

A Study of the Impact of Shareholder Activism on Corporate Governance Structure: An Example of Elon Musk's Acquisition of Twitter

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Abstract: In modern corporate governance, the rise of shareholder activism has had a profound impact on corporate strategy and management models. The case of Elon Musk's acquisition of Twitter is particularly striking, as Musk's acquisition of Twitter in his personal capacity triggered a wide-ranging debate on corporate governance, shareholder rights and corporate responsibility, demonstrating how shareholder activism can reshape corporate governance structures. This paper analyses the changes Musk made to the board of directors, governance policies and stakeholders following his acquisition of Twitter, and the changes Musk's acquisition of Twitter made to the corporate governance structure in the context of corporate governance impacts, market reaction and long-term financial performance. It is concluded that shareholder activism not only directly changes the ownership structure of a company, but also profoundly affects the management style, corporate culture and strategic direction of the company. At the same time, such active participation brings greater risk and uncertainty.

1 INTRODUCTION

In the context of globalisation, the impact of shareholder activism on the governance structure of corporations has become increasingly prominent. Elon Musk's takeover of Twitter is a classic example of how shareholder activism can change the operation and governance model of a company through radical strategies. In addition to starting a tricky game involving shareholders, management, and regulators, the takeover had a significant effect on Twitter's governance framework. Musk rewrote the company's and its shareholders' power dynamics with this series of moves, offering an insightful case study for comprehending the workings of contemporary corporate governance. With Musk's acquisition of Twitter serving as a case study, this article will examine the precise effects of shareholder activism on corporate governance in this setting and evaluate its contributions to openness, flexibility in decision-making, and an innovative culture. By analysing this case in depth, we hope to gain a fuller understanding of how shareholder activism shapes the governance model of modern

corporations and provide lessons for other companies.

2 LITERATURE REVIEW

Shareholder activism, as an important form of shareholder engagement, has played an increasingly important role in global corporate governance in recent years. Shareholder activism refers to the direct participation of shareholders in the decision-making process of a company, which promotes the improvement of corporate governance and the enhancement of corporate value. Early studies, such as Jensen and Meckling (1976), have argued that activism can alleviate the agency problem between management and shareholders to a certain extent, and it is one of the means to strengthen corporate governance. Shareholder activism is generally categorized in the literature as “soft” activism and “hard” activism. Soft activism is usually used to influence the firm by suggestive or non-confrontational means, such as communicating with management and submitting shareholder

proposals, while hard activism is more confrontational, such as nominating directors, public campaigns, and proxy contests. The impact of different types of activism on corporate governance structure varies (Brav et al., 2008). A large body of research suggests that shareholder activism is beneficial to firm performance, especially in the short run. For example, activism interventions often lead to short-term increases in stock prices and prompt management to pay more attention to shareholder rights (Schor and Greenwood, 2009). However, there are some limitations to activism. Some scholars have argued that activists typically focus on short-term returns, which may lead companies to adopt short-term strategies and neglect long-term development (Bebchuk et al., 2015). In addition, activism is more costly to implement and less likely to involve small and medium-sized shareholders, making it difficult to have a sustainable impact on corporate governance (Coffee and Palia, 2016). Most of the literature focuses on the short-term effects of shareholder activism, with fewer studies on the long-term effects. Future research could further explore the impact of activism on firm value in the long run.

3 ANALYSIS OF CASES

3.1 Background

Elon Musk has been a frequent Twitter user, through which he expresses his personal opinions, posts company news, and interacts with the public. Twitter is an important communication platform for Musk. Musk has publicly stated that he believes that Twitter has failed to realise its full potential as a 'global platform for free speech'. By privatising Twitter, he hopes to bring about larger changes to the company and increase its support for free speech. Musk has been buying shares of Twitter since January 2022 and until 4 April Musk had 73,115,038 shares of Twitter stock, or 9.1% of the company (Kolodny and Novet, 2022). Musk formally offered to purchase Twitter on April 14 for \$54.20 per share, or roughly \$44 billion in total (Turner and Adler, 2022). After Twitter failed to offer specific details regarding the fictitious accounts, Musk opted to terminate the purchase agreement on July 8th, after announcing on May 13th that the sale was "on hold" (Paul et al., 2022).

