ACTIVIST INVESTORS AND IMPLICATIONS FOR CORPORATE GOVERNANCE: A CASE STUDY OF BARINGTON CAPITAL GROUP AND L BRANDS

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Abstract

The key research question of this paper is to explore the implications for both financial and corporate governance performances from the emergence of activist investors. This paper uses a case study of one specific activist investor's role, Barington Capital Group, in analyzing the public company, L Brands (Barington, 2019; Haigh, 2019). In conclusion, this activist investor's approach and recommendations in this case study could be used as operational guidelines by boards of directors and corporate executives for improving both their financial and corporate governance performances. From its financial analysis, Barington recommended that L Brands board of directors retain a financial advisor to help explore opportunities to improve its financial market value. It advocated either an initial public offering of the superior performing Bath & Body Works brand or a spinoff of the weak performing Victoria's Secret brand (Levisohn, 2019; McIntyre, 2019; Reuters, 2019). Demonstrating how an active investor can influence the corporate governance of public companies, Barington recommended that L Brands improve the composition of its board of directors. L Brands' lack of

director independence, industry experience, and diversity has hindered its ability to effectively oversee and advise management. After a literature review of shareholder activism, the following sections of this paper are developed from the Barington Capital Group's 2019 letter to L Brands to discuss the ways an activist investor can influence the corporate governance of a public company: financial analysis, operational zeitgeist analysis, and corporate governance analysis. Supplemental financial analyses are provided by the research paper authors. The paper then concludes with summaries of the role of an activist investor in providing recommendations and corporate governance implications. It is important to note that this paper was prepared exclusively with public information.

As an activist investor with the benefits of an independent, external perspective, Barington's corporate governance recommendations are consistent with well-established corporate governance research findings, such as the Grove et al. (2011) research paper. This paper found that CEO duality was negatively associated with financial performance of U.S. banks leading up to the 2008 financial crisis. This finding is consistent with Barington's recommendation for L Brands to split the CEO and COB jobs, especially since this duality has been going on for 50 years. This paper found that a proportion of directors greater than 70 years old led to poor bank financial performance, again consistent with Barington's recommendation for a younger L Brands board. The paper also found that the frequency of board meetings was positively associated with bank performance while L Brands board only had five meetings last year. Just like the 2011 research paper linked corporate governance weaknesses to banks' poor financial performance, Barington found that L Brands' corporate governance weaknesses helped contribute to its poor financial performance, its poor common stock price performance, and its poor competitive performance. Such an activist investor's methodology could be used as lessons learned by other companies to improve their financial and corporate governance performances (Jansson, 2014; Raja & Kostyuk, 2015; Van der Elst, 2011).

The limits of this research study focus on it just being a case study of one activist investor's analysis of one public company. Future corporate governance research could involve comparative field studies of publicly held companies by activist investors for their financial and corporate governance analyses to determine more general conclusions about the role of activist investors. Also, follow-up field studies could investigate whether companies have corrected their well-publicized board of directors' problems, such as the 2016 Volkswagen board (Stewart, 2015), or the 2017 Equifax board (LaMonica, 2017), or the 2019 L Brands board, and if so, specify the lessons learned.

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