Activism and Empire Building

Finance Working Paper N° 575/2018
September 2018

Nickolay Gantchev
Southern Methodist University and ECGI

Merih Sevilir
Indiana University

Anil Shivdasani
University of North Carolina at Chapel Hill

ECGI Working Paper Series in Finance

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We thank Lucian Bebchuk, Todd Gormley, Oğuzhan Karakaş, Holger Spamann, and Philip Valta for their valuable comments, as well as seminar and conference participants at Erasmus University, Harvard University, Koç University, Tilburg University, University of Oklahoma, University of North Carolina at Chapel Hill, Washington University in St. Louis, Institute for Private Capital's 2018 Spring Research Symposium, and the 2018 European Finance Association Meetings.

Abstract

We study the role of hedge fund activists in curbing empire building. We show that firms with poor acquisition records are more likely to become activist targets. Following activist intervention, targeted firms make fewer acquisitions but obtain substantially higher abnormal returns. These firms avoid large transactions, diversifying deals, and refrain from announcing deals during merger waves. After an activist campaign, targets increase the pace of divestitures and achieve higher announcement and long-term returns from divestitures than firms without activist intervention. Our results are consistent with a treatment effect whereby the activists' interventions both improve their targets' acquisition strategy and lower reluctance to divest assets. Our findings highlight an important channel through which activists improve the efficiency of public companies.

Keywords: Shareholder activism, hedge funds, mergers and acquisitions, corporate governance, empire building

JEL Classifications: G14, G23, G34

Nickolay Gantchev*
Associate Professor of Finance
Southern Methodist University, Cox School of Business
6212 Bishop Boulevard
Dallas TX 75205, United States
phone: +1 214 768 4128
e-mail: ngantchev@smu.edu

Merih Sevilir
Associate Professor of Finance
Indiana University, Kelley School of Business
1275 E. Tenth Street
Bloomington, IN 47405, United States
phone: +1 812 855 8100
e-mail: msevilir@indiana.edu

Anil Shivdasani
Wells Fargo Distinguished Professor of Finance
University of North Carolina at Chapel Hill, Kenan-Flagler Business School
300 Kenan Center Drive
Chapel Hill, NC 27599, United States
phone: +1 919 962 6124
e-mail: Anil.Shivdasani@unc.edu

*Corresponding Author

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Nickolay Gantchev, Merih Sevilir and Anil Shivdasani[§]

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Abstract

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[§]Nickolay Gantchev (ngantchev@smu.edu) is at the Cox School of Business at Southern Methodist University, Merih Sevilir (msevilir@indiana.edu) is at the Kelley School of Business at Indiana University and Anil Shivdasani (anil.shivdasani@unc.edu) is at the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill.

1. Introduction

The surge in shareholder activism has been one of the most salient developments in the corporate landscape in recent years. From the end of 2009 to the beginning of 2015, 15% of the S&P 500 constituents, representing the largest U.S. firms, were confronted by shareholder activists, and around 50% of S&P 500 firms had an activist investor among their shareholders over the same period.[1] Some market professionals have argued that "no recent development has influenced firms' strategic and financial decision-making as profoundly as the surge in shareholder activism".[2]

Our understanding of the sources of shareholder gains from activism is, however, not complete. Some studies point to changes in financial policies, whereas others attribute shareholder value improvements to shifts in investment policy, enhanced productivity, or expropriation of creditors (see Brav, Jiang, and Kim, 2010). Recently, several papers have identified the takeover market as a key channel through which activists create value by attracting takeover bids and obtaining favorable terms for target shareholders (see Greenwood and Schor, 2009; Boyson, Gantchev, and Shivdasani, 2018; Jiang, Li, and Mei, 2018). However, this research has focused largely on the role of activist investors on firms that are takeover targets whereas the activists' influence on acquiring firms remains unknown.

In this paper, we provide new evidence on how shareholder activists influence firms' investment policies by focusing on acquisition decisions. As some of the largest and most prominent investment decisions made by firms, M&A transactions have been studied extensively as a setting to evaluate agency conflicts and behavioral biases. We show that activists play an influential role in curbing empire building, which we define as inefficient acquisitions that are likely to reflect motives other than shareholder value maximization. Empire-building motives

[1] See "An Investor Calls", *The Economist*, Feb 5, 2015.
[2] See "The Activist Revolution", *Corporate Finance Advisory and Mergers and Acquisitions*, JP Morgan, 2015.

are often ascribed to failed acquisitions. Pointing to "the graveyard of failed empire building", the financial press has described M&A as "synonymous with value destruction".[3] Consistent with this view, Moeller, Schlingemann, and Stulz (2004) calculate a value-weighted return of negative 1.2% for acquirers over 1980 to 2001. Moeller, Schlingemann, and Stulz (2006) find that acquiring shareholders lost 12 cents per dollar spent on acquisitions for an aggregate loss of $240 billion between 1998 and 2001. Harford (1999) shows that cash-rich firms destroy seven cents per dollar of excess cash and frequently pursue diversifying acquisitions. Masulis, Wang, and Xie (2007) and Harford, Humphery-Jenner, and Powell (2012) argue that value-destroying acquisitions are often due to weak corporate governance.

If shareholder activism represents a channel through which firms are subjected to better corporate governance, it should be associated with greater discipline in firms' acquisition activities. We document several findings consistent with this hypothesis. We start by investigating whether a firm's past acquisition behavior influences an activist's decision to launch a campaign. We do not detect a meaningful difference in the number or overall volume of acquisitions across firms that are targets of activists and those that are not. However, we find significant differences in the types of acquisitions. Specifically, firms conducting stock acquisitions, especially large stock-financed deals, and those that make multiple stock-financed acquisitions are substantially more likely to be targeted by activists. By our estimates, firms announcing a large stock-financed deal over the past three years are about 40 percent more likely to become an activist target. Firms that pursue diversifying acquisitions and those that conduct deals during industry merger waves are also more likely to be targeted by activists. Supporting the idea that empire building attracts activist intervention, we find that firms whose acquisitions have below-median announcement returns are substantially more likely to be targeted by hedge fund activists.

[3] See "Spending on M&A Often Wasteful", *The Financial Times*, April 13, 2012.

Firms' acquisition strategies change in the aftermath of an activist campaign. We show that activist targets exhibit a substantially lower probability of making acquisitions following the initiation of an activist campaign. Relative to non-targets, an activist target is about one-third less likely to engage in an acquisition in the three years after activism. This lower acquisition frequency is particularly pronounced for cash-financed deals. This is consistent with prior research showing that activists often demand a reduction in cash and an increase in leverage, thus limiting capital availability to pursue cash-financed deals. However, the pace of stock-financed acquisitions also slows after activism, indicating that curtailing capital availability is not the only channel through which activists influence M&A decisions.

The types of acquisitions also change after an activist campaign. Following activist intervention, firms are less likely to conduct the types of acquisitions that prior research identifies as being value-destructive. Relative to acquisitions by other firms, firms that are targeted by activists conduct fewer large acquisitions, diversifying acquisitions, and refrain from announcing deals during an industry merger wave. Not surprisingly, these post-activism acquisitions are favorably received by investors. Compared to non-targets, acquirers subject to activist campaigns obtain 2.3-2.5% higher announcement period cumulative abnormal returns (CARs). Acquisitions by activist targets also outperform acquisitions by non-targets by 11-15% over the first year following the acquisition announcement and by 19-26% over the two years after the announcement.