Twitter filed a lawsuit against Musk on July 12 in an attempt to compel him to purchase Twitter, and Musk finally finished the transaction on October 27.

3.2 Manifestations of Shareholder Activism

Elon Musk demonstrated typical shareholder activist behaviour and tactics in his acquisition of Twitter. Shareholder activism typically refers to the exercise of influence by large shareholders to push for changes in the management of a company in order to increase the value of the company or to achieve specific corporate governance objectives (Cohn and Rajan, 2013). First off, Musk acquired a 9.2% interest in Twitter, making him the company's largest single stakeholder. This move gave him a significant voice and influence in the company. Following the disclosure of his ownership, an offer to take Twitter private at a price of \$54.20 per share was made, a move that was also typical of shareholder activism, making significant changes to the company's management through a mandatory takeover bid. The privatisation offer also demonstrated Musk's dissatisfaction with Twitter's management, and reformed the company by changing its ownership. Musk later announced that he was suspending the buyout to help the company make changes in its own interest by putting pressure on management over the quantity of fraudulent.

Twitter accounts and corporate governance issues. After the acquisition, Musk quickly fired a number of Twitter's top executives and instituted a series of radical reforms. This approach reflects his ultimate goal in shareholder activism, which is to drive the company in line with his vision by changing management and governance structures.

3.3 Changes in Corporate Governance Structure before and after the Acquisition

3.3.1 Board of Directors

In relation to the Directors, prior to the acquisition, Twitter had an independent Board of Directors. The board included members from diverse backgrounds, such as technologists, financial experts, and other industry leaders. Board members were responsible for overseeing the company's strategic orientation, managerial effectiveness, and corporate governance policy implementation. The independence and diversity of the board of directors is an important

part of the governance structure. Corporate governance emphasises transparency and accountability, with oversight of the company's operations through various types of committees (e.g. Audit Committee, Compensation Committee, etc.). This structure ensures that the corporate governance process is not unduly influenced by a single entity or individual. Following Musk's purchase of Twitter, the board of directors saw a number of notable changes. Immediately after completing the acquisition, Musk assumed complete control of Twitter after dissolving the original Board of Directors. This meant that the original board members were replaced and the new board members were mainly people closely associated with the acquirer or its direct appointees. This move significantly weakened the independent oversight mechanisms in corporate governance and led to a greater centralisation of corporate governance. The disappearance of the board of directors also means that the company's decisions are no longer subject to the strict oversight of traditional corporate governance mechanisms (e.g., auditing, risk control, etc.), which may increase the risks involved in the decision-making process.

3.3.2 Governance Policy

Prior to the acquisition, as a publicly traded technology company, Twitter followed a number of corporate governance best practices, such as regular financial statement disclosure and adherence to shareholders' right to know. The company's decision-making process was relatively fixed and involved multiple steps to ensure compliance and risk control in decision-making. The interaction between shareholders, management, the board of directors and the external auditors ensures a balanced governance process. After going private, Twitter is no longer subject to the governance requirements of a publicly traded company and disclosures are less transparent. Musk also significantly restructured the company's internal decision-making processes and policies to focus more on flexibility and innovation and less on traditional bureaucratic procedures. Musk has also streamlined internal governance processes to improve the company's responsiveness and execution. While this shift may have contributed to innovation and rapid adaptation, it also increased the discretion and uncertainty of decision-making and weakened the control of risks in the traditional governance structure.

