# MASTER

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DISSERTATION

THE IMPACT OF SHAREHOLDER ACTIVISM ON FIRM PERFORMANCE

JOANA RITA DAVID SANTOS

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**SUPERVISION:**
PROFESSOR DOUTOR VICTOR BARROS

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## Abstract

Shareholder activism has been in the spotlight of practitioners and academics for the increasingly bold moves and strategies with the purpose of changing companies' organizational environment and activities. For this reason, the main goal of this dissertation is to understand whether shareholder activism influences firms' performance. We use a unique dataset that contains information of these activist shareholders' campaigns, such as the target company, the type of proposal, the industry and country of the target company, and other needful data. The results obtained suggest that the activist shareholders' intervention in the companies' organizational practices has a negative impact on the target companies' profitability in the years following the campaign announcement. However, this impact is more prominent until the end of the first year after the campaign announcement date.

**JEL Classification**: G32; G34; G39

**Keywords:** Shareholder Activism; Financial Performance

## Resumo

O investimento ativista tem vindo a ganhar uma popularidade crescente entre praticantes e académicos graças às jogadas e estratégias cada vez mais arrojadas, cujo propósito é mudar o ambiente organizacional e atividades das empresas. Por esta razão, o objetivo principal desta dissertação é compreender os efeitos do investimento ativista na performance das empresas. Para tal, usámos uma base de dados única que contém a informação relativamente às campanhas levadas a cabo por estes investidores ativistas, tal como a empresa-alvo, o tipo de proposta, a indústria e país da empresa-alvo, entre outros dados necessários. Os resultados obtidos sugerem que a intervenção dos investidores ativistas nas práticas organizacionais das empresas tem um impacto negativo na rentabilidade das empresas-alvo nos anos subsequentes ao anúncio da campanha. No entanto, este impacto é mais acentuado até ao fim do primeiro ano após o anúncio da campanha ativista.



**Classificação JEL:** G32; G34; G39

**Palavras-chave:** Investidores Ativistas; Performance Financeira

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# Index

## List of Figures



## List of Tables

## List of Abbreviations

CSP – Corporate Social Performance

CSR – Corporate Social Responsibility

R&D – Research and Development

ROA – Return on Assets

ROE – Return on Equity

SEC – Securities and Exchange Commission

## 1. Introduction

With the development of an increasingly conscious, demanding and volatile world, the intervention of activist shareholders in companies' dynamics has gained more and more prominence. There are several definitions regarding shareholder activism, but all focus in a core idea: they influence a corporation's behaviour. By exercising their ownership rights as partial owners, whether through a vote on shareholder proposals or through direct dialogue with the company about a specific issue, activist shareholders attempt to pressure the firm to change its corporate behaviour (O'Rourke, 2003). Religious, environmental and union groups, as well as social investors are all possible ways to intervene as an activist shareholder (Rehbein et al., 2004). According to Guay et al. (2004), shareholder activism contemplates simultaneously socially responsible investment (SRI), corporate governance and stakeholder activism, with the maximization of returns being their primary goal. However, this novel topic is still fairly unexplored in existent literature.

According to a 2018 report by *Activist Insight*, the number of governance-related proposals from activists has gradually increased, with an average growth of about 11% from 2014 to 2018 and campaigns targeting 805 companies worldwide in 2017. The investment in these campaigns has expanded as well, reaching up to $200 billion in 2016, comparing to $47 billion in 2010. There is also a notable geographic expansion of this movement: national campaigns have been launched in various European countries, including France, Germany, Switzerland, Italy and Spain, with 20% of total activist shareholder funds now focusing outside the English-speaking world (Ponomareva, 2018).

Shareholder activism is currently marking its way to the spotlight of the world of business and investment and given its growing influence in the markets' dynamics, it becomes a fascinating topic to explore. It is this influence in the target companies' performance, as well as its impact on these companies' organizational environment that drives this study. This dissertation aims to add clarification as to whether activist shareholders effectively affect the performance of target firms.

To answer the research question of this dissertation *"Do activist shareholders' intervention affect the target firms' performance?"*, we use a unique dataset that combines information concerning activist shareholders' proposals to target companies, where are displayed the target firms' industry and country, the type of proposal, the announcement date, the current status of the campaign, among other significant aspects. The sample period goes from 1988 to 2019, with a total of 884 firm-year observations.

Subsequently, an empirical analysis was performed, evidencing the negative and meaningful impact of this type of activism in the target companies' financial performance in the years that follow the activist campaign announcement, with this effect being more prominent until the end of the first year after the targeting.

With all the conclusions reached in this study, we were able to contribute, with solid results regarding firm performance after the targeting, to the existent research in this somewhat unexplored but truly contemporary field that is the shareholder activism.

The remaining of the study is organized as follows: firstly, we provide a historical overview over shareholder activism and discuss the existent literature; in section 3, the data and methodology are presented; in the last two chapters we present the main conclusions of the study, some limitations that emerged and suggestions for future studies on this topic.

## 2. Literature Review

### 2.1. A quick look at activism history

The current wave of shareholder activism began back in 1942 through a rule introduced by the U.S. Securities and Exchange Commission (SEC), which was the first regulation to allow shareholders to submit proposals for inclusion on corporate votes (Gillan & Starks, 2007). In the past, activists announced their participation by collecting 5% of a company and filing a form 13-D with SEC. Today, although they may hold a smaller stake, they can still convince other investors to take their side, whether through the use of media exposure, shareholder letter or high-profile proxy fights (Biggar, 2018).

Recently, with the confidence and credibility that these investors have gained throughout the years, they are now seeking bigger targets. For instance, General Electric and Procter & Gamble are now working with activist investors in an attempt to turn around their businesses (Biggar, 2018). Also, activist shareholders are becoming more collaborative and more willing to work with management teams. This is a relevant contrast to the large institutional investors in the past that pursued purely financial strategies and kept a low profile in governance (Ponomareva, 2018).

Passive-management voting patterns are changing as well, with large passive fund managers increasingly voting against management on topics such as director elections and shareholder rights. For instance, in mid-2017, both BlackRock and Vanguard pushed the giant ExxonMobil (XOM) to provide annual climate-risk reporting (Biggar, 2018).

Finally, activist investors are becoming more adventurous and bolder. According to Cyriac et al. (2014), US-listed target companies had in 2013 an average market capitalization of $10 billion— up from $8 billion just a year earlier and the $2 billion at the end of the last decade. This was complemented with an increase in the number of campaigns, with an average of 240 campaigns being launched between 2010 to 2013, doubling the number of a decade before. Although activist investors represent a relatively small group ($75 billion in combined assets) compared to the hedge-fund industry ($2,5 trillion), the truth is that activists reveal a higher rate of asset growth than hedge-funds, attracting in this way new partnerships with traditional investors. After all, activist shareholders have both the capital and the leverage to continue engaging large-size companies.

### 2.2 The Resolution Process: overview

Before exploring the impacts and motivations of shareholder activism, it is relevant to discuss how does this journey truly starts: the resolution filing. According to Logsdon and Buren (2009), the rules for shareholders to file resolutions for companies listed on U.S stock exchanges are set by SEC and the shareholder must hold at least $2,000 in stock for at least one year before filing any resolution. Moreover, there are plenty restrictions regarding the form and content of these resolutions that must be fulfilled. Logsdon and Buren (2009) describe the resolution process in three steps. First, shareholder activists identify an issue related to corporate social responsibility (CSR) or ethical behaviour that is not being successfully approached (or at all) by large corporations. Secondly, the shareholders engage in investigation and discussion with potential allies. The goal is to clearly define the best strategy to implement, given the target firm's current practices and dynamics. Typically, the more complex the issue is, the more research and discussion is required. Finally, the shareholders proceed with asking for the creation of a report or something that gives them the idea that the firm can solve the issue. If the firm's response is insufficient in shareholders' point of view, they can either write a letter to the company seeking a dialogue opportunity or they can file a resolution. However, it is considered indelicate to proceed with filing a resolution without a previous attempt to communicate with the company. Regarding the initial letter, the target company can choose to ignore it or to engage in dialogue with the activists. In contrast, when a resolution is submitted, a company can request a “no-action” letter – the reactive response – which permits the company to omit the resolution filing in the proxy statements to all its shareholders without being penalized in any form. Nevertheless, the absence of this letter combined with the omission of the resolution targeting is punishable and SEC’s enforcement action is required. The alternative to the “no-action” letter is to enter in dialogue with the activist shareholders that filed the resolution – the proactive response – in an attempt to come to an agreement. In fact, the majority of targets either adopt the proposed resolutions or change successfully their behaviour concerning the issue at an organizational level, leading to a possible withdrawn of the resolution (Smith, 1996), which is usually what happens after the dialogue with the company (Logsdon & Buren, 2009). Afterwards, there is a constant evaluation from the shareholders of whether the issue is being dealt with correctly by the company; if not, the resolution can be refiled.

### 2.3 Causes and Targets

Along with the development of activism among shareholders, an interest in understanding what urges and motivates the shareholders to choose to influence a particular company’s practices was also emerging among researchers. According to Judge et al. (2010), there can be two types of motivations behind these shareholder's actions: (i) financially-motivated activism and (ii) socially-motivated activism. In the first case, the activist investors pressure the managers and/or directors to change some issues that appear to be mismanaged by the firm. In particular, financial issues. The proposals resulting from this type of motivation are usually related to excessive executive compensation, lacking dividends payout, among others. On the other hand, shareholders in socially-motivated activism are driven by social issues, such as environmental, human rights, employee welfare and others. These authors also found that the “exposure” to shareholder activism varies by the motivation of the activist, by the nature of the firm and by its national context. From a different perspective, Rehbein et al. (2004) highlight that shareholder activists are motivated to file resolutions in order to solidify the identity of their group. That is, “activists file with corporations to increase the external attention that they receive” (Rehbein et al., 2004, p. 262), which can be one of the reasons that lead them to prefer larger firms, even when smaller firms exhibit as many issues as larger ones. This is simply because larger firms are more visible and more socially exposed (Sjöström, 2008). That is to say, activists shareholders may file to pursue their own goals. This conclusion is supported by Judge et al. (2010), stating that social activists target relatively large and profitable firms, and also by Smith (1996), who concluded that the probability of being targeted was positively affected by the level of institutional ownership and firm size.