We also find evidence suggesting that activists facilitate the dismantling of prior empire building activity. We document that activist targets unwind prior diversification strategies by increasing the pace of divestitures post-activism. Activist targets are about 25 percent more likely to engage in divestitures in the three years after activism, with this effect being more pronounced in the first year after the start of the campaign. Relative to firms that are not subject to activist campaigns, divestitures by activist targets generate higher announcement returns in

both the short and long-term. Overall, these results illustrate that activism both curbs empire building incentives and helps facilitate the reversal of prior empire building.

Identification is an important concern in studying the effects of hedge fund activism on firms' acquisition strategies. If activist investors are able to identify firms that will follow a more disciplined future M&A strategy, they may choose to invest in such firms. It is therefore possible that some unobserved factor causes a change in a firm's acquisition strategy while at the same time making the firm a more attractive investment for an activist hedge fund. Although we cannot entirely rule out such potential selection effects, we conduct two tests to evaluate this concern. First, we examine whether targets of hedge fund activism are less likely to make acquisitions than firms in which the same hedge fund activist owns a purely passive stake. This approach addresses selection effects by controlling for unobserved factors that underlie the investment choices of activist investors. We find substantially lower acquisition frequencies for targets in which the hedge fund holds an active stake, relative to firms in which the same hedge fund is a passive equity holder. Second, we exploit an activist fund's decision to change its status from passive to active ownership in the same firm. We find a similar pattern whereby firms in which the activist switches to an interventionist posture are less likely to engage in acquisitions, relative to firms for which no switch is observed. These findings suggest that our results are unlikely to be driven by selection effects alone.

Our findings suggest that in recent years shareholder activism has performed a role historically ascribed to disciplinary takeovers. Mitchell and Lehn (1990) show that in the 1980's firms conducting value-destroying acquisitions were more likely to become targets of takeovers themselves. However, recent work by Phalippou, Xu, and Zhao (2016) documents that firms that acquire takeover targets which are serial acquirers themselves experience very poor performance as measured by announcement returns. Our results imply that shareholder activism may possibly

represent a more efficient mechanism for disciplining empire builders without some of the costs associated with acquiring and improving inefficient acquirers.

Our results on activists targeting firms inclined to pursue stock-financed acquisitions have broader implications for the efficiency of the market for corporate control. In recent work, Li, Wang, and Taylor (2018) examine whether stock-financed acquisitions have an adverse impact on the functioning of the M&A market since firms with overvalued stock may crowd out deals motivated by real synergies between a less overvalued (or undervalued) acquirer and a target. They find that inefficiencies created by overvalued acquirers are typically small. Our finding that governance through shareholder activism, which targets stock acquirers and curtails their future acquisition activity, is one channel that contributes to limiting inefficiencies from stock-financed acquisitions.

2. Activism and merger samples

To study the interaction between hedge fund activism and firms' acquisition strategies, we track the acquisition activity of firms from five years before through five years after the launch of an activist campaign. Our data combines hand-collected information on hedge fund activist campaigns over 1995–2011 and acquisition data from Thomson Reuters Securities Data Company (SDC) Platinum over 1990–2016.

Our activism sample is obtained from regulatory filings and FactSet's SharkRepellent.net. We compile a list of activist hedge funds by extending the fund sample in Gantchev (2013) to 242 activist hedge funds between 1995 and 2011. For each activist, we obtain all Schedule 13Ds and related amendments. Schedule 13D must be filed with the U.S. Securities and Exchange Commission (SEC) by any investor who acquires more than 5% of the voting stock of a public firm with the intention of influencing its operations or management. For

each campaign, we collect filing and event dates, and the identities of the target and the activist(s). To address the concern that some activists may initiate campaigns without reaching the 5% regulatory threshold, we use as a supplementary data source SharkRepellent.net, which identifies activism reported in the media in addition to regulatory filings.

We match activist campaigns to acquisition data from SDC Platinum. We include all acquisition announcements regardless of whether they result in a consummated transaction. We adopt the usual filters from prior literature and include all acquisitions by U.S. public firms with a transaction value of at least $10 million and at least five percent of the acquirer's market capitalization. We also require that the acquirer owns less than 50% of the target's equity before the announcement and exclude share repurchase transactions. We manually verify the announcement, completion, and withdrawal dates of all transactions reported in SDC using press releases and news reports.

We create an annual firm-year panel by combining the activism campaigns and acquisition data with the universe of firms in Center for Research in Security Prices (CRSP) and Compustat. We group multiple activist campaigns within the same firm-year as a single observation, considering the hedge fund that intervenes first as the primary activist. The final panel of firms with sufficient data for our analysis contains 1,741 firm-years with hedge fund activism campaigns over 1995-2011 and 5,153 firm-years with acquisitions over 1990-2016.

As seen in the first two columns of Table 1, the number of activist campaigns peaks in 2005-2008. The frequency of hedge fund activism has grown steadily over the sample period from 0.79% of Compustat firms in 1995-2002 to 2.63% over 2003-2011.

[Insert Table 1]

The remaining columns of Table 1 compare activist targets and Compustat firms that are not activist targets by tracking their acquisitions over the three years before and three years after a given year. Columns (3) and (4) show that the frequency of prior acquisitions for activism targets is similar to that for non-targeted firms. However, the pace of acquisitions drops sharply after firms are targeted by activists. Column (5) shows that the frequency of acquisition announcements for activist targets is 5.60% over the three years after the campaign, compared to 10.72% for non-targeted Compustat firms. Thus, activist targets are about half as likely to pursue acquisitions in the three years after the campaign initiation. Considering that the typical campaign lasts about 18 months (Brav, Jiang, Partnoy, and Thomas, 2008), this preliminary evidence suggests that activists have a sustained effect on the firms' acquisition behavior.

Throughout our analysis, we differentiate between cash and stock-financed transactions as the motivation and impact on shareholder wealth for these transactions may differ. In particular, the decision to pursue a stock-financed acquisition can signal to investors that the acquirer's stock is overvalued (Shleifer and Vishny, 2003; Rhodes-Kropf and Viswanathan, 2004). Further, Jensen (2005) argues that stock acquisitions are more likely to be value destructive because the ability to issue overvalued stock erodes management discipline. Although Shleifer and Vishny (2003) suggest that paying for acquisitions using overvalued stock may benefit acquirer shareholders, Eckbo and Thorburn (2018) show that bidders do not use stock opportunistically to finance acquisitions. Instead, Akbulut (2013), Fu, Lin, and Officer (2013), and Gu and Lev (2011) document that acquirers typically destroy shareholder value by overpaying for targets in stock-financed deals. We define stock deals as those where the entire consideration to the target is in stock and cash deals as those that are fully cash-financed.

We also consider the size of an acquisition since conducting large acquisitions is perhaps the most prominent aspect of empire building. We define a large acquisition as one where the transaction value exceeds the median in a given year. Large transactions are more likely to be

value-reducing (Moeller, Schlingemann, and Stulz, 2004). Further, these transactions are also more visible and thereby likely to attract the attention of an activist investor.

