

Activist Investors: Shaping Businesses in 2022 (December 2022)

As we learn from the business world, we want to share that information with our community of educators and business professionals. Recently, news headlines have featured different *activist investors*, a term known within the business community but seldom recognized by those outside of it. As a result, the following Action Brief seeks to unpack this term and explain the role activist investors play in business.

What Is an Activist Investor?

When you hear the term “activist investor,” you might imagine someone with hefty financial resources championing a cause they care about, such as fighting climate change or promoting animal rights. That’s often true—but, as [Investopedia](#) explains, it’s also often not the whole picture.

An activist investor is generally defined as an individual or institutional entity that buys and uses shares in a target company to influence how that company is managed. Let’s unpack this definition further to better understand activist investors, including who they are, what they do, and why they act.

WHO?

First, activist investors are people with money—and lots of it. According to [Corporate Finance Institute](#), they can be affluent and influential individuals, or they can be those who operate hedge funds and private equity firms—two types of investments that appeal to high-net-worth people. Activist investors typically disagree with the way a company is being managed and use their considerable resources to make changes.

WHAT?

Activist investment can be achieved through many different strategies. However, activist investors usually purchase and use stocks in a publicly traded company to influence (or even replace) that company’s management. In an article for [The Motley Fool](#), Catherine Brock lists the following steps as how an activist investor typically operates:

1. Buy a large amount of shares of the target company
2. Publicly propose a specific set of changes for the company
3. Negotiate with the board of directors
4. Pursue additional measures as necessary to effect the desired changes
5. Sell all shares once the specific objectives are achieved

According to [Lazard’s Quarterly Review of Shareholder Activism](#), activist investor activity is on the rise. Looking at the 3rd quarter of 2022, the review reports that only partway through the year, 2022 is showing activist investor activity that mirrors (and is likely to exceed) activity in previous years.

WHY?

Simply put, many activist investors take action because they see an opportunity. Whether it involves advising management, forcing the sale of the company, replacing the board of directors, or something else, activist investment seeks to change how a company is run and maximize its financial value. As

[Olstein Capital Management](#) describes it, the goal of the activist investor is to “create a catalyst or triggering event that will increase shareholder value and result in stock price appreciation.”

Examples of Activist Investors

While the term “activist investor” might be new to you, the companies that are influenced probably aren’t. Let’s take a look at some of the different companies that have experienced pressure from activist investors in 2022.

- **Peloton.** In September, exercise equipment company Peloton [announced](#) that co-founders John Foley and Hisao Kushi were leaving the company as a result of an extensive transformation plan set forth by the new CEO. The news came months after [reports](#) of pressure from activist investor Blackwells Capital LLC, which called for the Peloton board to fire Foley and seek a buyer after significant stock decline.
- **Unilever.** Months after [reports](#) that activist hedge fund Trian Fund Management, which is run by Nelson Peltz, had acquired stake in consumer good company Unilever, the company [announced](#) that Peltz would join its board as a non-executive member. According to the [Wall Street Journal](#), the London-based company had “faced strong opposition from investors to its plan to buy the [GlaxoSmithKline] healthcare business,” which failed.
- **Kohl’s.** Department store chain Kohl’s has faced pressure from activist investors multiple times over the past year. In January, [Morning Brew reported](#) that activist investor Engine Capital had sent a letter to the company’s board of directors, “urg[ing] management to consider either selling the retailer to a private equity firm... or spinning off the e-commerce division.” Months later, Kohl’s faced additional pressure: activist investor Ancora Holdings called for the [removal of Kohl’s’ CEO and chair](#), and activist investor group Macellum Advisors pushed for [board changes](#) just a month later.
- **Disney.** In August, *The New York Times* reported that activist investment firm [Third Point bought a stake](#) in entertainment conglomerate Disney and called for numerous changes, including the spin-off of ESPN. While Daniel Loeb, the billionaire investor who runs Third Point, ultimately [backed off his call](#) to spin off ESPN just a month later, [Disney and Third Point reached a deal](#) at the end of September that involved an addition to Disney’s board of directors.