Following this stream of literature and focusing on the target companies, Rehbein et al. (2004) concluded that activist shareholders are submitting social-policy resolutions intended for poor corporate performers. These resolutions are aimed at larger companies without being affected by their performance concerning stakeholders. When the resolutions are product-related, target companies are usually producing products with negative contingencies. Therefore, the most common industries that are targeted for product-related resolutions are the food, textiles and apparel, the tobacco industry and also the forest, paper and publishing industry.

Concerning environmental-related shareholder resolutions, there is evidence that companies and industries with worse environmental performance are likely to be targeted, with major focus on oil refining, rubber and plastic, communications and utilities (some attention also for forest, paper and publishing) (Rehbein et al., 2004). In contrast, industries such as wholesale and retail that evidence a lower incidence of environmental problems, were not a preferred target of shareholders with such resolutions. Moreover, the findings of Rehbein et al. (2004) indicate that companies with questionable labour practices were also targeted, such as firms in the oil refining, rubber and plastic, and hotels and entertainment industries. The poor performance of the target companies was also supported in a study conducted by Karpoff et al. (1996). The authors confirmed the negative relationship between the probability of receiving a proposal and the firm's market-to-book ratio, operating return and recent sales growth.

Besides these "traditional" motivations behind these never "out-of-fashion" resolutions, it is important to recognize that the problems addressed by activist shareholders are also dependent and closely related to the issues that are currently affecting and changing the society. This is consistent with the belief that issues (and, therefore, motivations for activism among shareholders) can follow different patterns over time. Some issues arise (and die) abruptly, while others remain of substantial interest without being resolved or disappearing over relatively long periods of time (Graves et al., 2001). A great example is an environmental crisis and climate change issue that is increasingly affecting our daily life and activities. Some companies, especially the ones in the industrial sector, are becoming more aware of the gravity of this situation and so are its shareholders. The result is an increasing pressure of shareholders on these firms to perform accordingly and to adopt policies that can mitigate the problem. In fact, a study conducted by Monks et al. (2004) showed that almost half (45%) of the shareholder proposals filed at 81 large United States companies between 2000 and 2003 addressed Corporate Social Responsibility (CSR) issues. Also, the same research found that the average level of support for both CSR proposals and Corporate Governance proposals categories grew over the four years. A real-life example explored by these authors to illustrate their conclusions is the case of ExxonMobil. The company, one of the world's largest publicly traded in the oil and gas industry, during the four years of their study, has attracted a disproportionate share of CSR resolutions compared to other companies in the study, presenting support from its shareholders above average. Therefore, ExxonMobil constitutes a relevant example of environmental shareholder activism, helping us conclude that "a growing base of Exxon's shareholders view its management's stance on global warming as a threat to the long-term viability of the company" (Monks et al., 2004, p. 326) and use their rights to affect the company's organizational practices.

### 2.4 Consequences and Effects

Activist shareholders' main goal is to maximize their gains. However, the actual question is whether this is likely for all interventions. Also, does the firm benefit from the resolutions in terms of performance? Here, the studies developed up to now present some conflicting results, both regarding short-term and long-term consequences of shareholder activism on target companies.

Smith (1996) tested whether target firms experienced changes in governance structure, shareholder wealth, and operating performance. After comparing operating income, operating income/sales and operating income/assets in the periods before and after the targeting, the authors highlighted that the targets did not perform significantly differently from their respective peers in industries. Thus, there was no statistically significant improvement. These findings were divergent from the conclusions regarding the stock price reaction to the targeting announcement. There is a significant positive stock price reaction for successful targeting events and a significant adverse reaction for unsuccessful events (Smith, 1996). However, from an overall perspective, the findings pointed that shareholder activism is mainly successful in changing governance structure, which, when fortunate, increases shareholder wealth. Yeh (2017) embraced this perspective, but focusing on large shareholders. The author argued that "Resolutions initiated by large shareholders have positive impacts on the target firms, which reported positive announcement-associated abnormal returns." (Yeh, 2017, p. 245).

Furthermore, empirical evidence did not find a significant change in the post-resolution operating performance except for proposals submitted by large shareholders for board election and charter amendment, which evidenced a positive impact on post-resolution profitability. Also, the firms' management increased share buyback and dividend payout in response to demands by large shareholders. It is also important to consider that perhaps the outcome of an activist shareholder intervention depends on the external context in which the target firm is included. For instance, in the case of environmental issues approached by the investors, Kim and Lyon (2011) findings evidenced that institutional investor activism toward climate change can increase shareholder value when the external business environment becomes more climate-conscious.

These conclusions were contradicted in a study conducted by Karpoff et al. (1996), showing that "there is no persuasive evidence that these proposals increase firm values, improve operating performance, or influence firm policies" (p. 393). Therefore, the results indicated that proposals had little effect on operating returns, share values and top management turnover. Likewise, the same conclusions were presented in a study that explores the outcomes of one of the most famous and successful activist shareholders, Carl Icahn. Venkiteshwaran et al. (2010) found no significant changes in the target companies' profitability, capital spending, stock repurchase and dividend payouts, cash balances and leverage. However, comparing to a matched set of firms, the data in their research suggests qualitative improvements in the targets' return on assets (ROA) and cash balances, as well as a decrease in leverage. Regarding stock price, significant share price increases for the target companies (of about 10%) were observed around the time Icahn discloses his intentions publicly (Venkiteshwaran et al., 2010).

In another recent perspective (Clifford, 2008), it was found that shareholder activism, at least from hedge funds, is associated with positive wealth creation in target firms. Also, it was concluded that the firms targeted by activist funds reveal better operating performance one year before the block (percentage of the company acquired) acquisition than those targeted by passive funds. These hedge funds also seem to earn greater investment returns from their active blocks rather than their passive ones. Gillan and Starks (2000) agree with this perspective, arguing that activism of institutional investors and coordinated groups appeared to have slightly more success, as well as Venkiteshwaran et al. (2010) and Denes et al. (2017). These authors found that Carl Icahn, the founder of one of the most famous activist hedge funds, "attained at least partial success in almost 60% of his large investments." (p. 55). The conclusion that hedge funds targets earn, on average, higher abnormal stock returns during the period surrounding the initial Schedule 13D filing comparing to other activist targets was presented by Klein and Zur (2009). The authors also highlight the distinction between the demands made on target firms by hedge fund activists and by the other activist investors. According to Klein and Zur (2009), "Hedge funds address the free cash flow problem by frequently demanding the target firm to buy back its own shares, cut the CEO's salary, and initiate dividends. In the fiscal year after the initial 13D filing, hedge fund targets, on average, double their dividends, significantly increase their long-term debt, and significantly decrease their cash and short-term investments. In contrast, other activists most frequently demand changes in operating strategies." (p. 226). Given these requests, one can conclude that significant differences in changes in research and development (R&D) and capital expenditures in the year following the 13D filing may emerge between targets of hedge funds and other activists.

Embracing the theory of two distinct motivations behind shareholder activism (financially-motivated and socially-motivated activism), Judge et al. (2010) presented interesting results that differed according to the type of motivation. For instance, regarding financial activism, firm size showed no relationship and the firm's profitability evidenced a negative relationship. Nevertheless, both variables presented a positive relationship with social activism. Ownership concentration, however, was negatively related to both financial and social activism.

Furthermore, there are some results (although not conclusive) regarding the relationship between corporate social responsibility (CSR) and firms' profitability, which is directly associated with activist shareholders intervention, if the proposals are related to CSR issues. McWilliams and Siegel (2000) highlighted the connection between CSR and R&D, as both are associated with product and process innovation. In an equation where both intensities (R&D and CSR) are considered, CSR presented a neutral effect on profitability. Given that, from previous studies, R&D was proven to be positively correlated with firm profitability, and considering the high correlation with CSR, one can conclude that, indirectly, CSR has a positive impact on profitability. Nevertheless, it is difficult to isolate the impact of CSR on profitability without simultaneous control for R&D.

Finally, there are conflicting conclusions concerning firms' performance. There is literature that supports both a positive (Smith, 1996; Yeh, 2017; Clifford, 2008; Gillan & Starks, 2000) and a non-significant effect on firms' performance (Karpoff et al., 1996). For instance, David et al. (2007) found a negative relationship between shareholders' proposals and subsequent corporate social performance (CSP), suggesting a signalling effect rather than a disciplining one. That is, instead of pressuring firms to improve CSP, activism may simply cause the diversion of resources into political activities used by managers in order to retain discretion and resist external pressures. Moreover, according to the same research, the settlement with salient shareholders also reduces CSP, "suggesting that managers' responses are symbolic; i.e., they settle with salient shareholders to demonstrate conformance but continue to resist making the substantive changes to core policies that may compromise their discretion" (p. 91). On the contrary, and focusing on an environmental perspective, Lee and Lounsbury (2011) concluded that environmental shareholder resolutions had a significant and positive causal effect on the targeted firms' environmental performance, highlighting the fact that social shareholder activists appear to have a strong influence on corporate behaviour.

## 3. Hypothesis and Explanatory Variables

To study and understand the influence of activism in our dependent variables, it is crucial to explore different independent variables based on the main conclusions drawn from the papers analysed. It is also necessary to formulate hypotheses that reflect the expected relationships between the dependent and independent variables obtained in the empirical analysis.

***Hypothesis 1:*** *Performance is positively related to the entry of activists in firms' shareholder structure.*

With the majority of the papers presented supporting a positive relationship between the intervention of an activist investor and the target firms' performance (Smith, 1996; Yeh, 2017; Clifford, 2008; Gillan & Starks, 2000; Venkiteshwaran et al., 2010), we decided to formulate our base hypothesis in these findings. Furthermore, these shareholders' intervention is intended to change the companies' management path, by contributing with new ideias and new processes that can improve operations and enhance shareholder value.

***Hypothesis 2:*** *Performance is positively related to the entry of activists in firms' shareholder structure in years after the campaign.*

Here we assume that the relationship between the companies' performance and the presence of the activist shareholder becomes more positive through the years. This is mainly because, in the first year or two, the companies might still be adapting to changes in their organizational environments, but after a few years the changes will become more positive as the firms start to regain their balance.