In addition to these characteristics, we track whether an acquisition is diversifying. Morck, Sheifer, and Vishny (1990) argue that diversifying acquisitions are driven by managerial objectives, and Harford (2002) finds that they are more likely to be conducted by cash-rich firms that overpay. We also track acquisitions that are announced during a merger wave in the acquirer's industry. Duchin and Schmidt (2013) argue that such transactions are value-destructive because managers face weaker monitoring during a merger wave. We consider an industry to be in a merger wave if the number of acquisitions in any two-year period is greater than the 95th percentile of a uniform distribution over the entire sample period (Harford, 2005). Consistent with prior research, diversifying and in-wave transactions are associated with negative abnormal returns in our sample around both the announcement date using a market model as well as over 12 and 24 months post-announcement using cumulative or buy and hold abnormal returns.[4]

Table 2 summarizes the past M&A activity and financial characteristics of activist targets and compares them to those of non-target firms. This univariate comparison does not reveal sharp differences in the acquisition behavior of firms that become activist targets. Approximately 10% of targeted firms make an acquisition over the prior three years, a frequency that is similar to the unconditional frequency for non-targeted firms over our sample period. We also do not detect meaningful differences between the frequency of large deals, stock-financed deals, or diversifying deals. The only significant difference appears to be in the frequency of in-wave transactions where activist targets are about twice more likely to have announced a prior transaction during an industry merger wave than non-target firms.

[4] Fuller, Netter, and Stegemoller (2002) and Moeller, Schlingemann, and Stulz (2004) argue that overpayment is also likely to occur in acquisitions involving publicly-held targets. Due to our requirement that a transaction be at least 5% of the acquirer's market capitalization, our sample does not include acquisitions of private firms.

[Insert Table 2]

A concern in interpreting these univariate comparisons is that activist targets differ systematically from other firms (see Brav, Jiang, and Kim, 2010; Edmans, Fang, and Zur, 2013). Panel B of Table 2 shows that relative to other firms, activist targets have higher institutional ownership, smaller size (in terms of log of market capitalization), lower valuation (Tobin's *Q*), slightly lower return on assets (ROA) and growth in sales.[5] Our subsequent analysis controls for these differences between activist targets and non-targets.

3. Do activists target inefficient acquirers?

In this section, we examine whether a firm's past M&A strategy affects its probability of becoming an activist target. Anecdotal accounts suggest that a record of poorly performing acquisitions attracts activist intervention. For example, the Wall Street Journal reports that "activists like Carl Icahn and Jana Partners have rattled tech giants including Apple, Microsoft and Qualcomm in recent years, urging strategy shifts or financial moves to boost share prices. Their biggest complaints: excessive spending on pet technology projects and unproductive acquisitions."[6] The article cites several Silicon Valley insiders and bankers who argue that "activists have had a chilling effect on acquisitions" and "changed the shape of the M&A market". Similar anecdotes report that activists often view acquisitive firms as profitable targets for an intervention, pointing to the potential to unlock value in diversified firms with many past acquisitions.[7]

In Table 3, we examine whether the past acquisition strategy of a firm is associated with the arrival of an activist investor, controlling for other determinants of activism. The sample is

[5] Detailed variable definitions are provided in the Appendix.
[6] See "Tech Firms Seek Ways to Fend Off Activist Investors", *The Wall Street Journal*, May 26, 2015.
[7] See "Starboard to Launch Proxy Fight to Replace Entire Newell Brands Board", *The Wall Street Journal,* Feb. 9, 2018 and "A Success Story for European Activism", *The Wall Street Journal,* Sep. 20, 2017.

based on a firm-year panel of all observations over our sample period. The dependent variable is an indicator – *Activist target in year t* – equal to one if a firm is targeted in an activist campaign in a given year. In all specifications, we control for firm characteristics that have been shown to affect the probability of becoming an activist target. All models include industry and year fixed effects.

[Insert Table 3]

Column (1) of Table 3 examines whether the incidence of prior acquisitions influences the arrival of an activist. We separately consider stock and cash-financed acquisitions, including indicator variables if they were announced in the three years prior to year *t*. We find that a stock-financed acquisition is positively associated with activist arrival, whereas a cash acquisition does not have a statistically significant association. In economic terms, a prior stock acquisition increases the probability of being targeted by 0.57%, or about one-third of the unconditional probability of 1.77% in our sample. The control variables generally have the expected signs; for example, firm size and Tobin's *Q* are negatively related to the probability of being targeted whereas institutional ownership is positively related to being targeted.

To see whether serial acquirers are more likely to be targeted by activists, we measure the amount of acquisition activity by both the number and volume (scaled by the market value of the acquirer) of deals over the prior three years. The results in columns (2)-(3) show that while the number and volume of stock-financed acquisitions have a positive association with activist targeting, the number and volume of cash-financed deals are not related to the probability of the acquirer becoming an activist target.

Column (4) considers the size of prior acquisitions. We find that announcing a large stock-financed deal over the past three years is associated with a 0.73% higher probability of becoming an activist target. This economic magnitude is large, equal to about 40% of the

unconditional probability of being targeted. However, large cash-financed acquisitions do not affect the probability of activist targeting.

To examine whether value-destroying acquisitions increase the likelihood of activist targeting, we consider the returns at the time of the acquisition announcement. The results in column (5) reveal that stock-financed acquisitions with low (i.e., below-median) announcement returns are positively related to activist arrival, raising the probability of being targeted by about 40% in economic terms. In contrast, a low-return cash acquisition is not associated with the probability of becoming an activist target.

Finally, column (6) considers diversifying and in-wave acquisition announcements. Both variables are positively and significantly associated with the likelihood of activist arrival. Firms with a history of diversifying acquisitions are about 30% more likely to become an activist target whereas those conducting in-wave acquisitions are 50% more likely to be targeted by activists, relative to the unconditional likelihood of activist arrival.

The results in Table 3 suggest that a company's acquisition track record is an important factor in activists' targeting decisions. A history of stock-financed acquisitions in particular makes firms susceptible to activist intervention whereas cash-financed transactions do not appear to have a similar effect. A potential explanation for this pattern is that acquirers are particularly prone to empire building and overpayment in stock deals, whereas cash deals impose discipline on acquirers.

4. Do activists influence future acquisition behavior?

We now turn to the central question in the paper – do activists curb empire building and improve acquisition behavior? A number of studies show that activists target firms that pursue suboptimal financial policies and that activist intervention results in higher levels of shareholder

distributions. Brav et al. (2010) show that activist targets increase shareholder payouts. Clifford (2008) and Klein and Zur (2009) find increases in leverage and dividend yield, which they interpret as evidence of lower agency costs. Therefore, by imposing higher distributions and leverage, firms targeted by activists may have less financial flexibility to pursue cash-financed acquisitions. In addition, by imposing greater monitoring, activist intervention could also constrain incentives to pursue non-value maximizing stock-financed acquisitions.

Table 4 presents summary statistics on the post-activism M&A activity of targeted firms, comparing it to that of non-targeted Compustat firms. Over the three years following activist intervention, targeted firms display a 6.2% frequency of making acquisitions, a pace substantially lower than the 9.8% frequency for non-targeted firms. Compared to non-targets, activist targets make fewer stock deals, large acquisitions, as well as diversifying acquisitions. Post-activism, returns for acquisition announcements are significantly higher for targets than for non-targets, and we observe a similar pattern for returns over longer intervals of one and two years. The univariate evidence presented in Table 4 is indicative of a positive relationship between activist intervention and post-activism M&A strategy.

[Insert Table 4]

Table 5 presents regression models of the probability of a firm making an acquisition over the next three- or five-year period relative to year *t.* The dependent variables are indicators for making a cash or stock acquisition bid over the respective horizon. The key independent variable, *Activist*, is an indicator set to one if a hedge fund activist initiates a campaign in year *t*, and is zero otherwise. In addition to the controls from Table 3, we include several firm characteristics – *Sales growth, Price-to-earnings,* and *Cash deviation* – that have been shown to affect acquisition behavior (Harford, 1999). All regressions include year and industry fixed effects.

