How Does Hedge Fund Activism Reengineer Corporate Culture?

Discussion

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Empirical Approach

How does hedge fund activism re-engineers corporate culture?

Measurement – Earnings Conference Call's Q&A

- The paper uses the discussion during calls
- Quantifies the contents of the transcripts using word2vec from 2001–2017
- Culture Measures – *(1) Quality, (2) Respect, (3) Innovation, (4) Integrity, and (5) Teamwork*

Empirical Approach

- Uses a propensity match, difference-in-differences approach, targets from 2004-2017
- $Culture_{i,t} = \beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t} + X_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it}$
- Consider subsample tests, if these improvements are coming from new CEOs

Summary of Results

HF activism is associated with improved corporate culture

Answer – HF activism is associated with improved corporate culture

- Improvements in corporate culture following the replacement of incumbent CEOs
  - → The paper first documents a change in culture, as measured in the earnings calls
  - → Improvements in quality, respect, innovation and integrity
- Paper suggests that these changes are coming new CEOs
  - → Activism, that keep the came CEO does not result in improvements
  - → Change in directors matter, only when CEO changes
- There are important financial and real effects
  - → Glass-door data to show that this is consistent from an employee view
  - → This is associated with improvements in accounting variables

Interesting question *– My comments focused on pushing the paper to tighten is analysis*

Comment 1

Identifying that the changes are coming from changing CEOs

The ideal experiment – compare between firms where activist were able to remove the CEO and those that were not able to for some exogenous reason

Let’s consider several alternative specifications:

1. Look at firms targeted by activist and that change CEO against a similar firm
   - → The paper does this!
   - → Challenge – selection by activist, treatment by activists, which includes CEO change

2. Compare between two firms targeted by activist, one that changed their CEO versus others that do not
   - → The paper does this!
   - → Challenge – section, why they did not change the CEO

3. Two firms, one that changes their CEO for exogenous reasons
   - → Challenge – limited in the ability to estimate, activist driven?

Comment 2

Do CEOs Matter?

Do the specific CEO matter or just changing the CEO?

- Consider the CEOs that were recently ousted by the activist
- If/when they become a new CEO, do they improve culture of a new firm?

What characteristics, if any, matter?

- The paper studies the characteristics of CEOs (section 3.4)
- Suggests that these CEOs are older, the same industry, and were prior CEOs.
- We can imagine a story where there is sorting based on past tenure as a CEO – supporting of an experience story
- Does age matters – this can help link why we see an effect on culture as well

Comment 3

Establishing the link between CEO and corporate culture and firm performance

What are CEOs exactly doing to effect culture?

- Provide evidence, even anecdotal, of the steps that they were able to take
- One suggestion would be to look at their sustainability or ESG reports
- Another would be linkedin data to see if they hired people responsible for culture

Can the paper establish further links between culture and real outcomes?

- I like the glass-door tests
- Are there other ways to link to other benefits? May be suggestive of other indirect effects of activism

Interesting Paper!

- Interesting perspective that activism can have important effects on corporate culture of firms
- Suggestive that top-down approach is one important way to improve culture
- Great paper, has done a lot of work already, pushing on additional tests to pin down the mechanism