

# Shareholder Activism as a Political Campaign: Referendums on the Incumbent



By Andrew Ricci, Vice President, [LEVICK](#)

Every four years, the United States has to evaluate its direction and make a choice whether to maintain the current political rule or upend it through the [presidential election](#) process. Challengers and incumbents alike are forced to wage campaigns to hold on to – or wrest away – governance and power.

A political campaign, at its heart, is not entirely different from the efforts of an [activist shareholder](#) and a company facing an activist shareholder threat. At the end of the day, both are looking to impose or maintain control over the levers of governance, whether of a country or of a publicly traded company. Both are beholden to a group of voters, whether the electorate at large or the shareholders who have a vote in governance issues. Both have a key “decision day” on which votes are counted and the decision is locked in, and both, at the end of the day, are seeking to come out on top by reaching the magic “50 percent plus one” number that means victory.

Whether an activist shareholder is looking to replace key members of the C-Suite, obtain influence through seats on the corporate board, or implement a specific proposal that changes how a company does business, there are similarities between

their efforts and a political campaign that are worth exploring.

One of these similarities is that political campaigns generally fall into two broad themes which also apply to activist shareholder efforts: referendums on current leadership or a dynamic vision for the future. No moment better sums up the campaign-as-referendum motif than Ronald Reagan's knockout punch in the 1980 Presidential Election's only debate. Held one week to the day before the election, Reagan, the challenger, used his closing statement to ask the audience,

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“Are you better off now than you were four year

s ago? Is it easier for you to go and buy things in the stores than it was four years ago? Is there more or less unemployment in the country than there was four years ago? Is America as respected throughout the world as it was? Do you feel that our security is as safe, that we're as strong as we were four years ago? And if you answer all of those questions 'yes', why then, I think your choice is very obvious as to whom you will vote for. If you don't agree, if you don't think that this course that we've been on for the last four years is what you would like to see us follow for the next four, then I could suggest another choice that you have.”

This was a masterful use of stagecraft and rhetoric from which Carter, the incumbent, never recovered. Politically, Carter

was already reeling from a divisive primary process that saw him lose 12 states (the last time an incumbent president lost a state's presidential primary). And nationally, high energy prices and unemployment, coupled with security concerns, led to a dissatisfied and restless electorate. Reagan's rhetorical questioning forced this agitated voter base to confront Carter's record and a week later, Ronald Reagan was the President-elect by a landslide.

We have seen many of these referendum-type elections since, and it is not the case that the challenger always starts from a position of strength. Some of these campaigns have seen the challenger succeed (Clinton in 1992, Obama in 2008) where others have seen the incumbent prevail (Clinton in 1996, Bush in 2004, Obama in 2012). While the Carter-Reagan race is among the most notable examples of a challenger upsetting the political order, there have been many situations since where the electorate decides that yes, indeed, we are better off than we were four (or eight) years ago.

There is an important parallel here for activist investors looking to mount a campaign against a company and for companies who are forced to respond. All shareholders of a company are looking to maximize their value, and if management can be portrayed as ineffective, complacent, weak, or incompetent, they will likely face an uphill battle not dissimilar to Mr. Carter's. Just like an incumbent candidate, a company's management has to be prepared to defend their record before the voters and demonstrate that the current course is the real key to value, growth, and profitability.

When an activist shareholder is launching a campaign to target a company's management, the "are you better off now than you were four years ago" question should lay the foundation for their playbook. And just like that question has been used in some form in nearly every subsequent election, it is one that activist shareholders should continue to ask – and companies facing an activist campaign should be ready to address.

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