CEO – and possibly already with a successor in mind – at Tieto, replacing the CEO was not the initial plan. Thus, proving that the CEO change was solely based on performance. Moreover, as in the majority of Cevian Capital's investments, the board and committees of Tieto have become complacent and rather monitored and approved what management did instead of proactively advising and steering the company (L. Förberg, 05.05.2019). Cevian Capital has a variety measures and tools to make boards and committees more active, such as giving stock options to board members (other forms of performance-tied compensation for board members are forbidden in most jurisdictions). Being a member of the nomination committee at Tieto, *e.g.*, L. Förberg made the committee's members more accountable, and therefore more active, by implementing a culture that forced the members to monitor each other and give frequent feedback on each other's suitability to be on the committee (L. Förberg, 05.05.2019).

6.4 Corporate Restructuring And Strategic Re-orientation

Corporate restructuring and strategic re-orientation is closely intertwined with operational improvements, as, *e.g.*, the decision to shift operations to near –and offshore hubs (see section 6.2) is in general of strategic nature, however, predominantly concerns operational productivity, which is why it has been categorized as an operational improvement. Next to this, Cevian Capital has initiated three major strategic shifts.

Firstly, Cevian Capital induced the divestment of non-synergistic and low-profitability businesses in continental Europe. Specifically, local operations in the UK, Denmark, Spain, Italy, the Netherlands, and Germany were divested. In combination with the outsourcing of operations (see section 6.2), this has led to layoffs of 1,400 employees, of which most occurred in – next to Sweden and Finland with 350 and 400, respectively – Germany with 180 employees (Tieto, 2012). The reason that Tieto has been underperforming in those markets was that operations were targeting niche markets and thus operating at a too small scale to enjoy high profitability (N. Pakalén, 25.05.2019). Cevian Capital recognized that group margins cannot be sustained and competitors from outside of Europe, *e.g.* India, cannot be repelled without being in a market leading position in those local markets. Thus, they expedited the mentioned

divestments as a strategic choice to focus on markets, where "Tieto can actually win" (N. Pakalén, 25.05.2019). Furthermore, Tieto experienced problems with recruiting talent in continental European markets, due to language and cultural differences, which partially induced Tieto's inability to grow to a sufficient size in those markets (N. Pakalén, 25.05.2019).

Secondly, the large majority of Tieto's offering historically was built around services. However, over time Tieto has accumulated a wide and increasing knowledge base and intellectual property by offering IT-services, which was only utilized in subsequent service projects. Cevian Capital recognized that this intellectual property can be leveraged to engineer of-the-shelf products to widen Tieto's business offering and further monetize these resources (N. Pakalén, 25.05.2019). Here, the extant relationships with customers in the services division could be leveraged to cross-sell software product solutions, reducing the risk of introducing a new product.

Thirdly, next to the above-mentioned divestments of non-core businesses, Cevian Capital pushed for numerous acquisitions in the Nordic area, *i.e.* Finland and Sweden, to buy in capabilities Tieto did not have, *e.g.* companies operating in IT consulting niches and small software companies focusing on systems integration (N. Pakalén, 25.05.2019). The first acquisition of this kind was announced in September, 2013, after Cevian Capital re-focused Tieto by means of the above-mentioned divestments. Tieto acquired *Canvisa Consulting* (sales of MEUR 8.2), a financial services sector consultancy in Sweden, to support it in offering full life-cycle IT services and strengthen its systems integration capabilities. Subsequently, in January, 2014, Tieto acquired a part of *Siemens Convergence Creator's* business (sales of MEUR 15) to strengthen its product development capabilities in line with the previous strategic shift towards a wider product offering. In June, 2015, Tieto extended its position in the Norwegian market and expanded its scalable software-driven product business by acquiring *Software Innovation* (sales of MEUR 41). In the same year, November, 2015, the Swedish consulting company *Imano* (sales of MEUR 7.1) was acquired to complement Tieto's capabilities in providing production and planning systems for the pulp & paper industry and make it the largest IT-services provider in this industry. Further, in December, 2015, Tieto acquired *Smilehouse* (sales MEUR 10) and aimed to strengthen its leadership position in digital customer experience management in the Nordics. In the following year, Tieto manifested its strong position as an IT-services provider for financial services companies by acquiring the niche market leader for credit processing *Emric* (sales MEUR 19.5). Next to the mentioned acquisitions, Tieto pursued numerous others of smaller scale (N. Pakalén, 25.05.2019).

6.5 Financial Restructuring

Financial restructuring has traditionally been a low priority area for Cevian Capital compared to the other three areas of value enhancement and has been particularly out of focus in Tieto's case, which was due to the fact that it already had a quite strong balance sheet (N. Pakalén, 25.05.2019). Next to minor improvements of the balance sheet, Cevian Capital initiated two major changes.

Firstly, it increased Tieto's dividend payout ratio to almost 100%, *i.e.* nearly the entire profits were distributed to shareholders in line with Cevian Capital's overarching goal to create shareholder value (N. Pakalén, 25.05.2019). For this policy to benefit the shareholders implies that Tieto was not able to generate a return on investment as high as the shareholders were able to, when investing on their own. Further, increasing the dividend payout ratio, on the one hand decreases agency costs, as managers do not get the chance to spend excess profits wastefully, but on the other hand, increases transaction costs of external financing (Rozeff, 1982). However, as Tieto had very low leverage and high excess cash, it was possible to set the dividend payout ratio as high as Cevian Capital did.

Secondly, Cevian Capital aimed to increase Tieto's leverage, as, according to the high percentage of recurring revenues and sticky customers, debt levels were too low and benefits of debt could be increased (N. Pakalén, 25.05.2019). This has been done by financing the above-mentioned acquisitions with debt, which increased net debt to nearly 1x EBITDA (see appendix four), which, in turn, is considered still low compared to its peers. In the future, Cevian Capital and Tieto are willing to increase net debt up to 1.5x EBITDA to finance further acquisitions.

7 Discussion: Cevian Capital's Sustainability Impact

As has been shown in the previous section, Cevian Capital has taken a variety of measures and initiatives to create shareholder value at Tieto by, *i.a.*, increasing profitability and accelerating growth. The following section is concerned with how these actions impacted and still impact corporate sustainability at Tieto, which is once again gauged by the ESG framework. Cevian Capital does not explicitly consider ESG criteria in its investment and operational decision-making process, however, emphasizes that to succeed as a long-term owner with the goal to create lasting firm value it naturally takes actions that benefit all stakeholders (H. Zimmerman,

14.03.2019). Further, given that, *e.g.*, the first pension fund in Sweden (*AP1*) is a limited partner of Cevian Capital, shows that AP1 does believe that its investments are in line with corporate sustainability standards, as it would otherwise not be able to invest in Cevian Capital (AP1 website, undated). Whether or not this is true, will be investigated in the succeeding discussion. The basis for the discussion of Cevian Capital's corporate sustainability impact is primarily Thomson Reuters' ESG score sheet for Tieto, which comprises of 263 dimensions (see appendix one) and annual data along those dimensions from 2006 to 2017. This will be related to previous literature (see section two) and the conducted event study (see section three).

