Journal of International Business Education 20.
 Promo 1st Version

Corporate Strategy, Organizational Structure and Activist Investors: DuPont versus Trian Fund Management

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Abstract. This classroom exercise uses multiple short and easy to understand videos found in the public domain to explore the corporate strategies of related and unrelated diversification and the implications of organizational structure. This is achieved in the context of activist investor Trian Fund Management's proxy battle with DuPont Corporation. The exercise integrates concepts central to corporate strategy and organizational structure. These are two closely related topics that, due to the chapter structure of most textbooks, are frequently taught in isolation from one another. The hindsight afforded by the recent news of DuPont's breakup into three entities makes this exercise especially timely and powerful. The authors use this exercise in their undergraduate Management Principles classes and their Management Strategy classes. Additionally, this exercise is well-suited for International Business courses, as it explores how diversification strategies play out in a global context. The exercise requires one class period plus some online work to be completed prior to class. Student feedback is very positive.

Keywords: related diversification, unrelated diversification, organizational structure, multinational corporations

1. Introduction

On May 13, 2014, activist investor Nelson Peltz and his firm, Trian Fund Management, initiated a high-profile proxy battle with DuPont Corporation, accusing the company of having an inefficient, bloated corporate structure and underperforming business segments compared to industry peers. The dispute sparked significant media coverage, highlighting both the advantages and drawbacks of the proxy fight. Although Peltz ultimately lost, DuPont has since made strategic adjustments including divesting various business units. Despite these changes, DuPont's stock underperformed its peers between 2014 and August 2024. In May 2024, the company announced plans to split into three separate entities (Beckerman 2024.) This exercise serves as an illustrative teaching tool in undergraduate Management Principles and Strategic Management courses, benefiting from hindsight to explore key aspects of corporate strategy. Moreover, the case presents a valuable opportunity for International Business students to examine how corporate-level strategic decisions affect multinational corporations. DuPont's global footprint means that diversification and restructuring efforts extend beyond domestic markets, presenting the firm with additional complexity and challenges.

2. Learning Objectives

Upon successful completion of this exercise, students will be able to:
LO 1: Understand the role of activist investors and their primary tool, proxy fights.
LO 2: Analyze the arguments of DuPont management versus the arguments of Trian Fund Management.
LO 3: Apply knowledge about the primary characteristics, advantages, and disadvantages of related and unrelated diversification to assess DuPont's corporate-level strategy.
LO 4: Analyze the challenges and strategic implications of managing a highly diversified conglomerate operating in multiple international markets, evaluating how scale and scope influence synergy creation between business units.
LO 5: Formulate a reasoned position, supported by relevant data and insights, and determine whether to vote for or against the proxy, considering the potential impacts on corporate strategy and shareholder value.

3. Theoretical Foundations

This exercise explores the execution of corporate-level strategy, focusing on Rumelt's (1974) classification of diversified companies: the dominant business strategy, the related diversification strategy, and the unrelated diversification strategy. The case highlights both related and unrelated diversification strategies. Related diversification involves a firm expanding into multiple business segments where no single business accounts for more than 70% of sales and the business units that share common value chain functions (e.g., R&D, logistics) and/or knowledge. Unrelated diversification, seen in conglomerates, involves expansion into unrelated activities, with no business making up more than 70% of sales.

A diversification strategy can create value for shareholders by (1) generating higher income than if the businesses were operated separately, and/or (2) reducing overall costs compared to keeping them independent (Porter 1980; Collis and Montgomery 1998). Extensive research has examined the comparative performance of various diversification strategies (Lubatkin and Chatterjee 1994; Montgomery and Wernerfelt 1988; Markides and Williamson 1996), with mixed