Unintended social gains from the public relations “voice” of activist investors

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Aim & method

AIMS:
Investigate the practice of public relations as enacted by activist investors.

Explore if the PR “voice” in activist investment can produce unintended social gains (normally associated with CSR).

METHOD:
Analysis of the organisational discourse (Grant et al. 2004; Cooren, 2015) in the form of financial public relations and investor relations outputs of an activist investor along with the news articles and regulatory filings to the Securities and Exchange Commission (SEC) and Federal Trade Commission (FTC), as part of a broader study into PR of activist investment.
## Conceptual Framework & Themes

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<th>Financialisation</th>
<th>Activism and activist investment</th>
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<td>(Marazzi, 2011; Bourne, 2017)</td>
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Pershing Square Capital Management

Pershing Square is a New York activist hedge fund with $12bn AUM founded in 2004 by Bill Ackman.

Ackman took a $1bn short position from 2012-2016 that would pay out in case of catastrophic share price decline or bankruptcy of Herbalife.
Herbalife


From 2012 onwards, was subjected to what Herbalife CEO Michael Johnson called “an extraordinary underhanded political, public relations campaign”.

HERBALIFE
Independent Distributor & Wellness Coach
Lose Weight Now! ASK ME HOW!
www.yourwebsite.com
(000) 000-0000
The activist voice: 
Informational & emotional intensity

“We did a huge amount of research and that is costly – there were 330 slides in our first deck.”
(Bill Ackman, 2014, who spent $50m spent on research, analysis and publicity)

- Detailed dossiers on Herbalife from research firms, including detail such as visits to Herbalife “Nutrition Clubs” worldwide and operations in US, South America and Asia

- Hard data backed up by soft emotion of case studies: Ackman cried in a live meeting about Latino immigrants, redundant workers and retirees pursuing the “American Dream” who loose money

- The story became what Herbalife called “an infomercial for Bill Ackman’s failing portfolio” (Betting on Zero), a documentary by Ted Braun on Herbalife’s exploitative business model (funded by another hedge fund).
Herbalife: Timeline of Events (cont.)

From its high of $82 in January 2014, Herbalife’s stock price declined 52% in 2014 due to, among other things, regulatory investigations, public scrutiny, deterioration of the business and earnings.
“Social gains without monetary ones”

Ackman delivered consumer protection win that led to Herbalife being forced to change its business practices - but Pershing Square lost money on the short trade.

“The FTC concluded that the riches Herbalife promised its army of salespeople were wildly exaggerated and that much of the compensation earned was not from retail customers but selling to other salespeople.

His relentlessness has performed a public service.”

(Financial Times, 15 July 2016)
Conclusions

1. The PR/IR campaign and activist PR voice of Pershing Square produced a social gain through:

- The intensity of the research into Herbalife
- Extensive distribution of the findings

2. The incentives of the activist investor led to more intense information gathering (at a cost of circa $50m*) than the market, media, public or the regulators had previously achieved, leading to the social gain.

*New York State Legal Department/AG budget is $215m for five divisions - Appeals and Opinions, State Counsel, Criminal Justice, Economic Justice and Social Justice – and funding of 1,700 staff including forensic accountants and investigators as well as 650 assistant AGs.
Conclusions

3. The societal benefits from corporate actions (often associated with CSR) are not always the result of deliberate decisions to generate social benefit.

4. Future work welcome on the role of public relations/IR in activist investment and financial markets, plus discussion of the formulation of PR’s role as giving voice to governance issues.

Footnote

Bill Ackman and Pershing Square were investigated by the FBI from March 2015-February 2016 for possible manipulation of the Herbalife share price. In February 2016, the investigation was closed and Ackman cleared.

Dossier-based public information

Tony Blair and 2003 “dodgy dossier” on Iraq’s capability

Colin Powell 2003 UN presentation
Albert Hirschman’s (1970) insight was that there is a third option – voice – to add to the binary options of not buying or buying when confronting poor quality.

Voice is political and can involve confrontation to resolve conceptual dilemma within a theoretical continuum of exit, voice, loyalty.
Conceptual Framework

Financialisation
(Marazzi, 2011; Bourne, 2017)

Activism and activist investment
(McKie & Munshi, 2007; Doan & McKie, 2017)

Exit, voice loyalty
(Hirschman, 1970)

Financial information in capital markets and public relations
(Stiglitz, 2013)

Corporate social responsibility, corporate governance and activism
(McNulty & Nordberg, 2015)
• https://www.youtube.com/watch?v=z-jrALajXrl

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