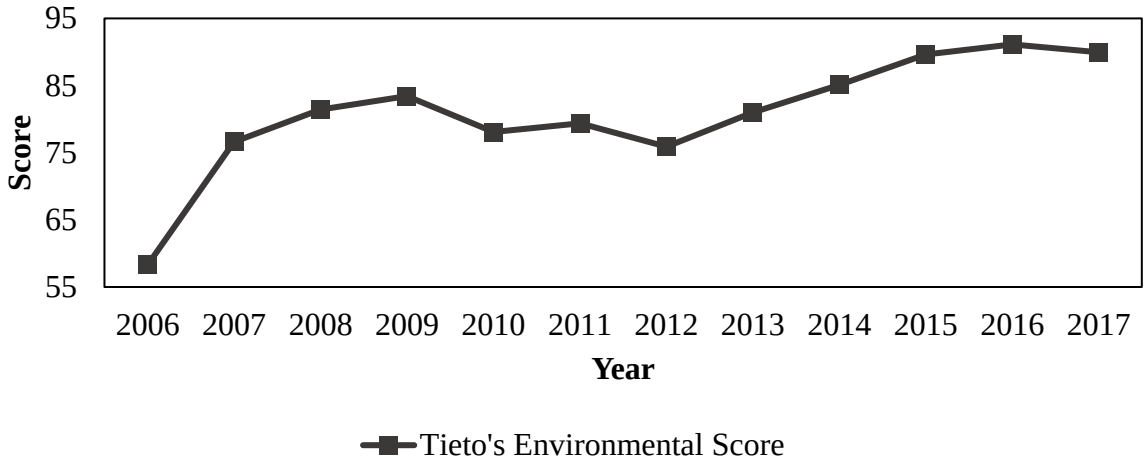
7.1 Environmental

From 2006 to 2017, Tieto's environmental score has increased significantly (see figure eleven), namely by 54%, which, however, has not been a strict increase, but experienced a minor downturn in the period from 2009 to 2012. Thus, as of Cevian Capital's engagement in Tieto, environmental performance slightly deteriorated, which is not in line with the event study that predicts a positive affiliation between shareholder activism and corporate sustainability. To investigate where that discrepancy stems from and whether or not Cevian Capital influenced the decrease in environmental performance at Tieto, the components of the environmental factor (see appendix one) will be analyzed and related to Cevian Capital's initiatives (see section six).

When Cevian Capital entered in 2009, *resource use efficiency* decreased until it increased again in 2011. The drivers of this development are a temporary increase in energy use per revenue as well as total energy use and the construction of "green offices", *i.e.* buildings that are environmentally responsible and resource-efficient, in 2011. Further, Tieto stopped the use of renewable energy sources as of 2012, set in place policies for environmental material sourcing as well as an environmentally friendly supply chain in 2014, and started training management on efficient resource use in 2014. *Emissions* have been the main driver of Tieto's environmental score development, as CO_2-emissions per revenue and in total behaved in line with the overall pattern (see figure eleven). Here it is important to recognize that "scope one emissions" experienced an overall increase over the considered time frame, as opposed to scope two and three. In other words, CO_2-emissions in the supply chain and from purchased energy shrank, whereas emissions from own operations increased. Further, electronic waste reduction initiatives stopped in 2011, which, however was offset by an increase in the acceptance of environmental management systems standards (ISO14001).

Figure 11: Tieto's Environmental Score

Development of Tieto's environmental score from 2006 to 2017



Source: Thomson Reuters ESG Database

The *innovation* dimension of the environmental score has had no impact on the overall score, as it is mostly applicable for production and manufacturing companies, as opposed to service companies like Tieto.

Cevian Capital's engagement potentially is connected to a variety of the developments along the *environmental* dimension described above. Firstly, the increase in scope one emissions might be connected towards Tieto's shift towards offering more self-produced products next to services. Secondly, the implemented management training on resource efficiency is likely to be induced by Cevian Capital's agenda to increase Tieto's efficiency. Thirdly, the cessation of the use of renewable energies potentially has been due to the strict operating margin guidance of 10% enforced by Cevian Capital. Due to the lack of previous literature on the specific relationship between shareholder activism and environmental performance, the case findings cannot be set in in an academic context. However, the increase in environmental performance conceivably is due to the disciplining effect of shareholder activism on corporate sustainability (Johnson and Greening, 1999), which might drive, *e.g.*, the more efficient resource use and the inception of policies around environmental sourcing.

7.2 Social

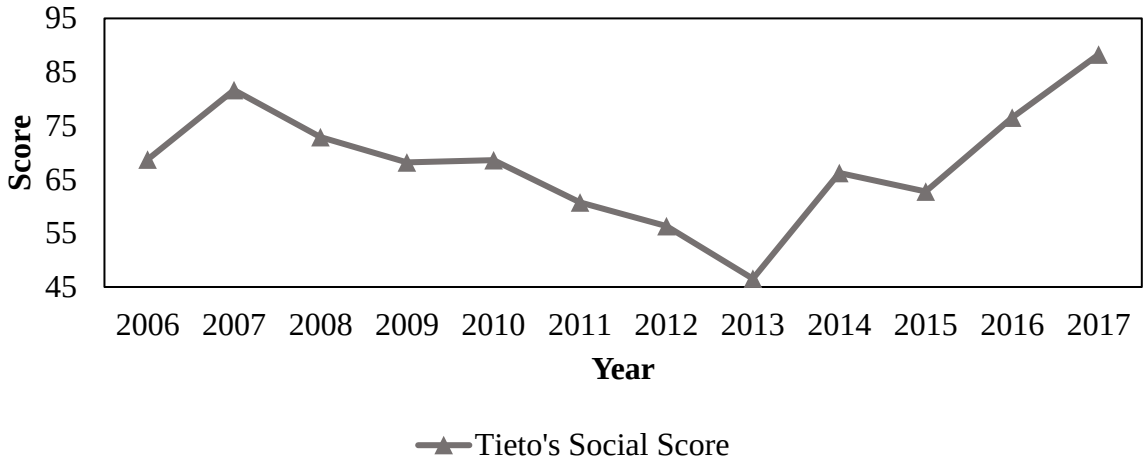
Tieto's performance on the social dimension of the ESG framework has deteriorated significantly from 2007 until 2013, namely by 43%, however, as of then increased by 90% until 2017 (see figure twelve). Therefore, Cevian Capital began its engagement when social performance was already decreasing and only experienced a turnaround four years after

campaign announcement. This is somewhat in line with the empirical findings (see section three), as they predict a delayed increase in social performance after the activist's intervention as well as show a downward sloping social performance before the intervention. In order to examine to what extent this development is connected to Cevian Capital's engagement (see section six) the components of the social dimension (see appendix one) shall be analyzed in the following.

The major driver of Tieto's social score development is the *workforce* factor. Employee satisfaction has been stagnating from 2010 (no data available before) with 62% until 2014 with 73%, as reported by Tieto, and increasing afterwards, accelerating the sharp rise in the overall score in recent years. Further, the salary gap between the CEO's salary and the average employee's salary has almost doubled from 14x in 2009 to 24x in 2017, which, however, is still low compared to average salary gaps in European companies. Connected to that, average salaries have decreased until 2015 before increasing again. Thus, the salary gap both stems from increased pay for management and decreased compensation for employees. Net employee creation has been negative since 2010 and turned positive again in 2016, which in Thomson Reuters' methodology is positively associated with a company's social score. This is controversial, as L. Förberg (05.05.2019) argues that maintaining jobs that are redundant harms the company, and with it is workforce, even more in the long-term than laying off employees that are not needed. Moreover, less than 50% (44%) of the employees are represented in trade unions limiting the power of and ability to organize the employees, which is also evident in the absence of strikes during the considered time horizon. Furthermore, corporate spending for employees training has decreased significantly from MEUR 15.3 in 2009 to MEUR 6 in 2017, however, training for suppliers with regards to corporate sustainability has been incepted in 2014. The extent to which Tieto engaged in its *community* also did drive the overall score, as their patterns strongly correlate. Tieto's donations as a percentage of total revenue decreased from 2010 with 0.03% to 0.01% in 2016. Further, as of 2009, Tieto set in a place a policy protecting whistleblowers, *i.e.* someone, who makes private information that are important for the community public. In addition, Tieto has adopted a crisis management system in 2011, which aims at, *e.g.*, preventing disasters at company level that could potentially affect the community.

Figure 12: Tieto's Social Score

Development of Tieto's social score from 2006 to 2017



Source: Thomson Reuters ESG Database

Lastly, *product responsibility* scores at Tieto have historically been very low ad only recently started appreciating. The company only adopted a data privacy policy as of 2015, which usually should be an important policy at any IT-company. Further, Tieto has started working with "six sigma" and "total quality management" tools as of 2011 to ensure organizational efficiency. In addition, Tieto was able to increase the percentage of its subsidiaries that are certified with a standard – namely QMS – for customer service as of 2013, namely from 55% to 77% in 2016 (no data for 2017 yet). Connected to that, customer satisfaction, as reported by Tieto, increased from 66% in 2009 to 80% in 2017.