[Insert Table 5]

The results in columns (1) and (2) show that activist targets are 3.7% less likely to make an acquisition over the next three and five years, relative to other non-targeted firms. The economic magnitudes of these effects are substantial, equal to about one-third of the probability of making an acquisition in the sample of all firms. Even though this lower acquisition intensity is present for both cash and stock deals, the economic magnitude of the coefficient on cash bids in column (3) – equal to two-thirds of the unconditional probability – is almost twice as large as that on stock bids in column (5). This is consistent with prior findings that activists frequently demand a reduction in excess cash and an increase in leverage at their targets, suggesting a lower ability of these firms to engage in cash and debt-financed acquisitions.

Our results indicate a negative relationship between activist involvement and the probability of subsequent acquisitions. This raises the question of whether activists are good at predicting which firms are likely to be disciplined in their future M&A activity. If so, our results may reflect activist stock selection rather than interventionist skills. To address identification, we conduct two sets of additional tests.

First, we investigate whether activist ownership has a differential effect on the probability of making an acquisition bid relative to passive ownership by the *same* activist hedge fund. The advantage of this test is that we can utilize a larger sample consisting of all portfolio holdings of our sample of activist hedge funds, as reported in the Thomson Reuters 13F database.[8] About two-thirds of the activist hedge funds over 1995-2011 have available 13F data.

Table 6 reports regressions of the probability of an acquisition bid for the sample of acquirers in which activist hedge funds disclose either a passive or an active stake. The unit of

[8] The SEC requires that institutional investors with over $100 million in assets under management file quarterly holdings reports, known as 13F filings.

observation is an activist-firm-year. In addition to industry and year fixed effects, we include hedge fund fixed effects to control for time-invariant characteristics of activist hedge funds. We define a variable *HF active stake*, which equals one if the activist hedge fund has declared activist intentions (reported in Schedule 13D in year *t*), and zero otherwise. The coefficient on *HF active stake* is negative and statistically significant in columns (1)-(2). In terms of economic magnitude, *HF active stake* is associated with a 4.1% lower probability of making an acquisition bid in the next three or five years, equivalent to about a quarter of the unconditional probability in this sample. As in previous tests, the economic magnitude of the effect on cash deals is larger than that on stock deals, although both effects are substantial and statistically significant.

[Insert Table 6]

Second, as an additional test, we exploit the decision of an activist fund to change the legal filing status of an ownership position from SEC Schedule 13G to Schedule 13D, indicating a switch from passive ownership to activist investing in the *same* firm. That is, we fix the hedge fund-firm pair and use the change in activist attitude within the same firm. As argued by Brav, Jiang, and Kim (2015), this test provides a "clean identification of intervention beyond stock picking." We use data on 13G filings, provided to us by Alon Brav (see Brav, Jiang, Ma, and Tian, 2018).

The results of these tests are presented in Table 7. The dependent variable is an indicator – *13G-to-13D switch* – set to one for firms in which the activist's filing status switches from passive ownership to active investment in year *t*. As in table 6, we include hedge fund fixed effects, in addition to firm and industry fixed effects.

[Insert Table 7]

We find that firms in which the activist switches from 13G to 13D status have a 5.2% (4.8%) lower probability of making an acquisition bid in the next three (five) years, compared with firms where no switch is observed. The economic magnitudes are similar to our results in Table 5 – 33-45% of the unconditional probability of an acquisition bid in this sample. As before, the economic magnitude of the coefficient on cash bid in column (3) is larger than that on stock bid in column (5). These results indicate that the probability of making an acquisition bid is significantly lower in firms in which the activist switches from a passive to an activist stance, presumably with the intention to actively intervene in the firm's policies.

These findings suggest that the association between activist involvement and future M&A activity cannot be explained primarily by the activists' stock selection skills. Controlling for fund selection effects either within the same firm, or across all firms in an activist's portfolio, we find effects of similar economic magnitude to those obtained by using the full sample of activist campaigns. These findings suggest a treatment effect of activist involvement on the targets' M&A strategy.

5. Do activist targets make better acquisitions?

In this section, we examine the nature of M&A transactions conducted after an activist campaign occurs. We consider the size of the deals, whether they are diversifying, and if they are announced during an industry merger wave. Prior research suggests that these transaction attributes are often associated with value-reducing M&A activity. Table 8 reports results from regressions of the probability of these acquisition types. We include the same set of controls and fixed effects as in our baseline models in Table 5.

[Insert Table 8]

The dependent variable in columns (1) and (2) is an indicator for large acquisitions, i.e. those above the median transaction value of all deals in the year. We find that activist targets are 1.6% (1.9%) less likely to make large acquisitions in the three (five) years from year *t*, compared to non-targets. In economic terms, these coefficient magnitudes represent about a quarter of the unconditional probability of making such acquisitions in the sample. In columns (3) and (4), we use as the dependent variable an indicator for a diversifying acquisition. Diversifying acquisitions are 20-30% less likely for activist targets, based on the unconditional probability in the sample. In columns (5) and (6), we use an indicator for an in-wave transaction as the dependent variable. We find that such deals are 35% (40%) less likely for activist targets in the three (five) years after activism. Overall, these results suggest that activist targets not only reduce the frequency of making acquisitions but also substantially change the selection of target firms, avoiding transactions often thought to be associated with empire building.

Do firms experience better acquisition performance following activist intervention relative to non-targeted firms? We investigate this question by studying the short-term and long-term returns associated with acquisition announcements. In Table 9, we report regression models of daily cumulative abnormal returns (CARs) around the announcement of acquisitions within three or five years of year *t*. We estimate returns using the CRSP value-weighted index as the benchmark. In untabulated tests, we obtain similar results using the Fama-French three-factor model instead. As additional controls, we include several bidder and deal characteristics – *Free cash flow, Competitive industry, Unique industry, High tech industry, and Bidder BHAR [-13m, -1m]* – that have been shown to affect bidder returns (see Masulis, Wang, and Xie, 2007). All variables are described in the Appendix.

[Insert Table 9]

Columns (1) and (2) of Table 9 show that acquisition announcements by activist targets obtain 2.3-2.5% higher three-day announcement CARs, relative to non-targets. Columns (3) and (4) present regressions of monthly CARs from one month before to 12 months after the acquisition announcement and from one month before to 24 months after the acquisition announcement. Acquisitions by activist targets appear to outperform acquisitions by non-targets by 11% over the first year following the deal announcement and by 19% over the two years after the announcement. We find similar results if we use buy-and-hold returns (BHARs) instead, as shown in columns (5) and (6); relative to non-targets, activist targets experience 15% higher returns over the first year, and 26% higher returns over the two years following the acquisition announcement.

7. Refocusing through divestitures

Brav et al. (2008) show that activism involving refocusing the target firm and spinning-off noncore assets is associated with the greatest value creation for shareholders at the announcement of activism. As discussed in Bebchuk (2005) and Pan, Wang, and Weisbach (2016), managerial agency problems not only manifest themselves in overinvestment through empire building acquisitions, but also in managerial hesitation and reluctance to sell unprofitable assets. Hence, in addition to curbing empire-building behavior, activists may play a role in pushing firms to undo the effects of past empire building by divesting inefficient prior acquisitions. Therefore, we now investigate whether activist targets are more likely to undertake divestitures and spinoffs than non-target firms.