***Hypothesis 3:*** *Liquidity is positively related with the firms' performance, after the activist investors' intervention.*

Here, we are including a variable that was not considered in the papers presented in the Literature Review section: the companies' liquidity. In this last hypothesis, we assume that the firms' management efficiency concerning their short-term liabilities is positively affected by the presence of the activist investor.

In general, with the hypothesis formulated for this study, we assume that the entry of an activist shareholder in the target firms' investor structure has a positively growing impact in these target firms' performance, either in the short-term or in the long-term.

The entry of activist shareholders is in our study captured by the variable $D_t$ - a dummy variable that represents the year in which an activist campaign for the target company is announced, being equal to one if the year is the campaign year and zero otherwise. This is the year in which we assume that the influence of the activist investor in the target firm begins. Therefore, D1, D2 and D3 are, respectively, $D_{t+1}$, $D_{t+2}$ and $D_{t+3}$. That is to say, one, two and three years after the announcement year for the campaign. However, we focused our analysis in the variable D_, which represents the cumulative information contained in the years from D (year of the announcement of the activist campaign) to the last year of available information for a specific company. This is also a dummy variable that assumes the value 1 if the year is D and onwards, and zero otherwise.

Additionally, we opted to include the cumulative information of the three years after the announcement year, originating D_1, D_2 and D_3 dummy variables, as to study if the cumulative information up to a specific year can be more, less or equally significative as the information of the year itself.

## 4. Methodology

### 4.1 Data and Sample Selection

Data on shareholder activism is very scarce, which justifies the still small number of studies on this topic. Our data on activist shareholders' proposals were collected from "*Corporate Governance Market Overview*", a Thomson Reuters Eikon's subsection. The data obtained included essentially information about the activist shareholders' campaigns, such as the announcement date, the activist shareholder responsible for the proposal, the company targeted, the current status of the proposal, the specific demands of the investor and numerous other sections. This database included a total of 4,718 campaigns. The data was cross-checked to ensure reliability.

Next, we collected financial data for the target from Thomson Reuters Eikon. Despite the relevant number of observations from the activist investors' database, the ISIN code was not available for target companies. A manual match was performed between the name of the target companies against the entire list of companies covered in Thomson Reuters. Subsequently, the financial data was collected for these companies. The final sample comprised 884 target firms and respective first campaigns from activist investors.

Our final sample included firms from 35 different countries, with the United States leading the list with a considerable difference, given that this is where it was introduced the rule that pioneered the world of shareholder activism. Canada and the United Kingdom constitute the top two and three countries with the highest number of proposals, respectively. In Figure 1 is possible to analyse the top ten of the target firms' nations, where the previously referred countries occupy the podium of the list. Regarding the industries of the target companies, Oil and Gas Exploration and Production is the industry with the highest number of target companies, perhaps because this is one of the industries where more issues regarding climate change and environmental concerns arise and, consequently, caught activist shareholders' attention. This industry is immediately followed by IT Services and Consulting and by Software industries (Figure 2). Finally, 2017 was the year with the higher number of activist investor entries in target companies in our final dataset, with a total of 166 proposals, being followed by 2015 and 2016, with 152 and 119 proposals, respectively (Figure 3). This confirms that shareholder activism is on the rise, with the number of proposals submitted increasing year by year.

It is noteworthy to refer that, in this research, we only considered the first campaign for each company. This is simply because in our database there were numerous cases where, for the same company, there was more than one campaign submitted throughout the years. We opted to only consider the first occurrence in these cases, that is, the first moment when an activist starts to be part of the firms' shareholder structure.

### 4.2 Dependent variables

To study the target companies' financial performance given the intervention of an activist investor, we use Return on Equity – ROE – and Return on Assets – ROA – as the dependent variables.

ROE is calculated by dividing earnings per share by the book value per share. Being expressed as a percentage, ROE measures how effectively management is returning to equity financiers. Besides being a measure of profit, it is also a measure of efficiency, since a rising ROE indicates that a company is increasing its ability to generate profit without needing as much capital. After generating and consulting the histogram for ROE, possible outliers were observed. As to diminish the influence of these outliers, we decided to apply the winsorization technique in the dependent variable, originating the final version of ROE (Figure 4). This method represents an effective way to deal with potential outliers by assigning them a lower weight instead of removing them. Therefore, it helps to improve statistical efficiency and to increase the robustness of statistical inferences, without losing data.

ROA is estimated by dividing net income by total assets and, similarly to ROE, is expressed as a percentage. This variable can reflect how efficiently management is using its assets to generate earnings and, therefore, it is also a measure of efficiency.

Comparing both dependent variables, one can conclude that these are measures of how a company utilises its resources and that these variables "complete" one another. They diverge on capital structure decisions. That is, ROE only reflects the return on the company's equity, not considering the liabilities, whereas ROA accounts for the company's debt. Thus, by considering both variables we can study the impact of the shareholders' intervention in the companies' financial performance.

Although these were not dependent variables already studied in the papers analysed for this dissertation, we opted to explore both of them, since these are rather simple and practical variables to obtain and interpret.

### 4.3 Regression Model

For this research, we decided to perform a panel data analysis due to several reasons. Firstly, given that it constitutes a combination of cross-section and time-series data, it provides more data variation, less collinearity and more degrees of freedom. Also, it is a better-suited method to understand the dynamics of change and transition behaviours, which is essentially the core of our research: to investigate the effects of shareholder activism in target companies and their influence on these targets' organisational environments. Finally, panel data is better in detecting and measuring the effects which cannot be observed in either cross-section or time-series data.

Regarding the static methods, a vast diversity of models was used in the literature exposed in this dissertation, from Fixed Effects (FE) (Lee and Lounsbury, 2011), Ordinary Least Squares (OLS) (Rehbein et al., 2004), Probit (Smith, 1996) and Logit (Rehbein et al., 2004).

As a result of this brief analysis, we were ready to formulate the generic regression models, as follows:

**(1)** $ROE = \beta_0 + \beta_1 D\_ + \beta_2 ln\_assets_{it} + \beta_3 debt\_equity_{it}$

$+ \beta_4 gross\_margin_{it} + \beta_5 liquidity + \varepsilon_{it}$

**(2)** $ROA = \beta_0 + \beta_1 D\_ + \beta_2 ln\_assets_{it} + \beta_3 debt\_equity_{it}$

$+ \beta_4 gross\_margin_{it} + \beta_5 liquidity_{it} + \varepsilon_{it}$

Where ROE and ROA are the dependent variables as defined in the previous chapter.

*Ln_assets* represents the logarithm of the total assets of each target firm. We opted to include this variable in the model as a way to account for the firm size. A positive relationship with ROA is expected, as activist shareholders tend to target larger firms (Judge et al., 2010; Smith, 1996).

*Debt_equity* represents the leverage of the target company, constituting an interesting variable to study and relate to shareholder activism, as to analyse whether target firms are more prone to debt financing or not. A negative relationship with ROA is expected, as the higher the firms' leverage, the lower the respective rentability.

*Gross_margin* was included in the base model as it represents the gross profit of each company after accounting for the costs of goods sold and it is the starting point towards achieving a healthy net profit. It can be a measure of efficiency, as the higher the gross margin, the more capital a company retains on each dollar of sales. Therefore, a positive relationship with ROA and ROE is expected.

*Liquidity* is measured by the current ratio (current assets divided by current liabilities) and indicates how easily the firms can meet its short-term financial obligations. That is, it translates the company's efficiency in using short-term assets to cover its short-term liabilities. This independent variable was not present in any of the studies considered in the Literature Review section. Nevertheless, we opted to include this variable as a way to analyse if, after the intervention of the activist shareholders, the company can still efficiently manage its short-term liabilities.

Before the formulation of the aforementioned generic regression models and in order to choose the ideal method for our research, one should understand the inherent implications of each model and apply the suitable tests to support the decision. Therefore, the following tests were performed in both dependent variables: ROE and ROA.

The Ramsey test can be applied in order to test for a possible problem of the omitted variables in our research. After Ramsey test was performed, a p-value of 0.000 was obtained for both dependent variables, revealing a possible issue of omitted variables in our model. This result was not a surprise, given the fact that, due to data availability, the majority of the variables referred in the Literature Review section were not possible to obtain.

Additionally, as to choose between FE and Random Effects (RE), the Hausmann test was performed, obtaining, once again, a p-value of 0.000 for both ROE and ROA, indicating that FE estimator was the optimal choice for our model.

After the definition of our base equations and variables and before proceeding to its respective results, an additional previous analysis is required, namely to the dependent and independent variables, to the descriptive statistics and to the correlation matrix.

The first test and adjustment were performed on the dependent variables, ROE and ROA. In this analysis we studied the normality of the residuals of these variables and, considering the great number of outliers, we adjusted the residuals by dropping observations below 5% and above 95%. The results obtained after the adjustment were far more optimistic, showing by Figures 5, 6, 7 and 8, demonstrating the scenario after the exclusion of the outliers for ROE and ROA, respectively. Afterwards, we were able to proceed with the tests.

The next step was to test the independent variables regarding heteroskedasticity and multicollinearity.

The search for potential correlation among the explanatory variables constitutes a core element of this research, since it uncovers the problem of multicollinearity, which refers to predictors that are correlated with other predictors. Mostly, it results from redundancy among the explanatory variables. The main concern about the presence of multicollinearity in our model is the fact that, with multicollinearity, the standard errors of the coefficients are increased. As a result, coefficients for some independent variables may be found not to be significantly different from 0, meaning that, by overinflating the standard errors, multicollinearity makes some variables statistically insignificant when they should be significant. Thus, by detecting and posteriorly correcting this issue, the standard errors remain lower and the coefficients might be significant.

In Table 1 are displayed the results obtained regarding the levels of correlation between the explanatory variables. The fact that there are no correlation levels below -0.6 or above 0.6 evidences the absence of multicollinearity and, consequently, the value of the coefficients and the interpretation of our independent variables are not at risk considering the chosen models.

Then, we tested for the presence of heteroskedasticity, which occurs when the standard errors of a variable, monitored over a specific amount of time, are non-constant. It is important to correct possible heteroskedasticity because, although it does not cause any bias in the estimation, it can be the origin of less precision in the estimation. Consequently, lower precision increases the likelihood that the coefficient estimates are further from the correct value. For the disclosure of this issue, two tests were performed: Shapiro-Wilk test and Wald test. For both regressions (1) and (2) these tests were positive for the presence of heteroskedasticity among variables and both presented a p-value equal to zero, rejecting the null hypothesis of homoscedasticity. In order to correct this issue, we included robust standard errors in our regressions.

