The Changing Nature of Activist Investing – 5 Takeaways from NIRI 2018

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Last week, I spoke at the annual NIRI conference addressing the changing role of the activist investor and how the IR function needs to evolve to keep up with these changes. As the rise of activists continues, so must strategies to monitor and engage across the media landscape and proactively manage brand (and investor) perceptions. A critical piece of being prepared for a brand crisis is building consistent and accurate data about your brand and reputation before a problem arises.

1. THE LANDSCAPE HAS SHIFTED – SOCIAL MEDIA HAS MADE LEADING THE NEWS CYCLE VERY IMPORTANT – ALBEIT MORE DIFFICULT

The Trump Era has ushered in a period where *leading* the news cycle with a narrative and message can commandeer the perception of truth. This "direct narrative of the truth" is often driven or amplified by direct communication on social media.

There can be many indications that an activist is targeting a stock – a regulatory filing, a phone call from the fund manager, or a newspaper headline. However, indications can also include questions from a junior analyst at a fund, a private meeting request or now increasingly a rumor on social media. Today, it is imperative that IR teams are aware of the impact of unregulated social activities in addition to all online conversions so that they can get in front of that “truth narrative”.

IR is no longer about surveillance and is now quickly shifting to proactive management. You need to not only understand how things are spreading on both traditional and social media, but more importantly, understand the entire media landscape and its key players to quickly react.

2. ACTIVISTS ARE NOW USING SOPHISTICATED PR STRATEGIES TO ENGAGE THE SHAREHOLDER BASE – AND SO SHOULD YOU.

The growth of passive shareholders has given companies more stable shareholder bases and made them accountable for delivering results, hence the need for proactive marketing and messaging. The need is further enhanced with the rise of Activist Investor movements and fast-moving market volatility. To carry out this proactive engagement, a richer partnership is required between IR and PR.

Here are some things you need to be thinking about now:

1. Different investors will react to various types of information and weigh various reputational aspects of a brand uniquely. It is important to determine how your brand drivers are resonating with key audiences. How are these key elements being captured in the media and in social conversations? Where is there a need for improvement?
2. Brands need to identify their weaknesses and their comparative advantages versus the competition at all times. Then you need to build the right messages to

correct misguided perceptions with investors.
3. It is critical to understand your "influencers" – those that drive the perception of your stock as a place to invest. Not all influencers are created equally; it is not just about the Wall Street Analysts anymore. You need to know who the right influencers are, be it a government regulator, money manager, journalist, or simply an influential blogger, and engage those that matter.

3. GENERIC TRACKING OF THE MEDIA CONVERSATION WILL NO LONGER PROTECT YOU – GO DEEP TO GET SMART.

Analyzing media is extremely important because media sentiment has been proven to be correlated with stock price. But, you need to go beyond simple keyword tracking to get accurate and actionable data – the "*why*".

For media analysis to be successful, you can no longer rely on simply tracking your company name, executives and focusing on financial sites. Old-school keyword-driven tracking and analytics will likely leave you blindsided. Instead, it's time to understand the "reputational conversation". Reputational data can help you break down your public perception and understand what is driving it. You can also know how to pitch content that will positively impact your image it by identifying authors and outlets that are pushing certain messages and receiving a lot of social traction. Benchmarking your reputational data can pinpoint areas for targeted, effective message improvement.

4. THE WORLD HAS MOVED TO DATA-DRIVEN DECISIONS. DON'T GET LEFT BEHIND.

When making decisions, a simple opinion does not cut it. You need to work with numbers now – fight fire with fire – and get savvy fast. Interestingly, the best defense is a good offense. Hedge funds have huge data capabilities, but IR often does not. So you need to ask yourself: are your technologies and data analytics giving you an advantage versus your adversary?

You need to make sure you have the proper resources working reliably to generate quality data to back up your decisions. And should a crisis hit, use that data to move smartly, quickly and in a proactive manner instead of chasing the issue.

5. SPEED OF AI IS INCREASING, BUT AI STILL STRUGGLES WITH ACCURACY AND CAN LEAD US ASTRAY.

Use of artificial intelligence (AI) in IR is growing at a rapid pace. Enterprise IR solutions (Bloomberg CMi2i, Q4 Activism Alarm, Nasdaq IR, and others) apply machine learning to big financial data sets to predict vulnerable companies, investor trends and behavior, and overall investor sentiment towards specific industry sectors.

This information is useful as a baseline for a company to understand investors and identify when their company is being viewed as vulnerable. But repeated studies continue to prove that unsupervised machine learning is still missing the mark with media analysis. Changing zeitgeist, linguistic nuances, sarcasm, and a variety of company perspectives and priorities greatly limit the effectiveness and accuracy of machine-only solutions.

In addition, automated story-writing on company earnings has taken off. In 2014, Associated Press started to publish automated earnings stories. In Q1 of 2014, 300 of these stories were published. Fast forward to Q1 of 2018 and 4,700 stories were published. Clearly, the speed of AI is increasing, but at what cost? Neil Hershberg, SVP at Business Wire states, “While they certainly provide greater visibility to small and mid-sized companies that were previously excluded from editorial coverage, the template format of these reports can often result in material information being left out of stories."

So if you are responsible for investor relations, your world is changing fast. Social media, data analytics, artificial intelligence, and a rapidly changing investor landscape seem to have conspired to make your job more difficult. So how are you going to regain control?

Discover our Analytics Solution for Investor Relations.