Elon Musk & Changing Investor Activism

Noticeably missing from the examples above is billionaire entrepreneur Elon Musk, who [recently acquired social media platform Twitter](#) in a controversial, months-long takeover. That’s because—after becoming Twitter’s [biggest shareholder](#) and current CEO—many argue that Musk has stepped out of the typical activist investor role and instead into something that has been called an [activist owner](#).

In his acquisition of Twitter, Musk has taken a much more *active* role than even the most involved activist investors, who don’t typically purchase and control the companies in which they invest. Musk has long been viewed as an eccentric individual, and his deviation from the typical activist investor [playbook](#) is another unorthodox move.

The Impact of Activist Investors

As you can see, activist investors can have a significant impact on the management and direction of even the most powerful and lucrative companies. As [Corporate Finance Institute](#) explains, activist investors can be both positive and negative for shareholders. Ultimately, it depends on whether activist investors are able to guide management in a way that adds value to a company. If successful, shareholders benefit. If not, shareholders may see decreased value or company action that diverges from their own goals and interests.

But the impact of activist investors isn't limited to shareholders. Because activist investors can directly influence the strategic management of a company, employees are subsequently impacted, and consumers often feel ripple effects in the products and services available to them. (For example, think of what might have happened to ESPN had it been sold, as Loeb called for.) As a result, it's important for all of us to understand activist investors and the great deal of influence they can have on business.

Links for Further Learning:

- [Activist Investors: A Good or Bad Thing?](#)
- [Under Attack: The Rise of the Activist Investors – And How to Respond](#)
- [Elon Musk Blazes Trail for New-Model Investor Activism](#)
- [What Are Activist Investors?](#) [Video]

Discussion Questions:

- While activist investment is legal, is it ethical? How do both the letter of the law (its literal meaning) and the spirit of the law (its intent) impact how we view activist investors?
- How would you imagine business leaders feel when approached by activist investors? What about lower-level employees? How would you feel if you were in a similar position?
- What role does negotiation play in activist investment? Is it important for activist investors to compromise? What other qualities should an activist investor have?
- Consider the role that publicity plays in the action and goals of an activist investor. Is leveraging public attention a worthwhile—and ethical—strategy? What are the pros/cons of this practice?
- What might be the implications when a company, under influence of an activist investor, begins to diverge from shareholder goals and interests? (E.g., shareholders sell shares and/or stop support.) How would this impact the company?

Sources:

- [Activist Investor: Definition, Role, Biggest Player](#)
- [Activist Investor](#)
- [What Is Activist Investing?](#)
- [What Is Activist Investing? A Catalyst for Change](#)
- [Peloton Co-Founders John Foley and Hisao Kushi Are Leaving the Company in a Broad Executive Shakeup](#)
- [Activist Investor Calls on Peloton to Fire CEO and Explore Sale](#)
- [Activist Investor Nelson Peltz Buys Stake in Unilever](#)
- [Unilever Names Activist Investor Nelson Peltz to Board](#)
- [Activist Investors Are Coming for Kohl's](#)
- [Activist Investor Pushes Kohl's to Oust its CEO and Chairman](#)
- [Retailer Kohl's Faces Fresh Call for Board Changes From Activist Group Macellum](#)
- [Activist Investor Buys Stake in Disney and Pushes for Changes](#)
- [Activist Investor Dan Loeb Backs Off Pushing Disney to Sell ESPN](#)
- [Disney Reaches Deal With Activist Investor Third Point, Will Add Former Meta Executive to its Board](#)
- [Elon Musk Now in Charge of Twitter, CEO and CFO Have Left, Sources Say](#)
- [Elon Musk Buys 9 Percent Stake in Twitter](#)
- [Why Tesla CEO Elon Musk Isn't a Typical Activist Investor With His Twitter Holdings](#) [Video]