GOVERNANCE

Investors Profit When Activists Demand Spin-Offs

Many managers decry activist investors as a divisive, distracting force that limits their ability to focus on long-term strategy and requires them instead to prioritize moves aimed at boosting the short-term stock price. A new study examining how investors fared when companies spun off assets—sometimes at the behest of activist investors, other times in the ordinary course of business—provides evidence to counter that view. The researchers analyzed all divestitures undertaken by *Fortune* 500 companies from 2007 to 2015—4,035 divestitures in all—using the corporate activism database SharkRepellent and other sources to determine which ones were activist impelled. Evaluating investors' immediate responses to the divestiture announcements and calculating longer-term measures of shareholder value, they found that activist-driven spin-offs drove better results than those undertaken voluntarily, with the performance advantage lasting almost two years. One possible reason for the difference in outcomes: Because activist campaigns are costly, investors tend to push only those spin-offs that will generate high shareholder returns. "Activist investors may fulfill an important governance function by inducing managers to undertake strategies that they might not otherwise pursue, thereby unlocking shareholder value," the researchers write.

ABOUT THE RESEARCH *"Activist-Impelled Divestitures and Shareholder Value," by Siwen Chen and Emilie R. Feldman* (*Strategic Management Journal*, 2018)