The *social* dimension at Tieto appears to have been affected the most by Cevian Capital's intervention. Firstly, as Cevian Capital developed a new management incentive plan that involved, *i.a.* tying the CEO's compensation to shareholder returns, the salary gap at Tieto has increased significantly. Secondly, there is a clear link between its engagement and net employee creation, which has been negative for the majority of the investment period, due to enforced outsourcing and divestments. Thirdly, the implementation of six sigma and total quality management likely has been done as a measure to realize Cevian Capital's envisaged goals on higher productivity, utilization and billable ratios. Fourthly, the increase in customer satisfaction as well as certifications for good customer service show the shift induced by Cevian Capital towards a more customer-centric organization. Lastly, the significant pressure on operating margins possible led to the decrease in donations as well as spend for employee trainings. Further, the limited union representation might have been a factor for Cevian Capital

in favor of investing in Tieto, as pressures from this stakeholder group could have been expected to be low. The findings of King and Gish (2015) that investors find themselves trading off social responsibility and shareholder return apply to a limited extent in this case study, as Tieto's overall social performance increased over Cevian Capital's investment horizon, yet has been affected negatively initially.

7.3 Governance

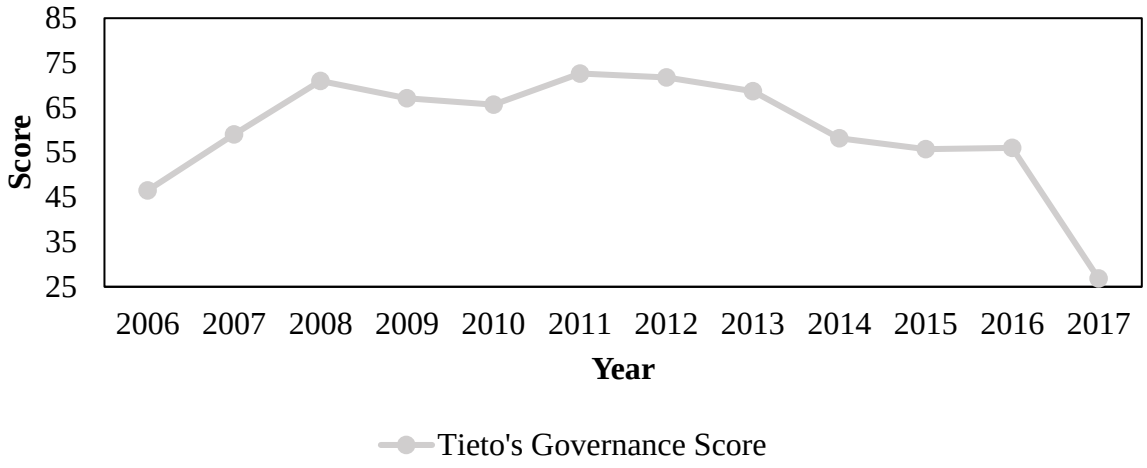
From 2008 until 2016, Tieto's governance performance stagnated, whereas it increased significantly from 2006 until 2008 and decreased sharply from 2016 to 2017. Thus, Cevian Capital engaged in Tieto after the company's governance improved substantially, however, seemingly it did not enhance governance as of then. This observation is in line with the empirical analysis (see section thee), as shareholder activism exhibited no significant affiliation with the governance performance of their targets. Although for the majority of the investigated time horizon the governance score remained steady, it is worthwhile to investigate the components of the score (see appendix one) to examine whether there have been any offsetting fluctuations and if so, to what extent Cevian Capital had an influence on these.

The *management* dimension of the ESG framework has been a key driver of the overall governance score development. The following depicts noteworthy changes within that dimension and Cevian Capital's investment period. Only as of 2014 Tieto has been rated to have an "effective board", *i.e.* it complied with the Finnish corporate governance code on board, audit committee, nomination committee and compensation committee. However, all committees' independencies have decreased, *i.e.* the percentages of independent members in the committees have gone down, from previously 100% to now being 75%, 50% and 89%, respectively. In addition, also the board's independency has decreased from 83% in 2009 to 58% in 2017. Furthermore, the committee meetings' attendance average have decreased likewise from nearly 100% to 83%, whereas board meeting attendance has remained steady at around 96%. As has been suspected when investigating Tieto's salary gap (see section 7.2), executive compensation increased significantly, namely, from MUSD 3.6 in 2009 to MUSD 7 in 2017, which has also been a result of a higher percentage of the CEO's compensation being tied to shareholder returns. Lastly, both executive management and the board have experienced and increase in gender diversity from 18% and 11% in 2009 to 33% and 20% in 2017, respectively. On the *shareholders* dimension Tieto has been historically performing very poorly, indicating that it does not treat shareholders equally and the availability of anti-takeover

devices. With regards to the latter, Tieto has set in place a golden parachute in 2015 as a fourth anti-takeover measure.

Figure 13: Tieto's Governance Score

Development of Tieto's governance score from 2006 to 2017



Source: Thomson Reuters ESG Database

Furthermore, in 2017 Tieto has limited the rights of shareholders to call special meetings and therefore cut its shareholders' rights. On the other hand, Tieto granted its shareholders pre-emptive rights in 2015, *i.e.* protection against share dilution in future stock issuances. Lastly, the *CSR strategy* score has increased after 2009, however, has decreased again slightly after 2014. This has mainly been driven by the inception of a CSR sustainability committee in 2011 and an external audit of CSR sustainability performance as of 2011. Further, Tieto's ESG reporting scope, *i.e.* the percentage of its activities covered in it sustainability reporting, increased gradually from 73% in 2010 to 100% in 2013.

As per the components of the *governance* dimension, Cevian Capital's actions had limited influence on Tieto's governance. Firstly, the new management incentive plan increased the executive management's compensation significantly as well as tied the CEO's compensation to shareholder returns and thus aligned interests of shareholders and management further. Secondly, Cevian Capital's changes to the board and committees have led to a decrease in independency of their members. Arguably, this is due to the common effort of Cevian Capital to increase engagement and accountability of board and committee member at their target companies (L. Förberg, 05.05.2019). Further, the fact that, according to Thomson Reuters' methodology, Tieto does not treat its shareholders equally begs the question whether this is inherent to situations where activist investors are involved. Moreover, the case study

exhibits an increase in female representation in the board, which contradicts previous literature, which finds that gender diversity in fact decreases when hedge fund activists are involved (Borek, Friesner and McGurn, 2017). Lastly, Tieto's increased focus on CSR strategy and CSR reporting without Cevian Capital inducing it, is in line with Johnson and Greening (1999), who find that even in the absence of explicit ESG goals of the activist, firms are inclined to increase efforts in corporate sustainability.

8 Conclusion

This thesis aims to shed light on the relationship between the shareholder activism and corporate sustainability in Europe. The relevance of this topic stems from the rapid rise of shareholder activism in Europe and the urgency for companies to operate in more sustainable ways. To holistically investigate this relationship, two modes of analysis have been chosen. Firstly, an event study is conducted to analyze the impact of European shareholder activist campaigns on their targets' performance along the three dimensions of the ESG framework – environmental, social, governance. Secondly, Cevian Capital's, European hedge fund activist, investment in Tieto, Finnish IT-services company, is analyzed with regards to its impact on corporate sustainability. Consequently, the thesis' research question asks:

What is the impact of shareholder activism on corporate sustainability in general and in specific in the case of Cevian Capital's engagement in Tieto?

The event study finds that shareholder activism is strongly positively associated with corporate environmental performance, weakly positively associated with corporate social performance and not associated with corporate governance performance. However, when comparing these findings to corporate sustainability performances of companies that have been subject to unsuccessful activist campaigns, there is no significant difference. Thus, the foregone significant findings might imply that activists target companies that increase corporate sustainability anyway, instead of actively influencing them over their investment period. The analysis of Cevian Capital's investment in Tieto is somewhat in line with the event study findings, however, proves the complex relationship between shareholder activists' actions and corporate sustainability. Cevian Capital invested in Tieto as it saw potential to improve operations, strategy, corporate governance and the balance sheet. The largest impact on corporate sustainability did Cevian Capital's operational changes have, whereas Tieto's social dimension of corporate sustainability was most affected by the entirety of Cevian

Capital's initiatives. Specifically, Cevian Capital in aggregate had no effect on environmental performance, a positive effect on social performance and no effect on governance performance, however, within the individual dimensions it had numerous offsetting effects. Thus, to gain an understanding of the real relationship between shareholder activism and corporate sustainability, the most granular data available has to be analyzed. Concluding, Cevian Capital's intervention at Tieto had a multitude of both positive and negative influences on the company's corporate sustainability performance. This underlines the relevance of the investigated relationship and shows how shareholder activism does influence corporate sustainability in European public markets.

