

**BledCom**

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24<sup>th</sup> International  
Public Relations Symposium  
BLEDCOM 2017 | June 30 - July 1, 2017

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

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# Aim & method

## **AIMS:**

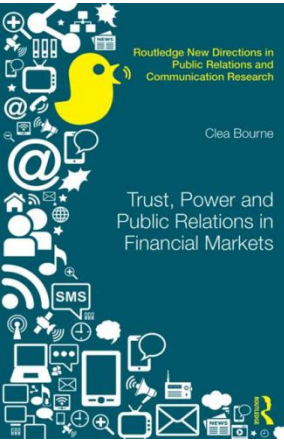
Investigate the practice of public relations as enacted by activist investors.

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



<p><b>Financialisation</b></p> <p><b>(Marazzi, 2011; Bourne, 2017)</b></p>	<p><b>Activism and activist investment</b></p> <p><b>(McKie &amp; Munshi, 2007)</b></p>
<p><b>Financial information in capital markets and public relations</b></p> <p><b>(Stiglitz, 2013)</b></p>	<p><b>Corporate social responsibility, governance and the voice of activism</b></p> <p><b>(McNulty &amp; Nordberg, 2015)</b></p>



# 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

Multi-level marketing corporation founded in 1980 that sells supplements and weight loss products with sales of US\$4.48 billion in 2016.

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



## HERBALIFE

Independent Distributor & Wellness Coach

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# 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).

# Annual Update Presentation

January 29, 2015

## 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

Stock price performance of HLF from 1/1/2014 to 12/31/2014



Note: The performance of HLF's stock price is provided for illustrative purposes only and is not an indication of PSH's future returns.  
Source: Bloomberg

## Herbalife v. Ackman

stock price, \$/share



Source: Pershing Square presentations, S&P Global Market Intelligence





# “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.

<http://www.cnbc.com/2016/02/01/herbalife-ackman-cleared-by-government-probes-report.html>

# Dossier-based public information

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

Colin Powell 2003 UN presentation



IRAQ – ITS INFRASTRUCTURE OF CONCEALMENT, DECEPTION AND INTIMIDATION



*This report draws upon a number of sources, including intelligence material, and shows how the Iraqi regime is constructed to have, and to keep, WMD, and is now engaged in a campaign of obstruction of the United Nations Weapons Inspectors.*

**Part One** focusses on how Iraq’s security organisations are outnumbered by Iraqi intelligence by a ratio of 200 to 1.

**Part Two** gives up to date details of Iraq’s network of organisations whose job it is to keep Saddam and his inner circle from being prevented from the international community from disarming Iraq.

**Part Three** goes on to show the effects of the security apparatus on the people of Iraq.

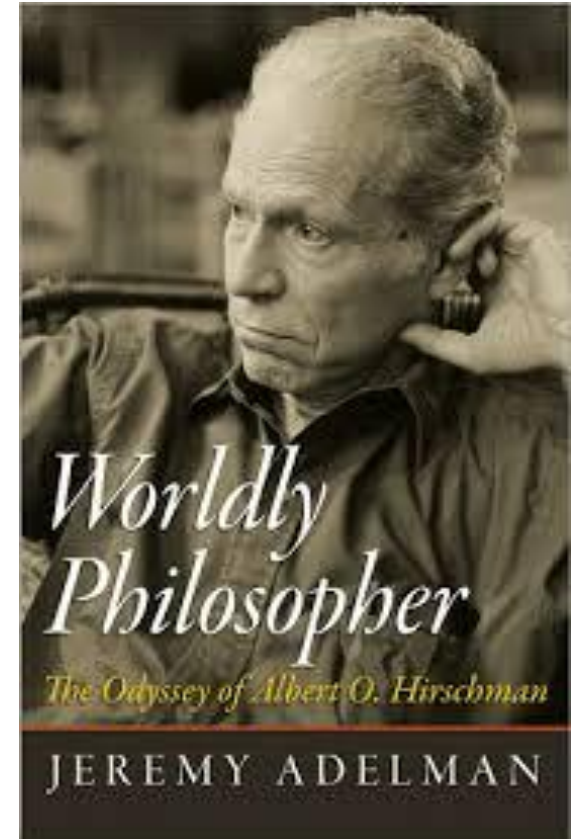
While the reach of this network outside Iraq may be less than that of the War of 1990/1991, inside Iraq, its grip is formidable. Saddam and his inner circle control the State infrastructure.



# Theoretical Lens: Albert Hirschman and the Exit, Voice, Loyalty continuum

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



- <https://www.youtube.com/watch?v=z-jrALajXrl>
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