



FROM THE INSIDE OUT

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When Activists Call on Consultants to Drive Real Change

On January 25, 2018, Alvarez & Marsal (A&M) was a sponsor and participant at the 2018 Skytop Strategies conference focused on shareholder activism. While speaking on a panel alongside an activist, Managing Director [Pamit Surana](#) spoke about the appropriate timing for bringing on a consultant to drive transformational change in front of prominent players in the ecosystem.

We are restricted by Chatham House Rules from disclosing specific conversations that took place and encourage readers to review the [agenda topics](#).

To understand the conference delegate participation a bit better, here is a look at who's who in the activist ecosystem:

ACTIVISTS

Activist Investors

A person or group (typically a hedge fund) holding a minority stake in a public company (often in the 5-10 percent range), which aims to influence decision making at a company by voicing concerns, engaging in dialogue with management or lobbying other shareholders for support. The demands could relate to changes in management, representation on the Board, cost cutting, acquisitions or divestitures, executive compensation, etc... all with the intent of dramatically increasing shareholder value.

Investment Funds

Private equity funds may decide to take minority positions to influence management and change at a company.

Institutional Investors

Pension plans, investment funds and insurance companies all control vast amounts of wealth and invest broadly in the stock market. They are often lobbied to vote with the changes being promoted by the activist investors.

ADVISORS TO THE ISSUERS (CORPORATE MANAGEMENT) and THE ACTIVIST INVESTOR COMMUNITY

Strategically, these firms typically work for issuers or for those who are initiating change from the outside (i.e. hedge funds). Occasionally the same firm will work with issuers in one situation and activists in another.

Proxy Solicitors

These are firms that work with either the issuer or activist investors to influence the votes that come with their shareholdings.

Public Relations/Crisis Communications Firms

These firms often work with issuers to defend management strategies and to convince shareholders to stay supportive of the management team. They often advise management on their strategies for engaging with shareholders. Likewise, activists may engage these firms to promote their rationale for driving change at the Board level.

Lawyers

Issuers typically use outside law firms to defend their best interests. Activists hire outside law firms to search for legal vulnerabilities that will help them with their campaign to unseat management.

Investment Banks

Often retained by management to devise transactions that will unlock value, or to serve as a proxy for management in supporting their claims that the stock has been properly valued in the marketplace. These banks sometimes sign retainer arrangements with managements to be "on call" if they are attacked by an activist.



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Our best transformation work has three ingredients: 1) Leadership from the top of the organization 2) permitting us to help the organization to think radically differently about operations 3) in an environment where we are managing complex stakeholder dynamics.

Leadership from the Board & CEO is Critical to Success

Not too long ago, activist investors were seen as cowboys in black hats and were not well accepted in the Boardroom nor particularly supported by large investors. Today, this perception is changing as witnessed by increasing votes by shareholders in support of activists' slates.

In the past, many of the changes requested were transactional (e.g. new Board directors, selling underperforming divisions, merging with other companies, etc.) Now, activists are increasingly demonstrating an interest in holding onto shares for longer periods to effect more substantial increases in shareholder value.

Some would even argue that activist investing has gone "mainstream." From A&M's perspective, we are at our best when we enjoy the "hands on" support of senior management and the Board when prosecuting substantial change.

Boards Calling Upon A&M as a Catalyst for Change

As noted earlier, A&M and Crescendo Partners led a discussion during the Skytop Strategies annual conference entitled, "Engaging with the Board: Essential Lessons for Delivering Transformation." Hill International engaged A&M after replacing the CEO and concluding that substantial change could occur only by bringing in a firm willing to look at the entire organization with a *clean sheet of paper*, unencumbered by prior advice or prior decision making by management.

The results in this particular situation were so substantial that, in an August 2017 profit improvement [news release](#), the company cited the work done by the A&M team.

Managing Stakeholder Dynamics

In most circumstances, A&M is retained by the management team to drive transformational change. Increasingly, we are invited into situations where there has been substantial change at the top (e.g. a new CEO, turnover on the Board, activist pressure, etc.). In all cases, the stakes are high and we need to be respectful of the important fiduciary roles of the significant players.

We are committed to serving the CEO and his/her operations team, providing them with a fact-based rationale for change and jointly presenting these findings to the Board. In cases of disagreement (which are usually judgment calls), we should be able to communicate directly with the Board alongside management to debate options available. Even when engaged in the first instance by members of the Board, we need to remember that management is responsible for running the company and we do not work for individual members of the Board, regardless of their shareholders' stake.

"We are most effective when we have strong relationships and open communication with the CEO and the Board," explains [Pamit Surana](#), Managing Director in A&M's [Corporate Transformation](#) practice. **Real change requires leadership. We can provide that leadership and help the company make very difficult decisions or help position existing leadership so that when a good idea is presented – which generates value and sustainable results – those benefits are at the forefront, not the defense for overcoming political or internal strife.**



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Corporate Transformation Services Tools

The A&M Activist Alert is a predictive analytics tool that was developed by [Malcolm McKenzie](#) and [Paul Kinrade](#) of the firm’s London practice that uses over 35 key factors to assess the potential risk of becoming an activist target. In the U.S., the effort is spearheaded by San Francisco-based leaders [Joel O’Driscoll](#) and Joe De Callar, who calculate the probability of activism using Logistic Regression. These important tools help our firm look at all of our clients from the perspective of an outsider. Since it is human nature for incumbent management teams to resist changing the way things have always been, this “outside in” perspective is often very valuable in illustrating vulnerability and the likelihood of becoming a target.

GOT A QUESTION? CONTACT AN INFLUENCER ANSWERS ARE ONE CLICK AWAY



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ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to make change and achieve results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services.

With over 3,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

When action matters, find us at: www.alvarezandmarsal.com