As yet, the relationship between shareholder activism and corporate sustainability has not been extensively researched. Therefore, there is ample opportunity and necessity to conduct further research on the topic. Based on this thesis, the author recommends future research to further investigate the following areas: Firstly, the concept of corporate sustainability needs to be more narrowly defined and one set of standards needs to be accepted by every relevant actor. Not only previous literature showed that there is no agreement on the concept, but also the case study revealed that current quantifications of corporate sustainability have their shortcomings. Secondly, it is worth to further investigate the difference between successful and unsuccessful shareholder activist campaigns, in particular with regard to their impact on corporate sustainability performance of their targets. Lastly, as the case analysis showed, only research on a very granular level is sensible to extract meaningful insights on the relationship between shareholder activism and corporate sustainability. Thus, researchers need to conduct and replicate more case studies to derive representative and generally valid results on the topic.

References

Published References

Amel-Zadeh, A., & Serafeim, G. (2018). Why and how investors use ESG information: Evidence from a global survey. Financial Analysts Journal, 74(3), 87-103.

Auer, B. R., & Schuhmacher, F. (2016). Do socially (ir)responsible investments pay? New evidence from international ESG data. The Quarterly Review of Economics and Finance, 59, 51-62.

Barko, T., Cremers, M., & Renneboog, L. (2015). Activism on corporate social responsibility. working paper.

Bebchuk, L. A., & Hirst, S. (2018). Index Funds and the Future of Corporate Governance: Theory, Evidence, and Policy. Evidence, and Policy (June 12, 2018).

Becht, M., Franks, J. R., & Grant, J. (2010). Hedge fund activism in Europe.

Borek, A., Friesner, Z., & McGurn, P. (2017). The Impact of Shareholder Activism on Board Refreshment Trends at S&P 1500 Firms. Investor Responsibility Research Center Institute (2017).

Braun, R. A., & Körber, L. M. (2011). New Keynesian dynamics in a low interest rate environment. Journal of Economic Dynamics and Control, 35(12), 2213-2227.

Carrothers, A. G. (2017). The Impact of Hedge Fund Activism on Target Firm Performance, Executive Compensation and Executive Wealth. Journal of Governance & Regulation, 6(3), 14-28.

Corcoran, P. B., Walker, K. E., & Wals, A. E. (2004). Case studies, make-your-case studies, and case stories: a critique of case-study methodology in sustainability in higher education. Environmental Education Research, 10(1), 7-21.

Cziraki, P., Renneboog, L., & Szilagyi, P. G. (2010). Shareholder activism through proxy proposals: The European perspective. European Financial Management, 16(5), 738-777.

Damodaran, A. (2005). The value of control: implications for control premia, minority discounts and voting share differentials. Minority Discounts and Voting Share Differentials (June 30, 2005).

David, P., Bloom, M., & Hillman, A. J. (2007). Investor activism, managerial responsiveness, and corporate social performance. Strategic Management Journal, 28(1), 91-100.

Deetz, S. (2007). Corporate governance, corporate social responsibility, and communication. The debate over corporate social responsibility, 267-278.

deHaan, E., Larcker, D. F., & McClure, C. (2018). Long-Term Economic Consequences of Hedge Fund Activist Interventions. Rock Center for Corporate Governance at Stanford University Working Paper, (236).

Delmas, M. A., Etzion, D., & Nairn-Birch, N. (2013). Triangulating environmental performance: What do corporate social responsibility ratings really capture?. Academy of Management Perspectives, 27(3), 255-267.

Drost, Ellen A., 2011, Validity and Reliability in Social Science Research, Education Research and Perspectives, Volume 38, Issue 1, 105-123

Dubois, A., & Gadde, L. E. (2002). Systematic combining: an abductive approach to case research. Journal of business research, 55(7), 553-560.

Eccles, R. G., Ioannou, I., & Serafeim, G. (2012). The impact of a corporate culture of sustainability on corporate behavior and performance (No. W17950). Cambridge, MA, USA: National Bureau of Economic Research.

Ellram, L. M., Tate, W. L., & Petersen, K. J. (2013). Offshoring and reshoring: an update on the manufacturing location decision. Journal of Supply Chain Management, 49(2), 14-22.

Fernandez-Feijoo, B., Romero, S., & Ruiz, S. (2014). Effect of stakeholders' pressure on transparency of sustainability reports within the GRI framework. Journal of business ethics, 122(1), 53-63.

Flyvbjerg, B. (2006). Five misunderstandings about case-study research. Qualitative inquiry, 12(2), 219-245.

Gantchev, N., Gredil, O., & Jotikasthira, C. (2018). Governance under the gun: Spillover effects of hedge fund activism. European Corporate Governance Institute (ECGI)-Finance Working Paper, (562).

Gillan, S. L., & Starks, L. T. (2007). The evolution of shareholder activism in the United States. Journal of Applied Corporate Finance, 19(1), 55-73.

Glaser, B. (1978). Theoretical sensitivity. Advances in the methodology of grounded theory.

Grewal, J., Serafeim, G., & Yoon, A. (2016). Shareholder activism on sustainability issues. Available at SSRN 2805512.

Goranova, M., & Ryan, L. V. (2014). Shareholder activism: A multidisciplinary review. Journal of Management, 40(5), 1230-1268.

Hillman, A. J., & Keim, G. D. (2001). Shareholder value, stakeholder management, and social issues: what's the bottom line?. Strategic management journal, 22(2), 125-139.

Hoepner, A. G., Oikonomou, I., Sautner, Z., Starks, L. T., & Zhou, X. (2018). ESG shareholder engagement and downside risk.

Horváthová, E. (2010). Does environmental performance affect financial performance? A meta-analysis. Ecological economics, 70(1), 52-59.

Ioannou, I., & Serafeim, G. (2012). What drives corporate social performance? The role of nation-level institutions. Journal of International Business Studies, 43(9), 834-864.

Johnson, R. A., & Greening, D. W. (1999). The effects of corporate governance and institutional ownership types on corporate social performance. Academy of management journal, 42(5), 564-576.

Kaplan, S. N., & Stromberg, P. (2009). Leveraged buyouts and private equity. Journal of Economic Perspectives, 23(1), 121-46.

Kidder, Louise H. and Judd, Charles M. and Smith, Eliot R., 1986, Research Methods in Social Relations, 5th Edition (Holt, Rinehart & Winston, New York)

King, L., & Gish, E. (2015). Marketizing Social Change: Social Shareholder Activism and Responsible Investing. Sociological Perspectives, 58(4), 711-730.

Koh, H. C., Meng, C. S., Gupta, P. S., & Ramakrishna, S. (2000). " Blue Chip" chararcteristics: A study of managers' perceptions. Singapore Management Review, 22(1), 19.

MacKinlay, A. C. (1997). Event studies in economics and finance. Journal of economic literature, 35(1), 13-39.

Malmendier, U., Moretti, E., & Peters, F. S. (2018). Winning by losing: evidence on the long-run effects of mergers. The Review of Financial Studies, 31(8), 3212-3264.

McLachlan, J., & Gardner, J. (2004). A comparison of socially responsible and conventional investors. Journal of Business Ethics, 52(1), 11-25.

Mitra, L., & Mitra, G. (2011). Applications of news analytics in finance: A review. The handbook of news analytics in finance, 596, 1.

Montiel, I., & Delgado-Ceballos, J. (2014). Defining and measuring corporate sustainability: Are we there yet?. Organization & Environment, 27(2), 113-139.