Another useful preliminary analysis is to observe the descriptive statistics for the dependent and independent variables in question and seek to interpret these values, which are displayed in Table 2.

An additional interesting observation is that the majority of the standard deviations for the variables is higher than the respective mean, which indicates that most of the observations are farther to the mean and, therefore, the volatility implied is higher. Concerning ln_assets, with a standard deviation lower than the respective mean, one can conclude that the values for these variables are closer to the mean and are, consequently, less volatile.

Focusing on leverage, the debt_equity ratio presents a mean equal to approximately 70%, suggesting that the target companies have preferred to finance their growth through borrowing, which indicates a higher risk in financing. This high percentage supports the belief that activist shareholders seek target companies with poor financial performance (Rehbein et al., 2004).

# 5. Results

To answer this dissertation's research question of *"What is the impact of activist shareholders' intervention on the target firms' performance?",* the defined regressions in the previous section were tested and the respective results are presented in this chapter.

## 5.1 Estimation Results

The Panel data used is considered unbalanced, since the years with available data for each target company are not the same for every company. Inevitably, the years range varies from 1988 to 2019 but with gaps, which originates an unbalanced Panel data. As to avoid selection bias, we opted to proceed with the research using the current Panel data, instead of adapting and excluding observations with the purpose of making it balanced.

According to the results obtained with the regression analysis, the years subsequent to the activist shareholder intervention are statistically significant but evidence a negative impact on the companies' performance, contradicting our base hypothesis. The results are displayed in Tables 3, 4, 5 and 6 corresponding to Panels I, II, III and IV, respectively.

With respect to the results achieved for the ROE regression, the global effect of the activists intervention in the companies' organizational practices is significant and negative, with this impact being more prominent until the end of the first year after the activist campaign announcement (Table 3). This negative relationship between the firms' performance and the shareholder activism can derive from the fact that, by becoming a target of these shareholders and engaging in a rather polemic campaign in the eyes of the public, these target companies' reputation can be negatively affected, and, consequently, their return and profitability may diminish in the subsequent years. This is mostly because, as it was evidenced in the studies conducted by Karpoff et al. (1996) and by Rehbein et al. (2004), the companies become targets of shareholder activism when their performance in a given organizational area is weak, which can diminish their credibility and prestige in the eyes of the public. Additionally, the companies' restructuring process after the activist intervention can also constitute a reason for the negative relationship revealed in the results obtained. Essentially, the restructuring of the firms can be a complex, tense and unstable process and, understandably, can affect the companies' activity and financial performance.

Regarding ROA, by analysing Table 4, the results obtained were similar to the ones concerning ROE. Thus, the interpretation is the same as the previously presented.

Furthermore, for both ROE and ROA, the coefficient for the years following the targeting (D1, D2 and D3) becomes less negative throughout the years, but it also becomes less significant (Table 3 and Table 4). Thus, our second hypothesis is contradicted. According to our results, the impact of shareholder activism in firm performance is negative and with higher significance until the end of the first year (D1). In D2 the impact is negative but less significant that D1 and finally in D3 the impact is not significant.

In order to test our third and final hypothesis, an interaction between liquidity and the lagged years (D_, D1, D2 and D3) was included in the model and tested towards both ROE and ROA. Liquidity, contradicting our third hypothesis, was not statistically significant towards both ROE and ROA during the years that followed the announcement date, namely D_, D1 and D2, as it can be observed in Tables 5 and 6. However, it revealed to be positive and significant in the third year (D3) after the targeting. Therefore, in a general perspective, there is no evidence that shareholder activism has a considerable impact in firms' efficiency and ability to meet their short-term liabilities.

Finally, a highlight for the positive relationship between gross margin and both ROE and ROA (Table 3 and Table 4), which was expected, as higher efficiency in management of the assets and the financing provided (ROA and ROE) can be reflected in a higher revenue after considering all costs (gross margin). Additionally, the firms' size was statistically significant towards ROE for the years that followed the targeting, but the results revealed no significance towards ROA, contradicting the initial expectations.

## 6. Conclusions, Limitations and Future Research

The aim of this dissertation is to study the potential influence of shareholder activism on firm performance and thus contribute to the current debate that did not reach a broad understanding. The analysis was performed considering companies that were targeted by activist investors through campaigns between the years 1988 to 2019, covering up to 884 companies.

A dummy variable was included in the model, representing the subsequent years after the announcement date of an activist campaign for a specific target company. The joint effect of these years was included in the base equation of the models and tested. Surprisingly, the results obtained in the estimation evidenced a significant and negative effect of the activism for the years following the campaign announcement, especially until the end of the first consecutive year. These findings helped us conclude that, as the years after the announcement goes by, the effect of shareholder activism has a negative impact on the target companies' performance, contradicting our base hypothesis. Moreover, as the years following the entry of the activist investor were found to be negative and with a decreasing statistical significance, our second hypothesis was contradicted as well. Liquidity turned out to be not statistically significant in the generality of the years following the targeting, therefore contradicting our third and final hypothesis.

Given the rise of activist investment in the modern business world, it is crucial to explore its impact in the target companies' practices and reach conclusions that can help us understand these shareholders' intentions and repercussions. Thus, with all the conclusions reached in this study, we were able to contribute, with solid results regarding firm performance after the targeting, to the existent research in this somewhat unexplored but truly contemporary field that is the shareholder activism.

Despite this dissertation allowed us to reach interesting conclusions, there are still some limitations that conditioned the course of this research, such as the availability and consistency of data regarding shareholder activism. The data collected involving the activism campaigns presented serious gaps and the absence of an ISIN code in the database obligated the exclusion of a great number of campaigns, simply because the ISIN code was crucial to obtain the firms' financial data. Also, it is considerably challenging to measure the effects of shareholder activism directly, since there plenty variables that influence these activists' intervention in a company's organizational environment, such as the type of proposal, the outcome, the number of years these activists remain aggregated to the company, and numerous others.

In conclusion, and considering the limitations in our research, a favourable future approach could take into account all these variables that were not controlled in our model, a greater span of years after and before the activist involvement and perhaps even a control goup of peer companies that were not targeted by activist shareholders. Another interesting suggestion would be to switch the dependent variables with the years' dummy variable, as to study the impact of the firm performance in the activist intervention timing. That is, to analyse the companies' financial performance by the time of the activist campaign proposal and to test the conclusions presented by notable authors in prominent papers in this field of study, such as Karpoff et al. (1996) and Rehbein et al. (2004).

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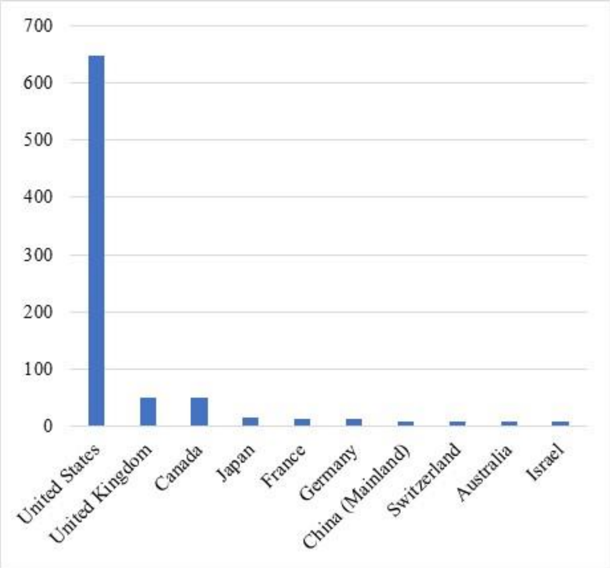
## Appendixes

### Figure 1: Top Ten Target Firms' Nations

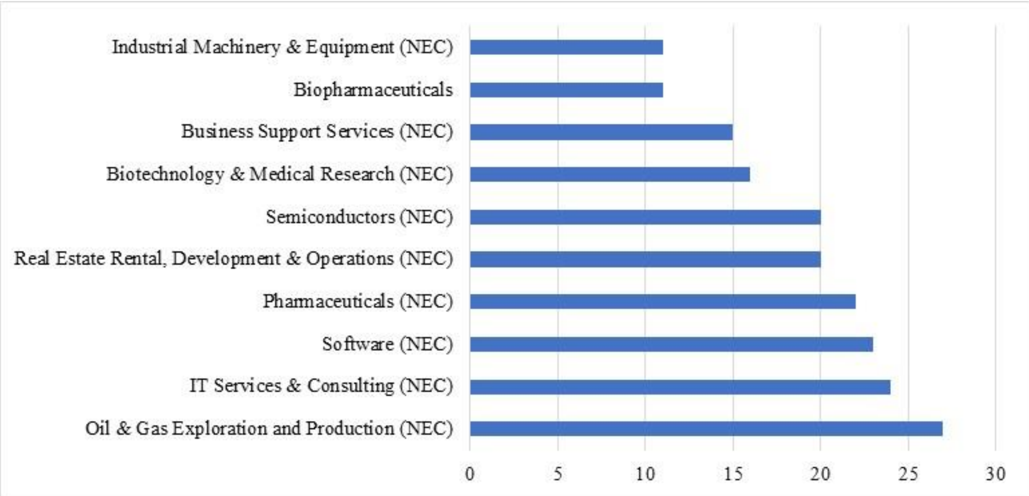
Figure 1 depicts the top ten most common nations among the target companies in our final dataset.




