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DAN HAUGEN



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Target board battle: What's it mean for the rest of us?

By Dan Haugen | Wednesday, May 27, 2009

The results of Target's contested board of directors election will be announced Thursday at the company's annual shareholder meeting, but what does this internal battle mean for the rest of us who don't sit on the board or own Target stock?

I've been asking around this week to find out what, if any, implications hedge-fund manager William Ackman's board challenge may have on Target customers, company employees or Minnesota's economy in general.

Ackman, who controls an 8 percent stake in the company, is seeking to elect himself and four allies to the board over the company's chosen candidates.

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The company's shareholders have been closely following [the fight](#) between Target and Ackman for months. A win for Ackman would give him more leverage in his quest to have Target spin off its real estate holdings into a separate company, which would lease it back to the retailer.

Ackman says it would create value for shareholders, but critics say it would simply transfer wealth from future to current shareholders.

Views about Ackman's efforts differ among specialists who have been following the controversy.

The impact of Ackman's proposal on Target employees and customers would be negligible, says investment manager Cale Smith. The company's operations aren't addressed, which is why as portfolio manager of the Tarpon Fund, he voted with [the company's candidates](#). In an e-mail, Smith told me:

"What Ackman is proposing is financial engineering, as opposed to solving a real business issue. If you're comfortable with the company's current modest debt levels — and we are — then the proxy fight seems an attempt to solve a problem that does not really exist. We voted with management because we felt the impact of Ackman's proposal on Target's employees, customers and stores would be negligible. And if it adds no value to the operations of the business, why bother?"

One of Ackman's objectives is immediately improving the company's performance, and that could be realized through "efficiencies," warns Patricia Lenkov, a recruiter with [Agility Executive Search](#) who specializes in corporate boards:

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Dan Haugen covered small towns, police and courts for daily newspapers in Waterloo, Iowa, and Sioux Falls, S.D., before moving home to Minneapolis in 2006. Since then he's written for several community newspapers, as well as his own neighborhood news blog, [Northeast Beat](#). He covers airlines, medical technology and general business stories for MinnPost and can be reached at dan [at] danhaugen [dot] com.

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"Ackman's goal is immediate improved company performance. For the customers, this will hopefully mean a better shopping experience with improved merchandise and better value over the longer term," she said. "However, from Ackman's point of view, improved company performance also means recovered efficiencies and healthier operations. In cases such as this, store closures are often part of the solution."

Store closings would bring with them job losses, but on the other hand, Lenkov writes, "The goal is restored performance by the company and this can also mean greater job security and improved compensation as the company does better. New board directors will also bring new strategic ideas and vision that will ultimately trickle down to company changes that will impact employees as well."


Keep in mind, though: A win for Ackman in the shareholder vote delivers him a seat at the board table, not control of the company, [writes Antony Page](#), a law professor at the Indiana University School of Law who specializes in business and international securities law.

He writes:

"The proxy battle doesn't necessarily have any implications for Target customers, employees or Minnesota. First, even if Ackman wins, he only has 5 out of 12 board seats. Whether Target changes direction will depend on whether he can persuade the other directors, and this could be difficult, especially if the vote is close.

"Second, Ackman's plans aren't well defined. Putting the real estate in a REIT won't necessarily require store closings, layoffs, or any significant change in the business. This financial engineering could, however, limit Target's flexibility in the future."

MinnPost readers: Any thoughts or questions about what Target's proxy battle means for you?

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