Noor, K. B. M. (2008). Case study: A strategic research methodology. American journal of applied sciences, 5(11), 1602-1604.

O'Rourke, A. (2003). A new politics of engagement: Shareholder activism for corporate social responsibility. Business Strategy and the Environment, 12(4), 227-239.

Rehbein, K., Waddock, S., & Graves, S. B. (2004). Understanding shareholder activism: Which corporations are targeted?. Business & Society, 43(3), 239-267.

Rozeff, M. S. (1982). Growth, beta and agency costs as determinants of dividend payout ratios. Journal of financial Research, 5(3), 249-259.

Siggelkow, N. (2007). Persuasion with case studies. Academy of management journal, 50(1), 20-24.

Smiley, R. H., & Stewart, S. D. (1985). White knights and takeover bids. Financial Analysts Journal, 41(1), 19-26.

Shrivastava, P., & Addas, A. (2014). The impact of corporate governance on sustainability performance. Journal of Sustainable Finance & Investment, 4(1), 21-37.

Stake, R. E. (2005). Qualitative case studies.

Stathopoulos, K., & Voulgaris, G. (2016). The importance of shareholder activism: The case of say-on-pay. Corporate Governance: An International Review, 24(3), 359-370.

Stoll, H. R., & Whaley, R. E. (2015). Commodity index investing and commodity futures prices.

Waddock, S. A., & Graves, S. B. (1997). The corporate social performance–financial performance link. Strategic management journal, 18(4), 303-319.

Walls, J. L., Phan, P. H., & Berrone, P. (2011). Measuring environmental strategy: Construct development, reliability, and validity. Business & Society, 50(1), 71-115.

Wright, M., Andrew, B., Ball, R., Scholes, L., Meuleman, M., & Amess, K. (2007). The implications of alternative investment vehicles for corporate governance: A synthesis of research about private equity firms and activist hedge funds.

Yin, R. K. (2014). Case study research: design and methods 5th ed. Thousand Oaks.

Zainal, Z. (2007). Case study as a research method. Jurnal Kemanusiaan, 5(1).

Online References

Business Insider (2016). A $13 billion hedge fund you've never heard of is shaking up a whole continent. Interview with Harlan Zimmerman. [Online]. Accessed 30.04.2019. Retrieved from: https://www.businessinsider.sg/ cevian-capital-biggest-activist-hedge-fund-in-europe-2016-6/

Carbon Disclosure Project (2018). The A List 2018 [Online]. Accessed 07.04.2019. Retrieved from: https://www.cdp.net/en/scores

Deloitte (2016). On the board's agenda [Online]. Accessed 14.04.2019. Retrieved from: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/center-for-corporate-governance/us-ccg-on-the-boards-agenda-aug-2016.pdf

Eurostat (2017). Labour costs in the EU [Online]. Accessed 02.05.2019. Retrieved from: https://ec.europa.eu/eurostat/documents/2995521/7968159/3-06042017-AP-EN.pdf/6e303587-baf8-44ca-b4ef-7c891c3a7517

Global Reporting Initiative (2019). Sustainable Disclosure Database [Online]. Accessed 07.04.2019. Retrieved from: http://database.globalreporting.org/

Lipton, M. (2019). Dealing with Activist Hedge Funds and Other Activist Investors. *Harvard Law School Forum on Corporate Governance and Financial Regulation* [Online]. Accessed 13.04.2019. Retrieved from: https://corpgov.law.harvard.edu/2019/01/25/dealing-with-activist-hedge-funds-and-other-activist-investors-2/

Shanley, M. (2014). With Nordic clean-up done, Cevian prepares new broom for Germany [Online]. Accessed 30.04.2019. Retrieved from: https://www.reuters.com/article/us-cevian-gardell-insight/with-nordic-clean-up-done-cevian-prepares-new-broom-for-germany-idUSBREA2M0CM20140323

Sinclair, C. (2009). Davos: Quiet Optimism Rises, Angelina Who?, and a Bonus to Giving Idea [Online]. Accessed 26.04.2019. Retrieved from: https://www.huffpost.com/entry/davos-quiet-optimism-rise_b_162736

Spiliakos, A. (2018). What does "sustainability" mean in business? [Online]. Accessed 07.04.2019. Retrieved from: https://online.hbs.edu/blog/post/what-is-sustainability-in-business

Talouselama (2011) Tiedon Syrjälä remontoi yhtiön ja sai potkut [Online]. Accessed: 03.05.2019. Retrieved from: https://www.talouselama.fi/uutiset/tiedon-syrjala-remontoi-yhtion-ja-sai-potkut/0b90052c-e1a4-3370-b057-06a46a18e5e7

Tieto (2012). Annual Report 2012 [Online]. Accessed 02.05.2019. Retrieved from: https://www.tieto.com/globalassets/files/investor-relations/2012/2012_financial_review_en.pdf

Tuchmann, M. (2013). Hedge Fund vs. Index Fund: A Comparison [Online]. Accessed 15.04.2019. Retrieved from: https://www.forbes.com/sites/mitchelltuchman/2013/07/18/hedge-fund-vs-index-fund-a-comparison/#2cf542fd700c

United Nations (2019). UN announces new CEO alliance to fund sustainability [Online]. Accessed 26.04.2019. Retrieved from: https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2061

United Nations Global Compact (2017). Annual Report 2017 [Online]. Accessed 07.04.2019. Retrieved from: https://www.unglobalcompact.org/docs/publications/UNGC-2017_Annual-_Mgmt_Report.pdf

Wieczner (2015). Meet Europe's best activist investor. Interview with Christer Gardell. [Online]. Accessed 30.04.2019. Retrieved from: http://fortune.com/2015/08/27/christer-gardell-activist-investor-europe/

Appendix

Appendix 1

Event Study Methodology

Table 6: Environmental Score Measures

Measures Thomson Reuters uses to asses a company's environmental performance

Resource use	Emissions	Innovations
Resource Reduction Policy	Policy Emissions	Environmental Products
Policy Water Efficiency	Targets Emissions	Eco-Design Products
Policy Energy Efficiency	Biodiversity Impact Reduction	Total Env R&D $ / Million in Revenue $
Policy Sustainable Packaging	Total CO2 Emissions / Million in Revenue $	Noise Reduction
Policy Environmental Supply Chain	CO2 Equivalent Emissions Total	Hybrid Vehicles
Resource Reduction Targets	CO2 Equivalent Emissions Direct, Scope 1	Environmental Assets Under Mgt
Targets Water Efficiency	CO2 Equivalent Emissions Indirect, Scope 2	Equator Principles
Targets Energy Efficiency	CO2 Equivalent Emissions Indirect, Scope 3	Environmental Project Financing
Environment Management Team	Carbon Offsets/Credits	Nuclear
Environment Management Training	Estimated CO2 Equivalents Emission Total	Labeled Wood
Environmental Materials Sourcing	CO2 Estimation Method	Organic Products Initiatives
Toxic Chemicals Reduction	Emissions Trading	Product Impact Minimization
Total Energy Use / Million in Revenue $	Climate Change Commercial Risks Opportunities	Take-back and Recycling Initiatives
Energy Use Total	NOx and SOx Emissions Reduction	Product Environmental Responsible Use
Energy Purchased Direct	VOC or Particulate Matter Emissions Reduction	GMO Products
Electricity Purchased	VOC Emissions Reduction	Agrochemical Products
Renewable Energy Use	Particulate Matter Emissions Reduction	Agrochemical 5 % Revenue
Green Buildings	Waste Reduction Initiatives	Animal Testing
Environmental Supply Chain Management	e-Waste Reduction	Animal Testing Cosmetics
Environmental Supply Chain Monitoring	ISO 14000 or EMS	Animal Testing Reduction
Env Supply Chain Partnership Termination	EMS Certified Percent	Renewable/Clean Energy Products
Land Environmental Impact Reduction	Environmental Restoration Initiatives	Water Technologies
Environmental Controversies	Staff Transportation Impact Reduction	Sustainable Building Products
	Environmental Expenditures Investments	
	Environmental Investments Initiatives	
	Environmental Partnerships	