*Source:* Reuters

### Figure 2: Top Ten Target Companies' Industries

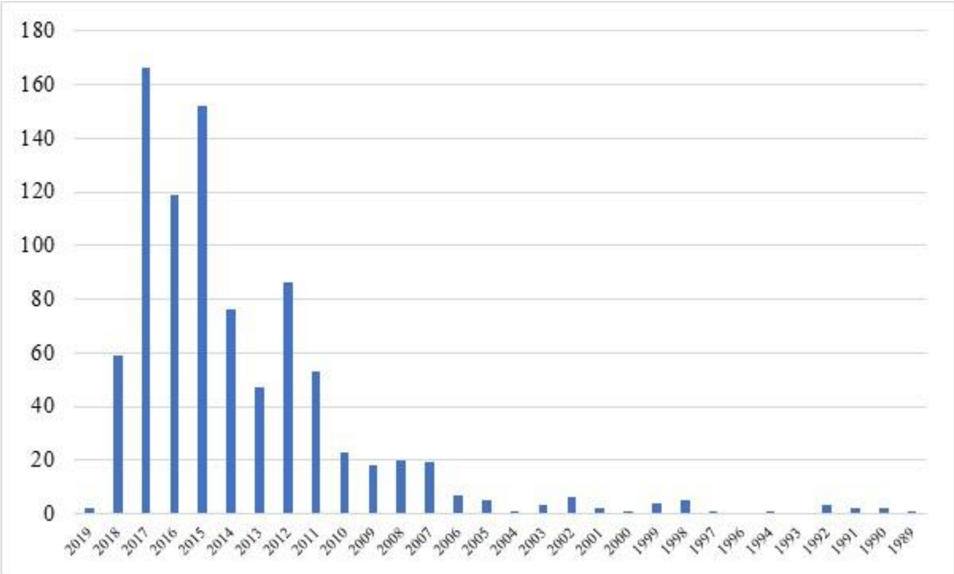
Figure 2 summarizes the top ten industries among the target companies in our final dataset.




*Source:* Reuters

## Figure 3: Campaigns per Year

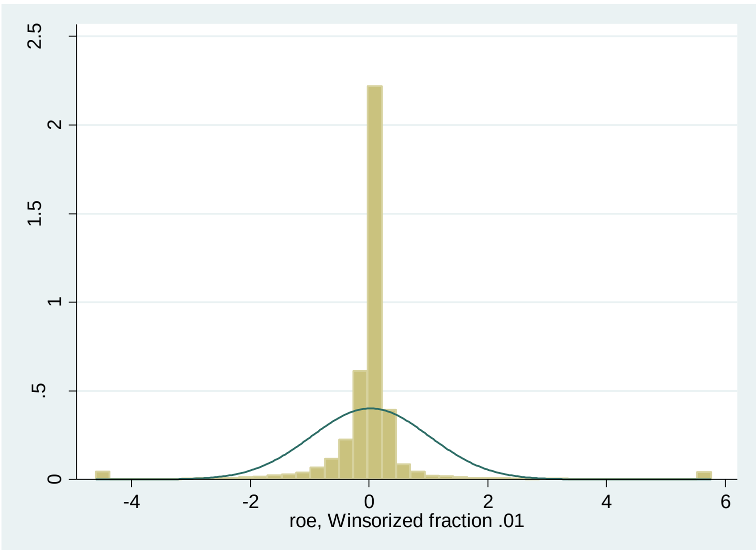
Figure 3 reveals the number of campaigns per year that are considered in our final dataset.




*Source:* Reuters

## Figure 4: ROE Winsorized

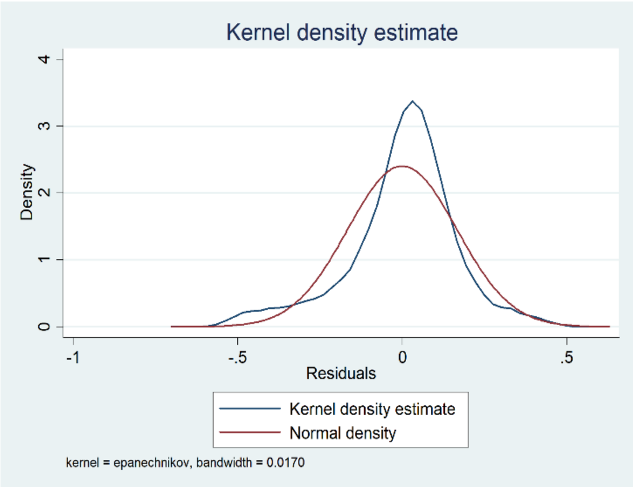
Figure 4 depicts the histogram of the dependent variable ROE after the winsorization process.

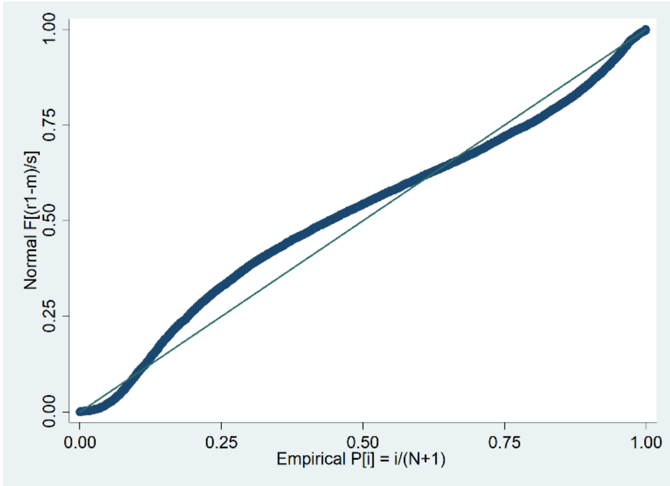



*Source:* Author

## Figures 5 and 6: Residual's Analysis after the adjustment for ROE

Figure 5 presents the Kernel density estimation for ROE against the normal density after the respective adjustment. Figure 6 presents a probability plot of the squared residuals for ROE after the respective adjustment.

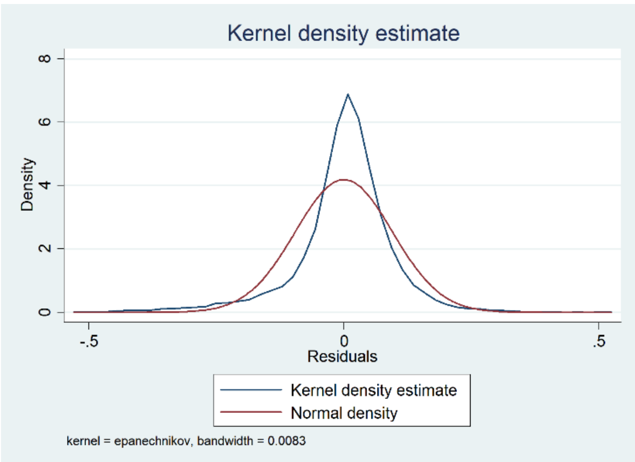


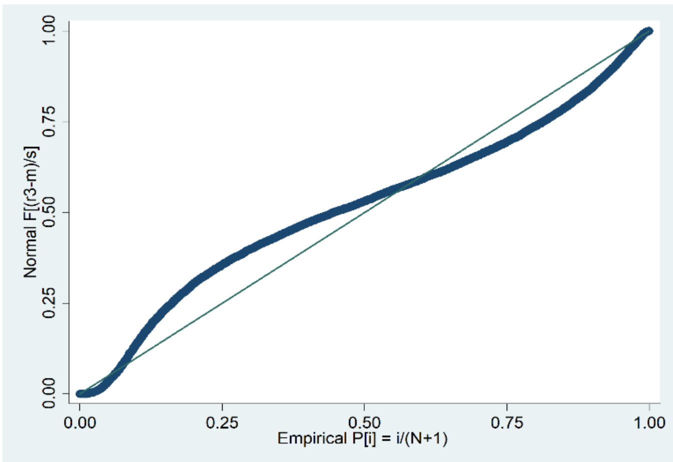




*Source:* Author

## Figures 7 and 8: Residual's Analysis after the adjustment for ROA

Figure 7 presents the Kernel density estimation for ROA against the normal density after the respective adjustment. Figure 8 presents a probability plot of the squared residuals for ROA after the respective adjustment.




*Source:* Author

### Table 1: Correlation Matrix

Table 1 presents the correlation matrix of the independent variables. Here, the correlation coefficients are shown and represent the strength and direction (positive or negative) of the linear relationship between each of these variables, which are characterized as described in chapter 4.3.

| | D_ | Assets | D/E | Gross Margin | Liquidity |
|---|---|---|---|---|---|
| D_ | 1.0000 | | | | |
| Assets | 0.0612* | 1.0000 | | | |
| D/E | 0.0047 | 0.0853* | 1.0000 | | |
| Gross Margin | -0.0035 | 0.0011 | 0.0064 | 1.0000 | |
| Liquidity | -0.0055 | -0.1951* | -0.0309* | 0.0520* | 1.0000 |

* represents statistically significant at 10%

*Source:* Author

### Table 2: Descriptive Statistics

Table 2 depicts the basic descriptive statistics of both dependent and independent variables to test in the regression analysis. Dependent variables are ROE and ROA. Independent variables are characterized as described in chapter 4.3.

| Variable | Std. Dev. | 1st Quartile | Mean | 3rd Quartile |
|---|---|---|---|---|
| ROE | 0.1693 | -0.125 | 0.0565 | 0.1556 |
| ROA | 0.0991 | -0.4993 | 0.2135 | 0.04589 |
| D_ | 0.4468 | 0.0000 | 0.2756 | 1.0000 |
| Assets | 2.7153 | 18.5335 | 20.4029 | 22.0662 |
| D/E | 4.1252 | 0.0234 | 0.6872 | 0.9007 |
| Gross Margin | 0.4138 | 0.2318 | 0.4063 | 0.5605 |
| Liquidity | 6.6080 | 1.1989 | 3.1090 | 3.0203 |

*Source:* Author

**Table 3: Panel I**

Table 3 presents the results for the regression model considering ROE as dependent variable, presented in the Methodology section. The independent variables are characterized as described in chapter 4.3. and this Panel considers fixed effects.