In Table 10, we find that activist targets engage in a greater number of divestitures in the one- and three-year periods following the arrival of the activist, as seen in columns (1)-(2). In economic terms, activist targets are 48% more likely to engage in divestitures in the first year

after activism and 26% more likely over the three-year period post-activism. Columns (4)-(6) show that activist targets do not undertake a greater number of spinoff transactions, compared to non-targets.

[Insert Table 10]

Although executives of public companies like to grow the firm through acquisitions, they are usually reluctant to sell existing divisions or assets, and reverse previously conducted poor acquisitions, as documented in Pan, Wang, and Weisbach (2016). Our results suggest that not only does acquisition performance improve after activist arrival, but that activists also play a role in refocusing through divestitures by reducing managerial reluctance to sell.

Finally, we evaluate the performance of the divestitures undertaken by activist targets. Some observers have held the view that activist investors are focused on short-term gains, and as a result, they push firms to sell assets in order to increase shareholder payouts at the expense of long-term value. For example, the Brokaw Act, introduced in the U.S. Senate in 2017 entails increased oversight and disclosure of activist hedge funds to combat such short-termism.[9] To examine whether activist actions are detrimental to long-term value, we investigate the short- and long-term stock return performance associated with post-activism divestitures.

In columns (1)-(2) of Table 11, we present estimates of regressions of daily CARs. For brevity, we focus on divestitures in the three years following year *t*. The key independent variable, *Activist*, is an indicator set to one if a hedge fund activist initiates a campaign against the firm in year *t*, and zero otherwise. We include the same controls and fixed effects as in Table 9, where we study acquisition returns.

[Insert Table 11]

[9] See S. 1744 – Brokaw Act, 115th Congress (2017-2018).

The first two columns show that the divestitures of activist targets experience 0.7% (1.7%) higher CARs in the three (eleven) days around the divestiture announcement, relative to divestitures by non-targets. Divestitures by activist targets appear to outperform those by non-targets by 9% over the first year and by 15% over the two years after the deal announcement (columns (3) and (4)). We find similar results using buy-and-hold returns (BHARs); activist targets experience 10% higher returns over the first year (column (5)), and 19% higher returns over the two years following the divestiture (column (6)), relative to the returns experienced by non-targets. These findings cast doubt on the view that activist involvement leads firms to divest assets at the expense of long-term shareholder value.

8. Conclusions

We illustrate an important channel through which activists enhance shareholder value. Empire building firms exhibit a greater probability of being targeted by activist hedge funds. Activists not only target firms which overinvest in M&A, but also subsequently improve the acquisition strategy of targeted firms. As a result of activist intervention in the market for corporate control, firms become more selective in their acquisitions, leading to fewer transactions, which are associated with higher announcement and long-term shareholder returns. In addition to imposing discipline on the acquisition strategy of targeted firms, activists also play a role in refocusing the firm's operations through divestitures. We find no evidence suggesting that these divestitures occur at the expense of long-term shareholder value. Overall, our results highlight an important governance role for activists in mitigating value destruction from empire building.

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Appendix: Variable definitions

Variable	Definition
Activist variables	
Activist	Indicator for an activist campaign in year *t*. Source: SEC Schedule 13D and FactSet's SharkRepellent.net.
HF active stake	Indicator equal to one if the activist hedge fund has activist intentions (reported in Schedule 13D in year *t*), and zero otherwise. Source: Thomson Reuters 13F, SEC Schedule 13D and FactSet's SharkRepellent.net.
13G-to-13D switch	Indicator equal to one if the activist hedge fund initially files a Schedule 13G but switches to a Schedule 13D in year *t*, indicating a change from passive to activist engagement in the same firm. Source: SEC Schedules 13G and 13D.
M&A variables	
M&A frequency	Average number of acquisition bids made by a firm in a given period. Source: Thomson Reuters SDC Platinum.
Large bid	Indicator equal to one for acquisition bids with above-median transaction value in a given year. Source: SDC Platinum.
Diversifying bid	Indicator equal to one for acquisition bids outside the acquirer's Fama-French 48 industry. Source: SDC Platinum.
In-wave bid	Indicator equal to one for acquisition bids made during an industry merger wave. A merger wave is an indicator equal to one if the number of mergers in the industry during any consecutive two-year period is greater than the 95th percentile of a uniform distribution over the entire sample period (Harford, 2005). Source: SDC Platinum, Compustat.
Abnormal return	Stock return minus contemporaneous CRSP value-weighted return for market model adjustment. Source: CRSP.
Control variables	
% Inst. own.	Fraction of a firm's equity owned by institutions reporting to the SEC in Form 13F. Source: Thomson Reuters 13F.
Stock return volatility	Standard deviation of daily stock returns. Source: CRSP.
Illiquidity	Amihud (2002) ratio defined as the average ratio of the daily absolute return to the daily dollar trading volume. Source: CRSP.
Tobin's *Q*	Ratio of market value of assets (market value of equity plus book value of debt) to book value of assets (sum of book values of debt and common equity). Source: Compustat, CRSP.
Firm size	Natural logarithm of stock market capitalization in millions of dollars. Source: CRSP.
ROA	Operating income before depreciation divided by lagged book value of assets. Source: Compustat.
Book leverage	Debt (long-term debt and debt in current liabilities) divided by the sum of debt and common equity. Source: Compustat.
Dividend yield	Common dividends divided by the market value of common stock. Source: Compustat.
R&D expenditure	Research and development expense divided by lagged firm assets. Source: Compustat.
Herfindahl index	Index of market concentration for each Fama-French 48 industry, calculated as the sum of squared market shares of all Compustat firms (with available sales data) in the industry. Source: Compustat.
Stock return	Stock return minus contemporaneous value-weighted CRSP returns. Source: CRSP.

Variable	Definition
Sales growth	Average sales growth from *t*-3 to *t*. Source: Compustat.
Price-to-earnings	Stock price divided by earnings per share, averaged over years *t*-3 to *t*. Source: CRSP, Compustat.
Cash deviation	Deviation of cash and cash equivalents from the average value predicted for a firm's industry, measured at the beginning of year *t* and normalized by total assets. Source: Compustat.
Free cash flow	Operating income before depreciation less interest expenses less income taxes less capital expenditures, divided by book value of total assets. Source: Compustat.
Competitive industry	Indicator equal to one if the acquirer's industry is in the bottom quartile of all Fama-French 48 industries annually sorted by the Herfindahl index, and zero otherwise. Source: Compustat.
Unique industry	Indicator equal to one if the acquirer's industry is in the top quartile of all Fama-French 48 industries annually sorted by industry-median product uniqueness, and zero otherwise. Product uniqueness is defined as selling expense divided by sales. Source: Compustat.
High tech industry	Indicator equal to one if acquirer and target are both from high tech industry, as defined by Loughran and Ritter (2004). Source: Compustat.

Table 1. Hedge fund activism and M&A activity

This table reports summary statistics for activist campaigns and acquisition bids over 1995-2011. Columns (1)-(2) present the number and frequency of activist campaigns by hedge funds, based on data from SEC Schedule 13D and FactSet's SharkRepellent.net. Columns (3) and (4) present the M&A frequency – average number of bids made by a firm – for activist targets and non-targets in the 3 years prior to year *t*, as reported by Thomson Reuters Securities Data Company (SDC) Platinum. Columns (5) and (6) present the M&A frequency for activist targets and non-targets in the 3 years after year *t*. Included are bids exceeding $10 million and 5% of the acquirer's market capitalization.