Source: Thomson Reuters

Table 7: Social Score Measures

Measures Thomson Reuters uses to asses a company's social performance

Workforce	Human Rights	Community	Product responsibility
Health & Safety Policy	Human Rights Policy	Policy Fair Competition	Policy Customer Health & Safety
Policy Employee Health & Safety	Policy Freedom of Association	Policy Bribery and Corruption	Policy Data Privacy
Policy Supply Chain Health & Safety	Policy Child Labor	Policy Business Ethics	Policy Responsible Marketing
Training and Development Policy	Policy Forced Labor	Policy Community Involvement	Policy Fair Trade
Policy Skills Training	Policy Human Rights Fundamental Human	Improvement Tools Business Ethics	Product Responsibility Monitoring
Policy Career Development	Rights ILO UN	Whistleblower Protection	Quality Mgt Systems
Policy Diversity and Opportunity	Human Rights Contractor	OECD Guidelines for Multinational Enterprises	ISO 9000
Targets Diversity and Opportunity	Ethical Trading Initiative ETI	Extractive Industries Transparency Initiative	Six Sigma and Quality Mgt Systems
Employees Health & Safety Team	Human Rights Breaches Contractor	Donations / Total Revenue $	QMS Certified Percent
Health & Safety Training		Employee Engagement	Customer Satisfaction
Supply Chain Health & Safety Training		Voluntary Work	Product Access Low Price
Employees Health & Safety OHSAS 18001		Corporate Responsibility Awards	Healthy Food or Products
Employee Satisfaction		Product Sales at Discount to Emerging Markets	Embryonic Stem Cell Research
Salary Gap		Diseases of the Developing World	Retailing Responsibility
Salaries and Wages from CSR reporting		Bribery, Corruption and Fraud Controversies	Alcohol
Net Employment Creation		Crisis Management Systems	Gambling
Number of Employees from CSR reporting		Anti-competition Controversies	Tobacco
Trade Union Representation		Critical Country 1	Armaments
Turnover of Employees		Critical Country 2	Pornography
Announced Layoffs To Total Employees		Critical Country 3	Contraceptives
Announced Layoffs			Obesity Risk
Strikes			Cluster Bombs
Women Employees			Anti-Personnel Landmines
New Women Employees			Consumer Complaints Controversies
Women Managers			Product Quality Controversies
Flexible Working Hours			Product Recall
Day Care Services			
HIV-AIDS Program			
Average Training Hours			
Training Hours Total			
Training Costs Total			
Training Costs Per Employee			
Internal Promotion			

Management Training Supplier ESG training Wages Working Condition Controversies			

Source: Thomson Reuters

Table 8: Governance Score Measures

Measures Thomson Reuters uses to asses a company's governance performance

Management	Shareholders	CSR strategy
Board Functions Policy	Shareholder Rights Policy	CSR Sustainability Committee
Corporate Governance Board Committee	Policy Equal Voting Right	Global Compact Signatory
Nomination Board Committee	Policy Shareholder Engagement	Stakeholder Engagement
Audit Board Committee	Different Voting Right Share	CSR Sustainability Reporting
Compensation Board Committee	Equal Shareholder Rights	GRI Report Guidelines
Board Structure Policy	Voting Cap	CSR Sustainability Report Global Activities
Policy Board Size	Voting Cap Percentage	CSR Sustainability External Audit
Policy Board Independence	Minimum Number of Shares to Vote	
Policy Board Diversity	Director Election Majority Requirement	
Policy Board Experience	Shareholders Vote on Executive Pay	
Policy Executive Compensation Performance	Public Availability Corporate Statutes	
Policy Executive Compensation ESG Performance	Veto Power or Golden share	
Policy Executive Retention	State Owned Enterprise SOE	
Compensation Improvement Tools	Anti Takeover Devices Above Two	
Internal Audit Department Reporting	Poison Pill	
Succession Plan	Unlimited Authorized Capital or Blank Check	
External Consultants	Classified Board Structure	
Audit Committee Independence	Staggered Board Structure	
Audit Committee Mgt Independence	Supermajority Vote Requirement	
Audit Committee Expertise	Golden Parachute	
Audit Committee NonExecutive Members	Limited Shareholder Rights to Call Meetings	
Compensation Committee Independence	Elimination of Cumulative Voting Rights	
Compensation Committee Mgt Independence	Pre-emptive Rights	
Compensation Committee NonExecutive Members	Company Cross Shareholding	
Nomination Committee Independence	Confidential Voting Policy	
Nomination Committee Mgt Independence	Limitation of Director Liability	
Nomination Committee Involvement	Earnings Restatement	
Nomination Committee NonExecutive Members	Profit Warnings	
Board Attendance	Non-audit to Audit Fees Ratio	
Number of Board Meetings	Auditor Independence Rotation	

Board Meeting Attendance Average	Insider Dealings Controversies	
Committee Meetings Attendance Average	Accounting Controversies	
Board Structure Type		
Board Size More Ten Less Eight		
Board Size		
Board Background and Skills		
Board Gender Diversity, Percent		
Board Specific Skills, Percent		
Average Board Tenure		
Non-Executive Board Members		
Independent Board Members		
Strictly Independent Board Members		
CEO-Chairman Separation		
CEO Board Member		
Chairman is ex-CEO		
Board Member Affiliations		
Board Individual Re-election		
Board Member Membership Limits		
Board Member Term Duration		
Executive Compensation Policy		
Executive Individual Compensation		
Total Senior Executives Compensation		
Highest Remuneration Package		
CEO Compensation Link to TSR		
Executive Compensation LT Objectives		
Sustainability Compensation Incentives		
Shareholders Approval Stock Compensation Plan		
Board Member Compensation		
Board Member LT Compensation Incentives		
Executive Compensation Controversies		
Board Cultural Diversity, Percent		
Executive Members Gender Diversity, Percent		

Source: Thomson Reuters

Appendix 2

Additional Event Study Results

Table 9: Abnormal Scores subsequent to Announcement Date – Alternative Sample

Cumulative average abnormal returns for the full sample of unsuccessful, i.e. withdrawn or management victory, activist campaigns between 2006 and 2017. The campaign announcements have been collected from Thomson Reuters, Mergermarket, S&P Capital IQ and Retriever. The ESG data is from Thomson Reuters ESG database

	Cumulative Average Abnormal Change		
Interval	Mean	t-statistic	Percentage positive
Environmental (N=16)			
-1 to +1	5.08%*	2.10	50%
-1 to +2	5.13%**	2.12	71%
-1 to +3	3.52%	1.45	69%
Social (N=16)			
-1 to +1	4.72%	1.16	56%
-1 to +2	10.26%**	2.53	57%
-1 to +3	9.23%**	2.27	54%
Governance (N=16)			
-1 to +1	3.16%	0.72	50%
-1 to +2	10.88%**	2.46	57%
-1 to +3	14.22%***	3.22	54%

*Note: * = p < 0.1; ** = p < 0.05; *** = p < 0.01*

Figure 14: Compared European Environmental Scores around Announcement

Average environmental score in successful and unsuccessful campaign samples around campaign announcement date (time "t") from 2006 to 2017

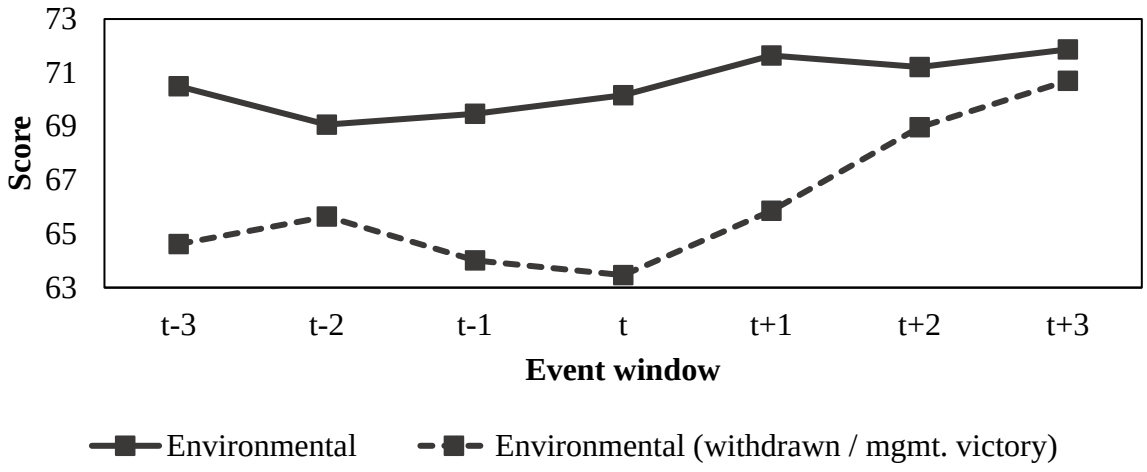


Figure 15: Compared European Social Scores around Announcement

Average social score in successful and unsuccessful campaign samples around campaign announcement date (time "t") from 2006 to 2017

