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Journal of Applied Corporate Finance / Volume 15, Issue 3 / pp. 102-111

THE SHAREHOLDER WEALTH EFFECTS OF CALPERS' FOCUS LIST

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First published: 11 April 2005

https://doi.org/10.1111/j.1745-6622.2003.tb00464.x

The authors thank Peter Nguyen, an equity analyst at CalPERS, for assistance in collecting and refining the data associated with this research. This article reflects the insights and opinions of the authors and not the authors' employer.

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Abstract

Shareholder activism can help to protect shareholder value by promoting sound corporate governance practices. As an active institutional investor, CalPERS takes its role in the corporate governance process very seriously. In addition to many other initiatives, CalPERS publishes each year a list of six to twelve public companies with poor corporate governance principles and poor financial performance—its well-known "Focus List"—in the hope that the managements of these companies will be motivated to improve their performance and increase shareholder value for CalPERS and their other equity owners.

In an attempt to assess the effectiveness of CalPERS' governance program, the authors examine the market impact of the Focus List and find that companies on the list experience positive excess stock returns of about 12% over the three months following release of the list. Moreover, this wealth effect is even greater for companies with a large, widely dispersed shareholder base, as might be expected given the relative inability of such shareholders to act collectively.

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