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The ESG/TSR Activist “Pincer Attack”

Companies need to prepare for a new strategic threat: a two-front “pincer attack” from environmental, social and governance (ESG) activists, on the one side, and financial total shareholder return (TSR) activists, on the other. An ESG activist attack presents an opportunity for TSR activists to pile on, free-riding on the ESG arguments that many institutional investors support. This is a new twist on “wolf-pack” activism that provides new opportunities for activists to drive a wedge between a company and its key stakeholders. The risks of these pincer attacks are complicated by the proliferation of ESG metrics and inconsistent reporting expectations (despite current promising [convergence and rationalization efforts](#)) alongside evolving investor-side voting policies, all of which leave companies vulnerable to attack.

At Exxon Mobil, recently launched ESG activist fund Engine No. 1 announced plans to nominate four people to Exxon’s board of directors, calling for Exxon to set carbon emission reduction targets and shift to a “sustainable, transparent, and profitable long-term plan focused on accelerating rather than deferring the energy transition.” Engine No. 1’s campaign has been publicly supported by the California State Teachers’ Retirement System (CalSTRS) pension fund and the Church of England’s investment fund. At the same time, D. E. Shaw, a large hedge fund that periodically engages in TSR activism, is calling on Exxon to cut spending to improve performance and maintain its dividend, as well as improve its environmental reputation. Even though the activists collectively own a tiny fraction of the oil and gas behemoth, the dual-front tactic presents a significant challenge.

Financial activists invoking ESG themes to win support from institutional investors is not new. Activist JANA Partners partnered with CalSTRS to press Apple’s board of directors to address the growing crisis of youth smartphone addiction. Activist Third Point leveraged ESG-related themes in touting carbon footprint reduction as a reason for Prudential plc to explore a break-up. Activists Elliott Management and Starboard Value have also periodically invoked ESG-related themes to advance their TSR-driven campaigns.

The current growth in the number and size of activist ESG-impact funds, formed for the express purpose of investing in companies that “need help” in meeting ESG goals and then seeking board seats to provide that help, has significantly increased the exposure to pincer attacks.

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Just as there is no single playbook that works for the variations of TSR activism, there is no one approach for the even greater permutations and even harder to measure goals of ESG activists or for when a company faces a TSR-ESG-threat. To be best positioned to avoid or fend off a pincer attack, a company should prepare by creating a team of advisors familiar with ESG issues and TSR activism and experienced in proactively deterring and fending off activist attacks. When faced with an imminent attack, the company and its board should assess carefully whether it would be advisable to resolve the ESG matter to minimize reputational noise and the risk of ESG and TSR activists finding common cause.

As part of pincer attack preparedness, before a crisis develops, companies should also evaluate whether they are adequately armed with a clear corporate purpose that underlies their long-term strategic goals, are embracing ESG policies that advance those goals, are communicating those goals and policies effectively, and are reaching out to major shareholders to be partners. As part of that dialogue, institutional investors should be encouraged to raise their concerns directly with the company and its board, rather than outsourcing leadership on these topics to activists who have their own (sometimes short-term) agendas. This approach to dealing with the risk of pincer activism is an example of [The New Paradigm](#) in action.

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