| **Variables** | (1) ROE | (2) ROE | (3) ROE | (4) ROE | (5) ROE |
|---|---|---|---|---|---|
| D_all | -0.0198*** | | | | |
| | (0.005) | | | | |
| ln_assets | -0.0027 | -0.0048** | -0.0052** | -0.0055** | -0.0057** |
| | (0.003) | (0.002) | (0.002) | (0.002) | (0.002) |
| debt_equity | -0.0001 | -0.0001 | -0.0001 | -0.0001 | -0.0001 |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| gross_margin | 0.0302* | 0.0300* | 0.0301* | 0.0301* | 0.0301* |
| | (0.018) | (0.018) | (0.018) | (0.018) | (0.018) |
| Liquidity | 0.0004 | 0.0005 | 0.0004 | 0.0004 | 0.0004 |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| D | | -0.0354*** | | | |
| | | (0.006) | | | |
| D1 | | | -0.0238*** | | |
| | | | (0.006) | | |
| D2 | | | | -0.0154** | |
| | | | | (0.007) | |
| D3 | | | | | -0.0057 |
| | | | | | (0.008) |
| Constant | 0.1075** | 0.1468*** | 0.1529*** | 0.1582*** | 0.1621*** |
| | (0.052) | (0.050) | (0.050) | (0.050) | (0.050) |
| Fixed Effects: | | | | | |
| Company | Yes | Yes | Yes | Yes | Yes |
| Year | Yes | Yes | Yes | Yes | Yes |
| Observations | 13674 | 13674 | 13674 | 13674 | 13674 |
| Adjusted $R^2$ | 0.009 | 0.009 | 0.007 | 0.007 | 0.006 |

Standard errors in parentheses
$^{*}$ $p < 0.1$, $^{**}$ $p < 0.05$, $^{***}$ $p < 0.01$

*Source:* Author

## Table 4: Panel II

Table 4 presents the results for the regression model considering ROA as dependent variable, presented in the Methodology section. The independent variables are characterized as described in chapter 4.3. and this Panel considers fixed effects.

| **Variables** | (1) ROA | (2) ROA | (3) ROA | (4) ROA | (5) ROA |
|---|---|---|---|---|---|
| D_all | -0.0114*** | | | | |
| | (0.003) | | | | |
| ln_assets | 0.0004 | -0.0008 | -0.0009 | -0.0012 | -0.0013 |
| | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) |
| debt_equity | -0.0002 | -0.0002 | -0.0002 | -0.0002 | -0.0002 |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| gross_margin | 0.0218* | 0.0217* | 0.0217* | 0.0217* | 0.0217* |
| | (0.012) | (0.012) | (0.012) | (0.012) | (0.012) |
| Liquidity | 0.0002 | 0.0002 | 0.0002 | 0.0002 | 0.0002 |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| D | | -0.0201*** | | | |
| | | (0.003) | | | |
| D1 | | | -0.0144*** | | |
| | | | (0.003) | | |
| D2 | | | | -0.0076* | |
| | | | | (0.004) | |
| D3 | | | | | -0.0009 |
| | | | | | (0.004) |
| Constant | 0.0092 | 0.0318 | 0.0349 | 0.0387 | 0.0412 |
| | (0.034) | (0.032) | (0.032) | (0.032) | (0.032) |
| Fixed Effects: | | | | | |
| Company | Yes | Yes | Yes | Yes | Yes |
| Year | Yes | Yes | Yes | Yes | Yes |
| Observations | 13674 | 13674 | 13674 | 13674 | 13674 |
| Adjusted $R^2$ | 0.012 | 0.011 | 0.010 | 0.009 | 0.009 |

Standard errors in parentheses
$^{*}$ $p < 0.1$, $^{**}$ $p < 0.05$, $^{***}$ $p < 0.01$

*Source:* Author

**Table 5: Panel III**

Table 5 presents the results for the regression model considering ROE as dependent variable. The independent variables are characterized as described in chapter 4.3. except for liquidity. Here, liquidity is replaced by the interaction between liquidity and the lagged year (D_, D1, D2 and D3), as to study the impact of the activist investors' intervention in the companies' liquidity. This Panel considers fixed effects.

| **Variables** | (1)<br>ROE | (2)<br>ROE | (3)<br>ROE | (4)<br>ROE |
|---|---|---|---|---|
| D_ | -0.0214*** | | | |
| | (0.005) | | | |
| Liquidity * D_ | 0.0006 | | | |
| | (0.001) | | | |
| ln_assets | -0.0028 | -0.0053** | -0.0056** | -0.0058** |
| | (0.003) | (0.002) | (0.002) | (0.002) |
| debt_equity | -0.0002 | -0.0001 | -0.0001 | -0.0001 |
| | (0.000) | (0.000) | (0.000) | (0.000) |
| gross_margin | 0.0301* | 0.0300* | 0.0300* | 0.0300* |
| | (0.018) | (0.018) | (0.018) | (0.018) |
| D1 | | -0.0277*** | | |
| | | (0.008) | | |
| liquidity_D1 | | 0.0016 | | |
| | | (0.001) | | |
| D2 | | | -0.0152* | |
| | | | (0.008) | |
| liquidity_D2 | | | -0.0001 | |
| | | | (0.001) | |
| D3 | | | | -0.0098 |
| | | | | (0.008) |
| liquidity_D3 | | | | 0.0014** |
| | | | | (0.001) |
| Constant | 0.1108** | 0.1569*** | 0.1625*** | 0.1659*** |
| | (0.052) | (0.049) | (0.049) | (0.050) |
| Fixed Effects: | | | | |
| Company | Yes | Yes | Yes | Yes |
| Year | Yes | Yes | Yes | Yes |
| Observations | 13674 | 13674 | 13674 | 13674 |
| Adjusted $R^2$ | 0.009 | 0.007 | 0.007 | 0.006 |

Standard errors in parentheses
$^{*}$ $p < 0.1$, $^{**}$ $p < 0.05$, $^{***}$ $p < 0.01$

*Source:* Author

**Table 6: Panel IV**

Table 6 presents the results for the regression model considering ROA as dependent variable The independent variables are characterized as described in chapter 4.3. except for liquidity. Here, liquidity is replaced by the interaction between liquidity and the lagged year (D_, D1, D2 and D3), as to study the impact of the activist investors' intervention in the companies' liquidity. This Panel considers fixed effects.

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| **Variables** | ROA | ROA | ROA | ROA |
| D_ | -0.0127*** | | | |
| | (0.003) | | | |
| Liquidity * D_ | 0.0005 | | | |
| | (0.000) | | | |
| ln_assets | 0.0004 | -0.0010 | -0.0012 | -0.0014 |
| | (0.002) | (0.002) | (0.002) | (0.002) |
| debt_equity | -0.0002 | -0.0002 | -0.0002 | -0.0002 |
| | (0.000) | (0.000) | (0.000) | (0.000) |
| gross_margin | 0.0218* | 0.0217* | 0.0218* | 0.0218* |
| | (0.012) | (0.012) | (0.012) | (0.012) |
| D1 | | -0.0155*** | | |
| | | (0.004) | | |
| liquidity_D1 | | 0.0005 | | |
| | | (0.001) | | |
| D2 | | | -0.0078* | |
| | | | (0.004) | |
| liquidity_D2 | | | 0.0000 | |
| | | | (0.001) | |
| D3 | | | | -0.0056 |
| | | | | (0.004) |
| liquidity_D3 | | | | 0.0016** |
| | | | | (0.001) |
| Constant | 0.0108 | 0.0374 | 0.0413 | 0.0433 |
| | (0.034) | (0.032) | (0.032) | (0.032) |
| Fixed Effects: | | | | |
| Company | Yes | Yes | Yes | Yes |
| Year | Yes | Yes | Yes | Yes |
| Observations | 13674 | 13674 | 13674 | 13674 |
| Adjusted $R^2$ | 0.012 | 0.010 | 0.009 | 0.009 |

Standard errors in parentheses
$^{*}$ $p < 0.1$, $^{**}$ $p < 0.05$, $^{***}$ $p < 0.01$

*Source:* Author

## Table 7: Theoretical Papers

Table 5 presents information concerning the theoretical papers that were analysed and presented in the Literature Review section of this dissertation. The information regarding the papers is organised as follows: author and year of the publishing, the topic of the paper, the type of analysis/methodology and the main conclusions reached.
Notes: CSR refers to Corporate Social Responsibility; NGO stands for Non-Governmental Organisation; SRI stands for Social Responsible Investment; SEC refers to Securities and Exchange Commission.

| Author (year) | Topic Paper | Type of Analysis | Main Conclusions |
|---|---|---|---|
| Emma Sjöström (2008) | Shareholder Activism for Corporate Social Responsibility | Analysis of the existing literature regarding shareholder activism for corporate social and environmental responsibility. | • Religious groups have consistently been the most active filers of environmentally and socially focused shareholder proposals in the US, with individuals and public pension funds being the other active groups.<br>• The issues forwarded through these proposals vary over time, and proposals tend to receive a minority vote, with a mean less than 10% and with highs not over 20%.<br>• Targets for shareholder activism tend to be large and well-known corporations, due to their visibility and their relation to critical environmental and social issues.<br>• It is debated whether shareholder activism can successfully change corporate behaviour, with several studies leaning towards a sceptical approach that such activism lacks the power for corporate change, and warning that it can only achieve modest and corporate-specific changes rather than more fundamental and industry-wide change.<br>• NGO shareholder activism is on the rise, as is union shareholder activism (at least in Australia).<br>• Authors are positive towards the role that pension funds can play in influencing corporate social and environmental responsibility.<br>• Insights into various country-specific issues, such as the effects on shareholder activism from regulatory changes in Canada, the potential evolution of shareholder activism in Japan and governmental initiatives in the UK. |
| Anastasia O'Rourke (2003) | Shareholder activism for corporate social responsibility | Analysis of historical perspective on the growth and spread of shareholder activism, of the key actors involved in this activity, of CSR issues being raised, of the process of resolutions and dialogue. | • Shareholder activism is a valuable tool to activists wishing to shift companies towards CSR because it opens up the debate on CSR issues to a broader audience.<br>• The shareholder activist community currently seems to need a dedicated research effort to establish firm connections between CSR and core business issues in order to bring more shareholders on board. |
| Jeanne M. Logsdon and Harry J. Van Buren III (2009) | Dialogues between shareholder activists and corporations | This article contributes both theoretically and empirically to the study of Dialogues between shareholder activists and corporations. | • Exclusive focus on public actions – like the filing of shareholder resolutions and the focus on votes at the annual meeting – understates the impact of shareholder activism. It is through Dialogue that the most substantive achievements occur.<br>• When a resolution is withdrawn after an agreement is reached between the company and the resolution's proponents, or a resolution is not filed on an issue for several years because of an ongoing Dialogue, the impact of this form of shareholder activism is out of the public view and much more difficult to analyse.<br>• Ultimately by developing stronger and more trusting relationships, the Dialogue process should provide greater opportunities for participants to achieve their individual goals by addressing critical social issues through collaboration. |
| Terrence Guay, Jonathan P. Doh and Graham Sinclair (2004) | Non-governmental Organizations, Shareholder Activism, and Socially | The goal is to document the growing influence of non-governmental | • NGO shareholder activism constitutes a direct challenge to boards and managers and draws attention to shareholder demand. |