	(1)	(2)	(3)	(4)	(5)	(6)
			M&A frequency (*prior* 3 years)		M&A frequency (*next* 3 years)	
Year	# activism targets	% Compustat firms with activism	Activist targets	Activist non-targets	Activist targets	Activist non-targets
1995	5	0.07%	0.00%	1.74%	0.00%	8.82%
1996	28	0.34%	3.57%	3.85%	3.57%	9.40%
1997	61	0.75%	6.56%	6.24%	8.20%	10.18%
1998	52	0.67%	5.77%	8.71%	7.69%	10.20%
1999	39	0.51%	15.38%	10.11%	0.00%	9.35%
2000	68	0.92%	10.29%	10.96%	4.41%	8.68%
2001	85	1.27%	7.06%	11.10%	2.35%	9.05%
2002	113	1.81%	14.16%	10.41%	7.08%	9.94%
2003	98	1.66%	7.14%	10.30%	5.10%	11.62%
2004	104	1.77%	12.50%	10.27%	9.62%	12.61%
2005	182	3.15%	12.64%	10.67%	7.14%	11.83%
2006	221	3.88%	11.76%	11.91%	4.52%	10.93%
2007	242	4.36%	13.64%	12.98%	5.79%	10.49%
2008	164	3.13%	12.20%	12.39%	7.32%	10.38%
2009	87	1.75%	11.49%	11.68%	5.75%	11.20%
2010	107	2.20%	11.21%	11.65%	8.41%	12.84%
2011	85	1.78%	14.12%	11.20%	8.24%	14.67%
Total	1741	1.77%	9.97%	9.78%	5.60%	10.72%
1995-2002	451	0.79%	7.85%	7.89%	4.16%	9.45%
2003-2011	1290	2.63%	11.86%	11.45%	6.88%	11.84%

Table 2. Firm and acquisition characteristics of activist targets and non-targets

Panel A of this table reports deal characteristics and returns of acquisition bids made by activist targets and non-targets in the 3 years prior to activism (prior to year *t* for non-targets). Panel B reports firm characteristics of activist targets and non-targets over the sample period from 1995 to 2011. *M&A frequency* is the average number of bids made by a firm. *Large bid* is an indicator equal to one for acquisition bids with above median transaction value in a given year. *Diversifying bid* is an indicator for deals outside the acquirer's Fama-French 48 industry. *In-wave bid* is an indicator for deals made during an industry merger wave. *Relative bid size* is the ratio of the deal transaction value to the acquirer's market capitalization. All variables are defined in the Appendix. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level for differences in means.

Panel A. M&A activity and acquisition characteristics (*t-3* to *t*)

	(1)	(2)	(3)	(4)	(5)	(6)
	Activist targets		Activist non-targets		Difference in means	
	# obs.	Mean	# obs.	Mean	Difference	t-stat
M&A frequency	1741	0.098	109135	0.100	0.00	-0.24
Stock bid	1741	0.019	109135	0.018	0.00	0.34
Large bid	1741	0.070	109135	0.072	0.00	-0.24
Diversifying bid	1741	0.040	109135	0.041	0.00	-0.23
In-wave bid	1741	0.012	109135	0.006	0.01	2.42**
Relative bid size	168	0.568	4985	0.727	-0.16	-1.21
CAR [-1d,+1d]	168	-0.006	4938	-0.002	0.004	-0.88
CAR [-5d,+5d]	168	-0.016	4938	-0.004	0.012	-1.78*
CAR [-1m,+12m]	147	-0.241	4391	-0.163	0.077	-2.03**
CAR [-1m,+24m]	147	-0.402	4391	-0.294	0.108	-1.87*
BHAR [-1m,+12m]	147	-0.321	4391	-0.222	0.099	-2.36**
BHAR [-1m,+24m]	147	-0.678	4391	-0.477	0.201	-2.67***

Panel B. Firm characteristics

	(1)	(2)	(3)	(4)	(5)	(6)
	Activist targets		Activist non-targets		Difference in means	
	# obs.	Mean	# obs.	Mean	Difference	t-stat
% Inst. own.	1265	0.519	75325	0.3923	0.13	14.92***
Stock return volatility	1650	9.4371	90433	10.4182	-0.98	-6.57***
Illiquidity	1667	0.0878	90476	0.0977	-0.01	-4.25***
Tobin's Q	1729	0.3613	108449	0.4565	-0.10	-7.41***
Firm size	1734	5.2399	108658	5.4822	-0.24	-5.74***
ROA	1574	0.0482	97681	0.0617	-0.01	-2.43**
Book leverage	1732	0.216	108625	0.2207	0.00	-0.84
Dividend yield	1730	0.0122	108026	0.035	-0.02	-1.12
R&D expenditure	1739	0.061	108946	0.048	0.01	4.18***
Sales growth	1355	0.1371	82048	0.1738	-0.04	-3.96***
Noncash working capital	1316	0.0425	72761	0.06	-0.02	-3.34***
Price-to-earnings	1458	10.8408	90132	14.1872	-3.35	-1.91*
Cash deviation	1740	0.0091	109072	-0.0001	0.01	1.91*
Free cash flow	1522	0.0242	91864	0.0228	0.00	0.28
Herfindahl index	1739	0.0666	108939	0.0662	0.00	0.29
Competitive industry	1739	0.257	108939	0.2816	-0.02	-2.33**
Unique industry	1741	0.1321	109135	0.145	-0.01	-1.58

