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Activist Attacks and Firm Value

In light of the continuing attacks and threats by activist hedge funds and corporate raiders seeking to maximize short-term profits in the face of the current crisis, we call attention to an article published in the *Strategic Management Journal* by Professors Mark DesJardine and Rodolphe Durand. The article presents powerful empirical evidence that hedge fund activism achieves short-term gains only at the expense of long-term value and stakeholder interests.

Examining 1,324 activist hedge fund campaigns between 2000 and 2016, the authors find that targeted firms saw a temporary 7.66% increase in market value one year after activist ownership. But by years four and five, market value decreased by 4.92% and 9.71%. These results are paralleled by trends in other metrics, including operating cash flow. Firms targeted by activists also reduced their workforces, research and development spending, capital expenditures, and corporate social responsibility. This underinvestment and overleveraging is a major contributor to the economic and market collapse accompanying the current pandemic crisis.

DesJardine and Durand also present the results of interviews with hedge fund managers and founders. These interviews revealed strong preferences for short-term gains, and showed that investment horizons rarely reached three years. It would be surprising if such hedge funds advocated measures that were well designed to create long-term value. Interviews with executives at targeted companies also reveal how activist pressure translated into decisions that were ultimately destructive.

DesJardine and Durand's work adds to a large body of empirical and experiential evidence that activist pressure does not create corporate value but simply shifts value from other stakeholders to short-term speculators. It also calls into further question the anomalous findings of Professors Lucian Bebchuk, Alon Brav, and Wei Jiang purporting to show an absence of any negative long-term impact from activist interventions.

In view of these findings and the threat to the economy of short-termism and activism, institutional investors and asset managers should reconsider their policies with respect to supporting activists and corporate raiders.

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