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| | Responsible Investments: Ethical, Strategic, and Governance Implications | (NOGs) in the realm of socially responsible investing (SRI). | • NGOs are beginning to initiate socially responsible investing funds.<br>• NGOs have other tools to influence corporate behaviour. Some, such as working with firms to devise labour and environmental codes of conduct, are more cooperative in nature than is SRI.<br>• NGOs have grown and matured, both as individual organizations and on a collective level, so they have come to occupy an important and influential position in corporate governance and in society. |
| Stuart L. Gillan, Laura T. Starks (2007) | The Evolution of Shareholder Activism in the United States | The goal is to review the evolution of shareholder activism since the establishment of the SEC in the 1930s, with emphasis on three main subjects: the kinds of companies that are targeted by activists, the motives of institutional investors for activism and the effectiveness of activists in bringing about economically significant change at targeted companies. There is also an analysis of the most recent changes that have occurred with the entry of hedge funds into shareholder activism. | • The main motive for active participation by institutional investors in the monitoring of corporations has been the potential to enhance the value of their investments.<br>• The evidence provided by empirical studies of the effects of shareholder activism is mixed: there is evidence of positive short-term market reactions to announcements of certain kinds of activism whereas there is little evidence of improvement in the long-term operating or stock-market performance of the targeted companies.<br>• The recent entrance of hedge funds into shareholder activism has provided more evidence of gains from activism, but the long-term effects are still unknown and warrant more research.<br>• Also, there are significant changes in the business activities of companies targeted by shareholder initiatives, but it is difficult to establish a causal relationship between shareholder activism and these changes. |
| Matthew R. Denes, Jonathan M. Karpoff, Victoria B. McWilliams (2017) | Thirty years of shareholder activism: A survey of empirical research | The goal is to summarize and synthesize the results from 73 studies that examine the consequences of shareholder activism for targeted firms and draw the primary conclusions. | • Activism that adopts some of the investment-intensive aspects of corporate takeovers, such as hedge fund activism, is associated with improvements in target firms' values and operations.<br>• Studies of shareholder activism that draw from recent samples reveal more evidence of improvements in target firms' values and operations than earlier studies that are based on activism from 1980s and 1990s, which suggests that activists have learned and adapted their strategies. |

## Table 8: Empirical Papers

Table 6 depicts the essential information concerning the papers of empirical nature presented and discussed in the Literature Review of this dissertation. The information regarding the papers is organised as follows: author and year of the publishing, the region of the sample analysed in the study, the period of sample, the type of analysis/methodology adopted, the dependent variables and independent variables studied and the main conclusions reached.
Notes: CG stands for Corporate Governance; BIR stands for Benzene internalization rate (BIR); ROA refers to Return on Assets; CSR refers to Corporate Social Responsibility; IRRC stands for Investor Responsibility Research Center; CDP refers to Carbon Disclosure Project.

| Name, Author (Year) | Region/Country | Period | Methodology | Dependent Variable | Independent Variables | Main Conclusions |
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| "Shareholder activism on environmental issues: A study of proposals at large US corporations (2000–2003)" Robert Monks, Antony Miller and Jacqueline Cook (2004) | USA | 2000-2003 | Analysis of shareholder proposals of a group of 81 US corporations over a four-year period. The companies in the study were selected from a database of 100 of the largest publicly listed US companies. | Type of shareholder proposal | - | • A large portion (45%) of shareholder proposals filed at 81 large US companies from 2000 to 2003 addressed CSR issues.<br>• Average level of support for both CSR proposals and CG proposals categories grew over the four-year period.<br>• Proposals dealing with environmental issues (in particular, climate change), tended to attain the highest level of shareholder support of the CSR-oriented proposals and showed a rate of growth in support similar to that of CG-oriented resolutions.<br>• In the ExxonMobil case was found that a majority of the shareholder proposals concerned CSR-oriented issues.<br>• Regulatory changes that generally improve shareholder rights and increase shareholder participation in the proxy voting process will benefit CSR activism within corporations. |
| "Domesticating Radical Rant and Rage: An Exploration of the Consequences of Environmental Shareholder Resolutions on Corporate Environmental Performance" Min-Dong Paul Lee and Michael Lounsbury (2011) | USA | 1993-2005 | Panel data and fixed effect regression model to test a 13 year data of 58 public corporations | Benzene internalization rate (BIR), which is a standardized measure of benzene waste management practice at the facility level | Level of environmental shareholder activism, lagged variable of the previous one, firm age, revenue, petroleum industry, foreign ownership, state exposure, environmental resolutions | • Environmental shareholder resolutions had a significant and positive causal effect on the targeted firms' environmental performance.<br>• Social shareholder activists have strong influence on corporate behaviour.<br>• The findings are consistent with the hypothesis that larger firms and firms in industries that are closer to end-users are more likely to respond positively to socially oriented shareholder |

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| | | | | | | pressures (although this may not be applicable to all industries). |
| "Understanding Shareholder Activism: Which Corporations Are Targeted?" Kathleen Rehbein, Sandra Waddok and Samuel B. Graves (2004) | USA | 1991-1998 | Stakeholder performance variables were taken from the social research firm Kinder, Lydenberg, Domini's (KLD) Socrates database, for the period of 1991 to 1998.<br>Analysis data using Logit and OLS models. | Number of shareholder resolutions within specific stakeholder-related categories | Employee relations (and diversity management), community, product (a customer surrogate), and environment | • Shareholder activists are motivated by interest- and identity-based rationales.<br>• Shareholder activists are submitting some social-policy resolutions with the intent of altering the social behaviour of poor corporate performers.<br>• Some social-policy shareholder resolutions are aimed at the largest companies only.<br>• Shareholder activists submit more product-related resolutions with corporations that have produced products that have negative contingencies.<br>• The relationship between environmental performance and targeting of environment-related shareholder resolutions is strongly supported, indicating that companies and industries with worse environmental performance are targets.<br>• In some industries, shareholder activists will file resolutions with companies that have questionable labour practices.<br>• Interest-based factors motivate shareholder activists to file social policy resolutions.<br>• Shareholder activists are motivated to file resolutions to solidify the identity of their group.<br>• Activists filed social-policy resolutions with companies that are more progressive with diversity practices.<br>• Shareholder activists were more likely to file shareholder resolutions with companies that have relatively good community relationships. |
| "Investor Activism, Managerial Responsiveness and Corporate Social Performance" Parthiban David, Matt Bloom, Amy J. Hillman (2007) | Not specified | 1992-1998 | Data was collected from IRRC (shareholder activism), KLD (CSP data), COMPUSTAT/CRSP (financial data) | Activist Shareholder proposals | Responsiveness, proponent ownership, activism from stakeholders, shareholder group affiliation, CSP industry CSP, sales, ROA | • Negative relationship between shareholder proposals and subsequent CSP, suggesting support for signaling rather than disciplining effect of activism. Rather than pressuring firms to improve CSP, activism may merely engender diversion of resources away from CSP into political activities used by managers to resist external pressures and retain discretion. |

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| | | | | | | • Managers are more likely to settle proposals filed by salient shareholders.<br>• CSP declines even when firms settle with salient shareholders. |
| "Corporate Social Responsibility and Financial Performance: Correlation or Misspecification?" Abagail McWilliams, Donald Siegel (2000) | USA | 1991-1996 | Data collected from KLD (CSP) | PERF (financial performance) | CSP (Corporate Social Performance), RDINT (R&D to sales ratio), Industry Dummys, size, risk, advertising intensity | • Empirical evidence shows that investment in R&D has a strong positive impact on profitability.<br>• Results confirm that CSP and R&D are highly correlated, and that, when R&D intensity is included in the equation, CSP is shown to have a neutral effect on profitability.<br>• Models that claim to "explain" firm performance, but do not include important strategic variables, such as R&D intensity, must be taken analysed with caution. |
| "Shareholder Activism by Institutional Investors: Evidence from CalPERS" Michael P. Smith (1996) | USA | 1987-1993 | For each target year, names of firms targeted, descriptions of shareholder resolutions filed with targets, percentage of target firm's outstanding common stock held, and outcomes of targeting are obtained from CalPERS. Analysis is conducted relative to the first year a firm is targeted by CalPERS. Analysis of the data using Probit model and Panel data | Being a target firm | Log of the market value of equity, percent of outstanding shares held by officers and directors, percent of shares held by institutional investors, market-to-book, five-year cumulative abnormal return | • Level of institutional ownership and firm size affect the probability of being targeted, after controlling for prior stock price performance.<br>• There is a significant positive stock price reaction for successful targeting events and a significant negative reaction for unsuccessful events.<br>• Changes in operating performance do not reflect statistically significant improvement.<br>• Shareholder activism is largely successful in changing governance structure and, when successful, results in a statistically significant increase in shareholder wealth.<br>• On net, activism appears to be beneficial to CalPERS, as the value increase of its holdings from activism is almost $19 million over the 1987-93 period.<br>• Shareholder wealth increases for firms that adopt or settle and decreases for firms that resist.<br>• No statistically significant change in operating performance is found. |
| "Value creation or destruction? Hedge funds as shareholder activists" Christopher P. Clifford (2008) | USA | 1998-2005 | To provide evidence on the gains of activism to the blockholder, it was calculated the raw holding period return to the hedge fund for both activists and passivists blockholders | Holding period return | - | • Shareholder activism, at least from hedge funds, is associated with positive wealth creation in target firms.<br>• Firms targeted by activists earn larger excess stock returns at the filling window and experience larger improvements in operating |

