Bebchuk v. Lipton on Corporate Activism

Conglomerate
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We've been following the debate between Lucian Bebchuk and Martin Lipton on the value of activist shareholders with interest, and it still seems as if the protagonists see the world very differently. The debate has been occasioned by a paper from Bebchuk and his co-authors arguing, essentially, that activist shareholders increase returns to investors:

> We find no evidence that interventions are followed by declines in operating performance in the long term; to the contrary, activist interventions are followed by improved operating performance during the five-year period following these interventions. These improvements in long-term performance, we find, are present also when focusing on the two subsets of activist interventions that are most resisted and criticized – first, interventions that lower or constrain long-term investments by enhancing leverage, beefing up shareholder payouts, or reducing investments and, second, adversarial interventions employing hostile tactics.
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> We also find no evidence that the initial positive stock price spike accompanying activist interventions fails to appreciate their long-term costs and therefore tends to be followed by negative abnormal returns in the long term; the data is consistent with the initial spike reflecting correctly the intervention's long-term consequences. Similarly, we find no evidence for pump-and-dump patterns in which the exit of an activist is followed by abnormal long-term negative returns. Finally, we find no evidence for concerns that activist interventions during the years preceding the financial crisis rendered companies more vulnerable and that the targeted companies therefore were more adversely affected by the crisis.

In this round, Lipton offers a literature review of the case for the other side, which is motivated by the plausible assumption that activist shareholders tend not to buy and hold:

> numerous empirical studies over the years have produced results that conflict with those Prof. Bebchuk espouses. These other studies generally find that activism has a negative effect or no effect on long-term value, particularly when controlling for the skewing impact of a takeover of the target (which generally occurs at a premium regardless of whether the target is the subject of activism).

Some of the studies cited are quite old, and not all of the journals are top-drawer. But others seem quite on point. Perhaps the disputants will next be able to identify some empirical propositions with which they agree, and others with which they do not (other than, you know, sample selection).