Table 3. Activist targeting

This table reports estimates from OLS regressions of the probability of being targeted by an activist. *Activist target in year t* is an indicator for an activist event in year *t*. The activism sample period is between 1995 and 2011 and the observations are firm-year. *Stock/Cash bid* is an indictor equal to one if the firm makes a stock/cash acquisition bid in the three years prior to year *t*, and zero otherwise. *Volume/Number stock/cash bids* are the number and volume (scaled by the acquirer's market value) of all bids made by the firm in the past 3 years. *Large stock/cash bid* is an indicator equal to one for acquisition bids with above median size in a given year. *Low return stock/cash bid* is an indicator equal to one for acquisition bids with below median three-day announcement CARs, estimated using the market model. *In-wave bid* is an indicator for deals conducted during an industry merger wave. *Diversifying bid* is an indicator for bids outside the acquirer's Fama-French 48 industry. All other variables are defined in the Appendix and are as of year *t-1*. All regressions include industry and year fixed effects. Standard errors are clustered by firm. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Activist target in year *t*					
Stock bid	0.0057**					
	(2.21)					
Cash bid	-0.0019					
	(-0.78)					
Number stock bids		0.0038***				
		(2.71)				
Number cash bids		-0.0016				
		(-0.80)				
Volume stock bids			0.0041**			
			(2.20)			
Volume cash bids			0.0028			
			(0.89)			
Large stock bid				0.0073**		
				(2.57)		
Large cash bid				0.0029		
				(1.05)		
Low return stock bid					0.0073**	
					(2.38)	
Low return cash bid					-0.0030	
					(-0.95)	
In-wave bid						0.0087**
						(1.98)
Diversifying bid						0.0055***
						(2.58)
% Inst. own.	0.0282***	0.0282***	0.0280***	0.0282***	0.0282***	0.0277***
	(10.25)	(10.26)	(10.17)	(10.26)	(10.25)	(10.08)
Stock return volatility	-0.0006***	-0.0006***	-0.0006***	-0.0006***	-0.0006***	-0.0006***
	(-5.39)	(-5.38)	(-5.37)	(-5.43)	(-5.38)	(-5.46)
Illiquidity	-0.0228**	-0.0229**	-0.0223**	-0.0248***	-0.0228**	-0.0225**
	(-2.43)	(-2.43)	(-2.37)	(-2.62)	(-2.42)	(-2.40)
Tobin's Q	-0.0089***	-0.0089***	-0.0088***	-0.0087***	-0.0089***	-0.0086***
	(-8.27)	(-8.28)	(-8.14)	(-8.10)	(-8.26)	(-8.00)
Firm size	-0.0060***	-0.0059***	-0.0059***	-0.0062***	-0.0059***	-0.0062***
	(-13.90)	(-13.89)	(-14.03)	(-13.64)	(-13.90)	(-14.32)
ROA	-0.0044	-0.0044	-0.0045	-0.0044	-0.0044	-0.0044
	(-1.27)	(-1.28)	(-1.31)	(-1.29)	(-1.27)	(-1.29)
Book leverage	0.0045*	0.0045*	0.0040	0.0042	0.0045*	0.0038
	(1.67)	(1.67)	(1.46)	(1.57)	(1.65)	(1.40)
Dividend yield	0.0007	0.0007	0.0009	0.0007	0.0007	0.0009
	(0.11)	(0.11)	(0.13)	(0.11)	(0.11)	(0.14)
R&D expenditure	0.0226***	0.0226***	0.0224***	0.0225***	0.0226***	0.0227***
	(3.20)	(3.20)	(3.18)	(3.19)	(3.20)	(3.21)
Stock return	0.0007	0.0007	0.0006	0.0007	0.0007	0.0007
	(0.94)	(0.94)	(0.84)	(0.96)	(0.94)	(0.94)
Herfindahl index	-0.0023	-0.0022	-0.0013	-0.0018	-0.0023	-0.0012
	(-0.11)	(-0.10)	(-0.06)	(-0.08)	(-0.11)	(-0.05)
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	65,388	65,388	65,388	65,388	65,388	65,388
Adjusted R2	0.0183	0.0183	0.0183	0.0183	0.0183	0.0185

Table 4. Deal characteristics and returns of acquisitions by activist targets and non-targets (*t* to *t+3*)

This table reports deal characteristics and returns of acquisition bids made by activist targets and non-targets in the 3 years after activism (after year *t* for non-targets). The activism sample period is between 1995 and 2011. *M&A frequency* is the average number of bids made by a firm. *Large bid* is an indicator equal to one for acquisition bids with above median transaction value in a given year. *Diversifying bid* is an indicator for deals outside the acquirer's Fama-French 48 industry. *In-wave bid* is an indicator for deals made during an industry merger wave. *Relative bid size* is the ratio of the deal transaction value to the acquirer's market capitalization. All variables are defined in the Appendix. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level for differences in means.

	(1)	(2)	(3)	(4)	(5)	(6)
	Activist targets		Activist non-targets		Difference in means	
	# obs.	Mean	# obs.	Mean	Difference	t-stat
M&A frequency	1741	0.062	109135	0.0982	-0.036	-6.23***
Stock bid	1741	0.0097	109135	0.0166	-0.007	-2.92***
Large bid	1741	0.0347	109135	0.0674	-0.033	-7.40***
Diversifying bid	1741	0.0267	109135	0.0403	-0.014	-3.50***
In-wave bid	1741	0.0063	109135	0.0057	0.001	0.32
Relative bid size	105	0.463	5048	0.727	-0.264	-2.03**
CAR [-1d,+1d]	103	0.019	5003	-0.002	-0.021	3.24***
CAR [-5d,+5d]	103	0.014	5003	-0.005	-0.019	2.18**
CAR [-1m,+12m]	96	-0.076	4442	-0.168	-0.092	1.83*
CAR [-1m,+24m]	96	-0.050	4442	-0.303	-0.253	3.46***
BHAR [-1m,+12m]	96	-0.122	4442	-0.227	-0.105	1.73*
BHAR [-1m,+24m]	96	-0.170	4442	-0.490	-0.320	3.38***

Table 5. Probability of making an acquisition bid

This table reports OLS regressions of the probability of making a bid by acquirers with and without recent activism. The activism sample period is between 1995 and 2011. The dependent variables are indicators for making an acquisition bid (or a cash/stock bid) in the next three or five years relative to year *t*. *Activist* is an indicator for an activist campaign in year *t*. All other variables are defined in the Appendix and are as of year *t-1*. All regressions include industry and year fixed effects. Standard errors are clustered by firm. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Bid	Bid	Cash bid	Cash bid	Stock bid	Stock bid
	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]
Activist	-0.0370***	-0.0367***	-0.0304***	-0.0298***	-0.0105***	-0.0082**
	(-4.41)	(-3.97)	(-5.17)	(-4.22)	(-2.65)	(-1.96)
% Inst. own.	0.0860***	0.0983***	0.0646***	0.0788***	0.0059	0.0021
	(6.67)	(6.43)	(7.27)	(6.99)	(0.82)	(0.27)
Stock return volatility	-0.0007**	-0.0009**	-0.0009***	-0.0012***	-0.0000	0.0001
	(-2.37)	(-2.34)	(-4.29)	(-4.45)	(-0.18)	(0.60)
Illiquidity	-0.1700***	-0.2389***	-0.0119	-0.0353	-0.0875***	-0.1040***
	(-4.88)	(-5.72)	(-0.52)	(-1.22)	(-3.99)	(-4.23)
Tobin's Q	-0.0256***	-0.0257***	-0.0157***	-0.0162***	-0.0060**	-0.0072**
	(-5.14)	(-4.32)	(-4.60)	(-3.68)	(-2.11)	(-2.30)
Firm size	0.0346***	0.0395***	0.0162***	0.0196***	0.0092***	0.0107***
	(13.82)	(13.47)	(9.19)	(8.89)	(6.74)	(6.81)
ROA	0.0113	0.0161	0.0166*	0.0226**	-0.0057	-0.0037
	(0.89)	(1.08)	(1.94)	(2.07)	(-0.67)	(-0.39)
Book leverage	0.0444***	0.0459***	0.0178**	0.0168	0.0212***	0.0193***
	(3.49)	(3.03)	(2.01)	(1.51)	(3.04)	(2.62)
Dividend yield	-0.0347	-0.0462*	-0.0249*	-0.0366*	-0.0001	0.0025
	(-1.63)	(-1.87)	(-1.69)	(-1.92)	(-0.01)	(0.19)
R&D expenditure	-0.0221	-0.0127	-0.0309*	-0.0245	0.0046	0.0107
	(-0.90)	(-0.44)	(-1.89)	(-1.20)	(0.29)	(0.61)
Stock return	0.0048***	0.0038**	0.0022**	0.0017	0.0037***	0.0031***
	(2.78)	(2.11)	(2.16)	(1.47)	(3.36)	(3.00)
Sales growth	0.0278***	0.0300***	0.0062	0.0069	0.0168***	0.0167***
	(4.25)	(4.01)	(1.36)	(1.22)	(3.98)	(3.67)
Price-to-earnings	-0.0000	-0.0000	-0.0000	-0.0000	-0.0000	-0.0000
	(-0.04)	(-0.21)	(-0.70)	(-0.40)	(-0.69)	(-1.22)
Cash deviation	-0.0169	-0.0337*	-0.0203*	-0.0352***	0.0148*	0.0188**
	(-1.17)	(-1.96)	(-1.89)	(-2.65)	(1.86)	(2.07)
Herfindahl index	-0.1529**	-0.1087	-0.0962	-0.0433	0.0158	0.0215
	(-1.98)	(-1.20)	(-1.63)	(-0.59)	(0.35)	(0.45)
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	68,080	68,080	68,080	68,080	68,080	68,080
Adjusted R2	0.116	0.138	0.0667	0.0833	0.0404	0.0461