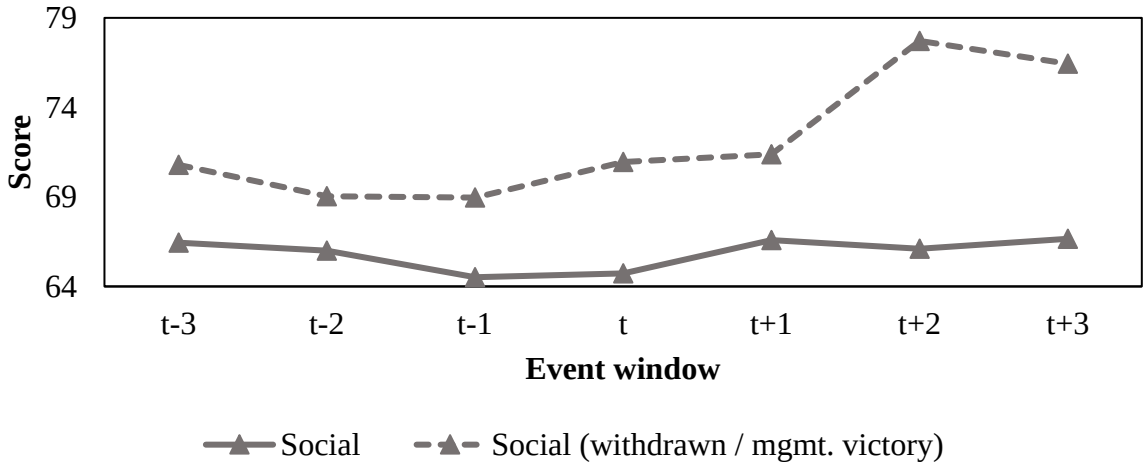
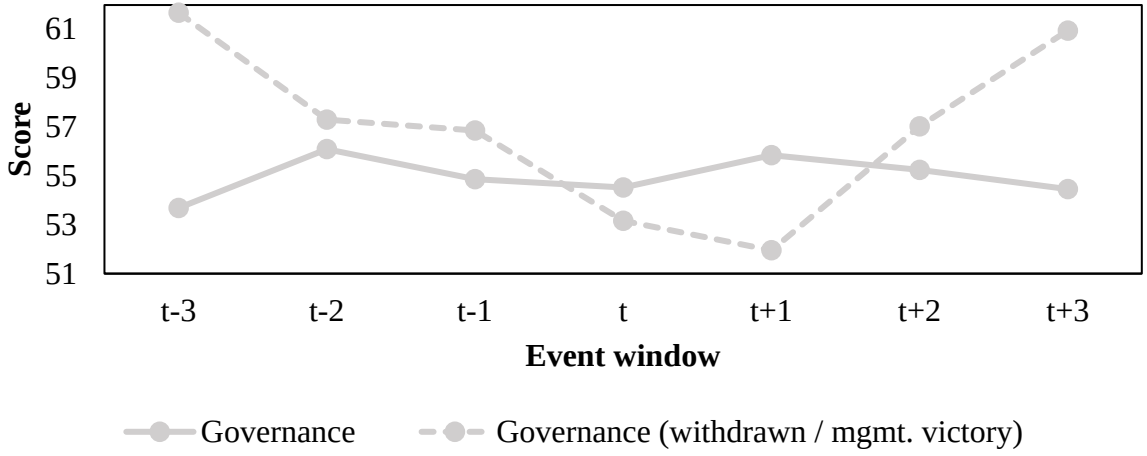


Figure 16: Compared European Governance Scores around Announcement

Average governance score in successful and unsuccessful campaign samples around campaign announcement date (time "t") from 2006 to 2017



Appendix 3

Cevian Capital

Table 10: Cevian Capital Holdings

Cevian Capital holdings overview as of 20.02.2019

Company	Shares	Value ($)	% Ownership	% Portfolio	Entry Date
ABB Ltd.	115,868,333	2,209,539,589	5.3%	19.5%	2017
Autoliv, Inc.	8,376,924	795,041,825	6.6%	7.0%	2018
Bilfinger SE	13,054,111	444,856,689	29.5%	3.9%	2013
CRH plc.	22,710,683	684,500,000	3.0%	6.0%	2019
Ericsson	584,675,863	3,900,647,355	9.2%	34.4%	2018
Nordea	92,000,000	764,888,000	2.3%	6.7%	2018
Panalpina	2,915,802	355,656,115	12.3%	3.1%	2009
thyssenkrupp AG	112,055,713	1,983,823,137	18.0%	17.5%	2014
Veoneer, Inc.	8,376,924	201,402,520	6.6%	1.8%	2018

Source: S&P Capital IQ, Annual Reports, Mergermarket, Thomson Reute

Appendix 4

Tieto

Table 11: Income Statement of Tieto in 2009

Income Statement of Tieto prepared and forecasted by Morgan Stanley

	2002	2003	2004	2005	2006	2007	2008	2009	2010F	2011F
Net Sales	1271	1374	1525	1677	1647	1772	1866	1706	1706	1741
Other operating income	7	3	25	25	25	13	11	16	8	8
Operating expense	-1093	-1174	-1279	-1462	-1485	-1668	-1699	-1576	-1534	-1545
Share of associated companies results	1	2	2	0	0	0	0	0	0	0
EBITDA	**186**	**205**	**272**	**240**	**187**	**118**	**178**	**146**	**180**	**203**
Depreciation and non-goodwill amortization	-56	-61	-61	-51	-51	-67	-56	-62	-65	-70
Amortization of allocated acquired intangibles	0	0	-3	-7	-9	-10	-10	-10	-8	-7
Impairment losses	0	0	-19	0	0	-40	0	0	0	0
EBIT	**130**	**143**	**190**	**182**	**128**	**1**	**112**	**74**	**107**	**126**
Interest net	1	-2	-5	-10	-3	-10	-29	-5	-5	-6
Tax	-35	-34	65	-36	-37	-23	-22	-19	-29	-33
Minority Interests	-1	-1	-1	-2	-3	-1	-1	0	0	0
Amortization of goodwill	-30	-41	0	0	0	0	0	0	0	0
Net Income	**64**	**65**	**249**	**135**	**84**	**-32**	**60**	**50**	**73**	**87**
Ratios										
Revenue growth (%)	12.0%	8.1%	11.0%	9.9%	-1.8%	7.6%	5.3%	-8.5%	0.0%	2.0%
Organic growth @ CC (%)	6.0%	6.0%	1.0%	1.8%	2.0%	9.0%	6.0%	-5.7%	-0.6%	2.0%
EBIT margin (%)	10.2%	10.4%	12.4%	10.9%	7.8%	0.1%	6.0%	4.3%	6.3%	7.2%
Effective tax rate (%)	27.0%	24.1%	-35.3%	20.6%	29.9%	-262.8%	26.6%	27.5%	28.0%	27.2%
EPS (pre impairment) (€)	1.03	1.14	1.66	1.62	1.2	0.75	1.14	0.88	1.11	1.19

Source: Morgan Stanley Research

Table 12: Income Statement (Divisional Breakdown) of Tieto in 2009

Income Statement (Divisional Breakdown) of Tieto prepared and forecasted by Morgan Stanley