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| | | | | | | performance than those of firms targeted by passivists. These firms also experience large decreases in total assets, while cash flows remain relatively unchanged.<br>• The market responds favourably to more aggressive levels of activism than to less aggressive levels.<br>• Hedge fund activists tend to be associated with longer lock-up and notification periods.<br>• Hedge funds earn larger investment returns on their activist blocks than their passive blocks. |
| "Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors" April Klein, Emanuel Zur (2009) | Not specified | January 1 2003-December 31 2005 | Comparison of financial statistics between the target companies and the control group (firm performance, ROA, and others). Expansion of the univariate analysis by using pooled logistic models. To determine how the market reacts to planned activism, it was computed the abnormal share price reactions around the initial 13D filing date. | - | - | • Hedge fund targets earn, on average, 10.2% abnormal stock returns during the period surrounding the initial Schedule 13D filing, and other activist targets experience abnormal returns of 5.1%. Hedge fund targets earn an additional 11.4% abnormal return during the subsequent year; other targets observe a 17.8% abnormal return.<br>• Both groups are successful at gaining board representation on the target firm within 1 year of the initial finding.<br>• Hedge fund activists target more profitable and financially healthy firms than do other entrepreneurial activists.<br>• Hedge fund targets also have higher levels of cash on hand than evidenced by other activist targets. |
| "Antecedents of Shareholder Activism in Target Firms: Evidence from a Multi-Country Study" William Q. Judge, Ajai Gaur, Maureen I. Muller-Kahle (2010) | USA, UK, Australia, Japan, Germany, South Korea | 2003-2007 | Since the dependent variables are dichotomous in nature, a binary logistic regression was used to test the hypotheses. A total of five models were tested. Model 1 had all the control variables including industry effects and year effects. Model 2 had the main effect variables and a dummy for common law countries. With three interaction effects, it was needed to introduce the interaction variables one by one to minimize the collinearity between the main effect and interaction variables. This resulted in three more models (Models 3-5). | Financially-driven shareholder activism and socially-driven shareholder activism | **Explanatory variables:** firm size, ownership concentration, prior profitability, legal environment and social inequality<br>**Control variables:** board structure, board size, board independence and CEO duality | • The antecedents of shareholder activism vary by the motivation of the activist.<br>• The two main goals of shareholder activism are: (a) to improve their targets financial performance and (b) to improve their targets social performance.<br>• Firm size is unrelated to financial activism, but positively related to social activism.<br>• Ownership concentration is negatively related to both financial and social activism.<br>• Profitability is negatively related to financial activism, but positively related to social activism. |

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| | | | | | | • These relationships in the case of financial activism are generally stronger in common law legal systems, whereas those in the case of social activism are generally stronger in environments with a greater level of income inequality.<br>• It was found that the “exposure” to shareholder activism varies by the motivation of the activist, and the nature of the firm and its national context. |
| “Is Carl Icahn Good for Long-Term Shareholders? A Case Study in Shareholder Activism”<br>Vinod Venkiteshwaran, Subramanian R. Iyer and Ramesh P. Rao (2010) | Not specified | 1995-2007 | After analyzing Icahn’s initial and amended filings, a series of tests using logit regressions were conducted in order to answer some of the research questions, such as “What kinds of companies attract Icahn?” and “Market reaction to the disclosure of Icahn’s Investments in target firms”. | Target companies’ financial measures | One-year pre-filing abnormal stock returns, return on assets, capital expenditures, dividend payout, leverage, cash holdings, market to book ratio of equity | • The authors found no significant changes in the target companies’ profitability, capital spending, stock repurchase and dividend payouts, cash balances, and leverage.<br>• The data do suggest qualitative improvements in ROA and cash balances, and a decrease in leverage compared to a matched set of firms.<br>• The findings are consistent with the widely held argument that activist investors focus on troubled capital structures and also work to limit manager’s ability to waste free cash flow by pressuring them to return more of it to shareholders.<br>• Shareholder activists generally target firms with possible “free cash flow” problems.<br>• Significant share price increases for the target companies (of about 10%) were observed around the time Icahn discloses his intentions publicly.<br>• A significant number—indeed about one in three—of Icahn’s targets ended up being acquired or taken private within 18 months of his initial investment.<br>• Icahn attained at least partial success in almost 60% of his large investments. Even for those companies that were not eventually acquired by a third party, he was able to achieve at least some of his objectives in 75% of the cases. |
| “Determinants and consequences of shareholder proposals: The cases of board election, charter | Japan | 2004-2013 | Panel data probit regressions are used to estimate a firm's likelihood of receiving shareholder proposals based on a set of predictors. In each regression, the sample firms include all | Dummy indicating 1 if the firm received a particular type of proposal in the general meeting for | Quick ratio, Tobin’s Q, shareholding by foreigners, shareholding by inside managers, ROA | • Different types of shareholder proposals are triggered by varying firm characteristics.<br>• Resolutions on the board election and charter amendments relating to corporate governance |

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| amendment, and profit disposal"<br>Tsung-ming Yeh (2017) | | | publicly listed non-financial firms in Japan during the investigation period from 2004 to 2013. | the fiscal year in question. | | receive higher votes than those for profit disposal.<br>• Voting outcome is also positively associated with foreign shareholding, duration of the general meeting, and the firm's history of receiving proposals.<br>• Resolutions initiated by large shareholders have positive impacts on the target firms, which reported positive announcement-associated abnormal returns.<br>• Improvements in the operating performance are observed for firms passing board election resolutions and firms receiving charter amendment proposals from large shareholders.<br>• The management increased share buyback and dividend payout in response to demands by large shareholders, although there was no significant change in the post-resolution operating performance.<br>• The results indicate that statutorily powerful shareholder rights, when exercised by large shareholders, can have a positive impact. |
| "Corporate governance and shareholder initiatives: Empirical evidence"<br>Jonathan M. Karpoff, Paul H. Malatesta, Ralph A. Walkling (1996) | Not specified | March 1986- October 1990 | Univariate comparisons and multivariate logistic regressions were used in order to study: the performance and control variables for the proposal and control firms, the effects of firm characteristics on the probability of a firm receiving a corporate governance shareholder proposal, shareholder proposals' wealth effects and other. | The dependent variable has a value of one for the proposal firms and zero for the control firms. | The independent variables include performance measures and measures of firm size, institutional and insider ownership, and leverage. | • Firms attracting governance proposals have poor prior performance, as measured by the market-to-book ratio, operating return, and sales growth. This shows that proposal sponsors have reason to seek improvements in their target firms.<br>• There is little evidence that operating returns improve after proposals.<br>• The proposals also have negligible effects on company share values and top management turnover..<br>• Proposals that receive a majority of shareholder votes typically do not engender share price increases or discernible changes in firm policies. |
| "Fad and fashion in shareholder activism: The landscape of shareholder resolutions, 1988-1998"<br>Samuel B. Graves, Kathleen Rehbein, Sandra A. Waddock (2001) | Not specified | 1988-1998 | Shareholder resolutions for the period 1988–1998 were collapsed into 27 general categories related to specific issues plus a miscellaneous category containing 25 resolutions. During the eleven-year period, some 2,944 proxies, sorted into the 27 categories, were recorded by the IRRC and included in the analysis. | - | - | • The most popular categories of shareholder resolutions by the time of the study were South Africa and Environment.<br>• The issues that received considerably less attention were abortion/contraception, compensation, animal rights, charitable contributions and health. This was in part because interest in them started later than |

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| | | | | | | interest in the more popular areas or because interest diminished considerably during the period of study.<br>• The data suggests that issues can follow different patterns over time: some issues arise (and die) abruptly, while others remain of substantial interest without being resolved or disappearing over relatively long periods of time.<br>• It was possible to obtain various examples of different types of issues: out-of-fashion issues, old stand-by issues, the emerging issues, waxing and waning issues. |
| "When Does Institutional Investor Activism Increase Shareholder Value? The Carbon Disclosure Project" Eun-Hee Kim, Thomas Lyon (2011) | Not specified. | 2006 | The data include the FT Global 500 companies.<br>To test the hypotheses, two steps were needed: first calculate cumulative abnormal returns on the day of CDP disclosure and on the day of Russia's ratification of the Kyoto protocol using the event study methodology that focuses on mean stock price effects. Second, run regressions using the cumulative abnormal returns calculated in the first step as dependent variables. | Cumulative abnormal returns on the day of CDP disclosure and on the day of Russia's ratification of the Kyoto protocol. | Variables of interest such as whether companies participate in the CDP or not, and whether companies are headquartered in countries that had ratified the Kyoto Protocol as of Russia's ratification on October 22, 2004. | • There is no systematic evidence that CDP participation, in and of itself, directly increased share prices and, therefore, shareholder value, which suggests that participation was not entirely voluntary, but was the result of pressure from shareholders, regulators, and the institutional investors involved in the CDP.<br>• CDP participants were treated better by investors when exogenous events caused the likelihood of climate change regulation to rise.<br>• The findings demonstrate that institutional investor activism toward climate change can increase shareholder value when the external business environment becomes more climate conscious. |
| "Corporate governance proposals and shareholder activism: the role of institutional investors" Stuart L. Gillan, Laura T. Starks (2000) | Not specified. | 1987-1994 | Initial data set consists of 2042 shareholder proposals submitted at 452 companies over the 1987-1994 proxy sample period. Initially the voting patterns are studied. Then the voting outcomes are analysed in more depth by focusing on the voting results by particular issues addressed and the identity of the sponsors. | Percentage of votes, short-term market reaction | Sponsor, percentage of institutional ownership, takeover-related, takeover-sponsor interaction, relative return, times submitted, percentage of votes, times submitted | • Shareholder voting and stock market reaction depend on the issues addressed by the proposals as well as the identity of the proposal sponsor.<br>• Proposals sponsored by the so-called gadflys (active individual investors) gather fewer votes and are associated with a slight positive impact on stock prices.<br>• In contrast, proposals sponsored by institutional investors (i.e., public pension funds) or coordinated groups of investors receive significantly more votes and appear to have some small but measurable negative impact on stock prices. |

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| | | | | | | • Activism of institutional investors and coordinated groups appears to have slightly more success.<br>• Proposals often sponsored by the so-called gadfly investors such as executive compensation, director ownership, and the limitation of director terms receive low voting support, and thus are not perceived by other shareholders as being effective enough in pressuring corporate management to pursue reform. The similarity of issues and voting results across institutional investors and coordinated groups suggests that they act as substitutes in applying pressure to managers. |