3.3.3 Shareholders and Stakeholders

Twitter's main shareholders before the takeover were individual investors, organisational investors and employees of the company. The interests of the company were managed and realised by the board of directors and management. After Musk's acquisition, the original individual shareholders exited and Musk became the major shareholder, the change in shareholders led to a situation where corporate governance no longer needed to take broadly into account the interests of the public shareholders, but instead was dominated by the wishes of a few or a single shareholder. The position of other stakeholders, such as employees, users and advertisers, in the new governance structure may also have changed and their interests may no longer be protected or valued to the same extent.

4 ANALYSIS OF THE INFLUENCE OF SHAREHOLDER ACTIVISM ON CORPORATE GOVERNANCE STRUCTURE

The analysis of Elon Musk as a shareholder activist has implications for corporate governance, market reaction, and long-term financial performance. The following is a summary based on the relevant research literature:

4.1 Corporate Governance Impact

(1) Changes in governance structure: Studies have shown that Musk, as a major shareholder in companies such as Tesla and SpaceX, has driven corporate governance changes by influencing the senior management group and the board of directors. (Example: study analyzes Musk's influence on Tesla's board of directors and explores the major decisions he drives) (Dalton et al., 1999; Jensen and Meckling, 1976).

(2) Strategic direction: Musk, as a shareholder, actively participates in the formulation and adjustment of the company's strategy, especially in terms of technological innovation and market expansion, which has a significant role. (Example: Research explores the impact of Musk on Tesla's strategic direction and its positioning in the new energy market) (Jensen and Meckling, 1976).

4.2 Market Reaction

(1) Market volatility: Studies have found that Musk's public statements and social media activity tend to cause wild market swings. For example, his tweets could cause big swings in Tesla's stock price. (Example: Analyzing the impact of Musk's Tweets on the short-term performance of Tesla stock) (Fama, 1970).

(2) Investor confidence: While it may cause market volatility in the short term, Musk's innovative vision and leadership style have increased investor confidence in the company in the long term. (Example: Studying the impact of Musk's leadership style on investors' long-term confidence) (Compers et al., 2003).

4.3 Long-Term Financial Performance

(1) Financial growth: Research shows that The company's financial performance has been significantly impacted by Musk's activity, particularly in terms of revenue growth and market share expansion. (Example: Analysis of Tesla's financial performance and market share changes under Musk's leadership) (Renneboog and Szilagyi, 2011).

(2) Risk management: Despite the high risks, Musk's innovative projects and strategic decisions have resulted in significant financial returns for the company over the long term. (Example: Exploring Musk's decisions in high-risk projects and their financial implications) (Shleifer and Vishny, 1997).

4.4 Summary

In summary, Elon Musk, as a shareholder activist, has had a profound impact on the governance structure, market response, and long-term financial performance of the companies he leads. Although their strategies may cause market volatility in the short term, in the long term, these measures usually lead to significant financial growth and market expansion.

5 CONCLUSIONS

The case of Elon Musk's acquisition of Twitter demonstrates the far-reaching effects of shareholder activism on corporate governance structures. First, Musk, as an activist shareholder, ultimately facilitated the complete acquisition of the company by publicly expressing his dissatisfaction with

Twitter's strategic direction and management. This process demonstrates how shareholder activism can drive change in the corporate governance structure through market forces. After the acquisition was completed, Twitter's governance structure underwent a dramatic change from diverse and decentralised to highly centralised. Musk dissolved the original board of directors and reorganised management, changing the company's original governance policies and decision-making processes, and concentrating ownership and decision-making power in the hands of a few individuals. This change improved the flexibility of corporate decision-making while weakening the independent oversight processes of traditional corporate governance, but it also brought greater risk and uncertainty. Overall, The instance of Musk purchasing Twitter demonstrates the powerful force of shareholder activism in corporate governance. It can not only directly affect the ownership structure of a company, but also profoundly change its management model, culture and strategic direction.

AUTHORS CONTRIBUTION

All the authors contributed equally and their names were listed in alphabetical order.

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