	2002	2003	2004	2005	2006	2007	2008	2009	2010F
Revenues									
Finland							899	889	898
Sweden							549	463	467
International							571	553	531
Group elimination incl. other							-153	-199	-190
Group total	1271	1374	1525	1677	1647	1772	1866	1706	1706
Organic Growth @ CC									
Finland								-1.1%	1.0%
Sweden								-9.0%	-1.5%
International								-3.0%	-4.0%
Group elimination incl. other								-5.7%	-0.6%
Group total	6.0%	6.0%	1.0%	1.8%	2.0%	9.0%	6.0%	-5.7%	-0.6%
Underlying Operating Profit									
Finland								112.4	116.7
Sweden								16.6	28
International								0.1	22.3
Group elimination incl. other								-21.6	-42.7
Group total								107.5	124.3
Underlying Operating Margin									
Finland								12.6%	13.0%
Sweden								3.6%	6.0%
International								0.0%	4.2%
Group elimination incl. other								-1.3%	-2.5%
Group total								6.3%	7.3%

Source: Morgan Stanley Research

Table 13: Balance Sheet of Tieto in 2009

Balance Sheet of Tieto prepared and forecasted by Morgan Stanley

	2002	2003	2004	2005	2006	2007	2008	2009	2010F	2011F
Assets										
Goodwill	265	233	287	437	448	416	389	402	402	402
Intangibles	289	258	338	511	535	484	442	445	441	438
Other intangibles	24	24	51	74	86	69	53	43	39	36
Tangible assets	162	146	87	111	84	75	99	100	117	121
Investments	25	28	14	7	2	2	2	1	1	1
Deferred tax asset	0	113	121	98	77	68	68	67	62	52
Total non-curent assets	**476**	**544**	**560**	**727**	**697**	**630**	**611**	**613**	**621**	**612**
Current assets (excl. cash)	322	415	437	485	538	581	524	459	486	488
Securities and cash in hand/bank	54	45	91	100	139	73	120	123	139	187
Total current assets	**376**	**460**	**528**	**585**	**677**	**654**	**644**	**582**	**625**	**675**
Total assets	**852**	**1004**	**1088**	**1312**	**1374**	**1284**	**1255**	**1195**	**1246**	**1287**
Liabilities and shareholder's equity										
Current borrowings	84	21	5	145	77	97	67	39	39	39
Non-financial current liabilities	270	291	367	413	430	473	463	378	407	409
Total current liabilities	**354**	**312**	**372**	**558**	**507**	**570**	**530**	**417**	**446**	**448**
Non-current liabilities	10	16	191	242	235	197	210	212	212	212
Other non-current liabilities	19	0	0	1	3	2	2	1	9	9
Provisions and other long-term liabilities	0	1	13	10	3	36	29	47	21	17
Total non-current liabilities	**29**	**17**	**204**	**253**	**241**	**235**	**241**	**260**	**242**	**238**
Total shareholder's equity	**458**	**475**	**502**	**489**	**622**	**474**	**482**	**518**	**555**	**599**
Minority interest	4	4	10	12	4	4	2	1	1	1
Total liabilities and shareholder's equity	**845**	**808**	**1088**	**1312**	**1374**	**1283**	**1255**	**1196**	**1244**	**1286**

Source: Morgan Stanley Research

Table 14: Key Financial Ratios of Tieto in 2009

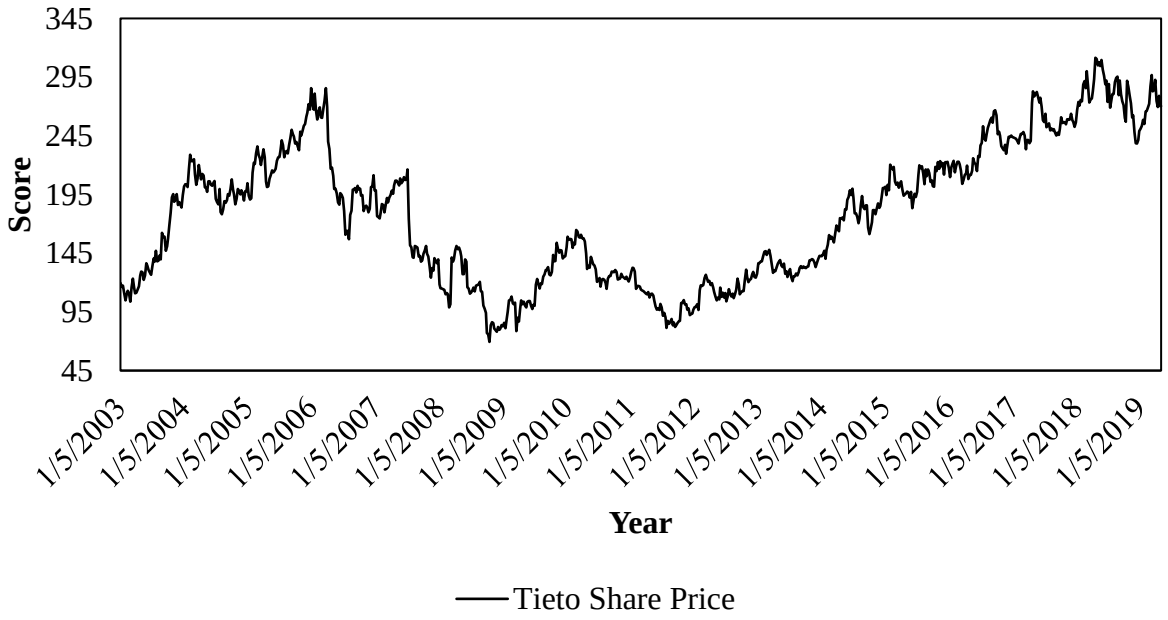
Key Financial Ratios of Tieto prepared and forecasted by Morgan Stanley

	2009	2010F	2011F	2012F
Revenue (€mn)	1706	1707	1741	1793
EBITDA (€mn)	153	181	195	204
EBIT (€mn)	92	116	125	129
EPS (€)	1.09	1.2	1.24	1.27
P/E	13.6	13.2	12.8	12.5
EV/Revenue	0.7	0.7	0.7	0.6
EV/EBITDA	7.4	6.6	5.8	5.4
EV/EBIT	12.4	10.3	9.1	8.5
Dividends per share (€)	0.51	0.5	0.5	0.54
Dividend yield (%)	3.4	3.2	3.2	3.4
FCF yield ratio (€)	7.8	4.3	8	7.2
Net debt (€mn)	75	60	11	-29
Net debt/EBITDA	0.5	0.3	0.1	n/a
RNOA (%)	9.5	12	12.6	13
ROE (%)	16.2	16.5	15.8	15

Source: Morgan Stanley Research

Figure 17: Tieto's Share Price Development

Overview of Tieto's share price development from 2003 to 2019



Source: Yahoo Finance as at 04.05.2019

Tieto's 2009 Q3 Report – Summary

- The operating margin was stronger than expected, due to restructuring efforts generating results. Tieto recorded a Q3 margin of 7.9% excl. one-offs (6.9% incl. one-offs) supported by cost reductions. Finland was especially strong, recording an operating margin of 14.6% (up from 12.9% during the same period the previous year). All segments were profitable although not yet at satisfactory levels: Sweden reported a margin of 4.7% and "International" a margin of 0.5%
- Resilience of Tieto's revenues has been confirmed, as management communicated that prior guidance might have been too pessimistic, and that it may do better than a drop of 4-6% for the full year 2009. Management also stated that it anticipates the market to flatten in 2009. The order back-log increased during the quarter and now mounts to BEUR 1.1, *i.e.* almost 65% of sales. The market for larger scale IT projects continues to be slow, as expected, however, Tieto is less affected by this than other IT-services companies
- Tieto's outsourcing order book is strong, as management reported that the outsourcing market is active and the size of new potential cases has grown as clients are looking into ways to improve productivity and reduce cost. However, it might take a while for these deals to materialize in sales figures
- Tieto generated strong cash flows, in spite of the difficult economic environment. Net cash flow amounted to MEUR 21.4, corresponding to an annualized FCF yield of c. 8%

Source: Cevian Capital, N. Pakalén (25.04.2019), Morgan Stanley Resarch,,S&P Capital IQ