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The Long-Term Consequences of Hedge Fund Activism

The experience of the overwhelming majority of corporate managers, and their advisors, is that attacks by activist hedge funds are followed by declines in long-term future performance. Indeed, activist hedge fund attacks, and the efforts to avoid becoming the target of an attack, result in increased leverage, decreased investment in CAPEX and R&D and employee layoffs and poor employee morale.

Several law school professors who have long embraced shareholder-centric corporate governance are promoting a statistical study that they claim establishes that activist hedge fund attacks on corporations do not damage the future operating performance of the targets, but that this statistical study irrefutably establishes that on average the long-term operating performance of the targets is actually improved.

In two recent papers, Professor Yvan Allaire, Executive Chair of the Institute for Governance of Private and Public Organizations, has demonstrated that the statistics these professors rely on to support their theories are not irrefutable and do not disprove the real world experience that activist hedge fund interventions are followed by declines in long-term operating performance. The papers by Professor Allaire speak for themselves:

"Activist" hedge funds: creators of lasting wealth? What do the empirical studies really say?

Hedge Fund Activism and their Long-Term Consequences; Unanswered Questions to Bebchuk, Brav and Jiang

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