Table 6. Probability of making an acquisition bid: Active vs. passive ownership

This table reports OLS regressions of the probability of making an acquisition bid. The dependent variables are indicators for making an acquisition bid (or a cash/stock bid) in the next three or five years relative to year *t*. The sample includes firms held between 1995 and 2011 by at least one activist hedge fund that files a 13F ownership report. *HF Active Stake* is an indicator set to one if the hedge fund has activist intentions (reported in a Schedule 13D in year *t*), and zero otherwise. All other variables are defined in the Appendix and are as of year *t-1*. All regressions include industry, year, and hedge fund fixed effects. Standard errors are clustered by hedge fund. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Bid	Bid	Cash bid	Cash bid	Stock bid	Stock bid
	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]
HF active stake	-0.0417**	-0.0405**	-0.0386***	-0.0341***	-0.0190***	-0.0226***
	(-2.45)	(-2.06)	(-3.61)	(-2.68)	(-2.92)	(-2.99)
% Inst. own.	0.1031***	0.1135***	0.0762***	0.0980***	0.0247***	0.0191***
	(21.12)	(18.02)	(19.21)	(19.63)	(8.50)	(5.37)
Stock return volatility	-0.0048***	-0.0058***	-0.0039***	-0.0044***	0.0001	-0.0000
	(-17.83)	(-17.51)	(-21.92)	(-21.00)	(1.06)	(-0.10)
Illiquidity	-0.3137***	-0.4140***	-0.1148***	-0.1606***	-0.0504***	-0.0762***
	(-10.72)	(-12.25)	(-6.20)	(-6.75)	(-4.17)	(-5.06)
Tobin's Q	-0.0518***	-0.0527***	-0.0355***	-0.0364***	-0.0081***	-0.0117***
	(-16.23)	(-14.33)	(-15.03)	(-13.40)	(-6.24)	(-8.07)
Firm size	0.0263***	0.0302***	0.0129***	0.0157***	0.0062***	0.0080***
	(19.49)	(19.64)	(14.42)	(14.83)	(13.95)	(14.45)
ROA	0.0706***	0.0761***	0.0567***	0.0699***	-0.0070**	-0.0135***
	(9.54)	(8.54)	(9.81)	(10.44)	(-2.14)	(-3.31)
Book leverage	0.0293***	0.0314***	0.0067	0.0014	0.0300***	0.0340***
	(4.42)	(3.99)	(1.47)	(0.23)	(11.26)	(10.55)
Dividend yield	-0.1911***	-0.2340***	-0.1419***	-0.1649***	-0.0305***	-0.0484***
	(-12.48)	(-13.10)	(-11.65)	(-12.30)	(-4.91)	(-6.22)
R&D expenditure	-0.0246**	-0.0054	-0.0262***	-0.0134	-0.0134*	-0.0094
	(-2.00)	(-0.34)	(-2.82)	(-1.13)	(-1.95)	(-1.10)
Stock return	0.0122***	0.0106***	0.0059***	0.0051***	0.0059***	0.0058***
	(9.29)	(8.72)	(9.15)	(8.00)	(7.18)	(7.06)
Sales growth	0.0424***	0.0529***	0.0100***	0.0128***	0.0238***	0.0235***
	(13.59)	(15.11)	(4.58)	(5.38)	(13.05)	(12.01)
Price-to-earnings	0.0000	-0.0000	-0.0000**	-0.0000	-0.0000***	-0.0000***
	(0.08)	(-0.13)	(-2.36)	(-0.82)	(-6.00)	(-8.89)
Cash deviation	-0.0253***	-0.0754***	-0.0308***	-0.0682***	0.0225***	0.0220***
	(-4.21)	(-11.34)	(-7.15)	(-15.03)	(7.37)	(5.78)
Herfindahl index	-0.3653***	-0.2380***	-0.1611***	0.0049	-0.0521**	-0.0597**
	(-7.18)	(-3.91)	(-4.81)	(0.10)	(-2.25)	(-2.03)
Hedge Fund FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	382,374	382,374	382,374	382,374	382,374	382,374
Adjusted R2	0.0802	0.0930	0.0639	0.0768	0.0433	0.0483

Table 7. Probability of making an acquisition bid: Switch from 13G to 13D filing

This table reports OLS regressions of the probability of making an acquisition bid. The dependent variables are indicators for making an acquisition bid (or a cash/stock bid) in the next three or five years relative to year *t*. The sample includes all firms with Schedule 13G hedge fund filers between 1995 and 2011. The indicator variable *13G-to-13D switch* is set to one when the activist hedge fund initially files a Schedule 13G but switches to a Schedule 13D in year *t*, indicating a change from passive to activist engagement in the same firm. All other variables are defined in the Appendix and are as of year *t-1*. All regressions include industry, year, and hedge fund fixed effects. Standard errors are clustered by hedge fund. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Bid	Bid	Cash bid	Cash bid	Stock bid	Stock bid
	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]
13G-to-13D switch	-0.0515**	-0.0481*	-0.0401***	-0.0339**	-0.0200*	-0.0161
	(-2.00)	(-1.74)	(-3.74)	(-2.05)	(-1.94)	(-1.33)
% Inst. own.	0.0500*	0.0829***	0.0402**	0.0588**	0.0196	0.0253
	(1.97)	(2.65)	(2.04)	(2.09)	(1.14)	(1.05)
Stock return volatility	-0.0011	-0.0015	-0.0020**	-0.0033**	0.0002	0.0007
	(-1.03)	(-1.04)	(-2.58)	(-2.55)	(0.40)	(0.98)
Illiquidity	0.2762***	0.3171***	0.1155**	0.1528**	-0.1645**	-0.1930**
	(4.01)	(4.08)	(2.16)	(2.15)	(-2.56)	(-2.33)
Tobin's Q	-0.0217	-0.0064	-0.0201**	-0.0196*	-0.0072	-0.0043
	(-1.59)	(-0.36)	(-2.38)	(-1.76)	(-1.34)	(-0.57)
Firm size	0.0751***	0.0806***	0.0270***	0.0318***	0.0049	0.0059
	(10.53)	(9.85)	(7.39)	(6.00)	(1.48)	(1.25)
ROA	0.0029	-0.0184	0.0093	-0.0328	-0.0414*	-0.0566*
	(0.08)	(-0.38)	(0.65)	(-1.28)	(-1.68)	(-1.97)
Book leverage	0.0487*	0.0694**	-0.0010	-0.0073	0.0532***	0.0601***
	(1.84)	(2.08)	(-0.06)	(-0.35)	(3.45)	(2.72)
Dividend yield	-0.1234**	-0.1626***	-0.0576**	-0.0738**	-0.0451*	-0.0576**
	(-2.43)	(-2.64)	(-2.18)	(-2.06)	(-1.86)	(-2.22)
R&D expenditure	-0.1378	-0.1787*	-0.0752	-0.1033*	-0.0885**	-0.0919*
	(-1.55)	(-1.69)	(-1.49)	(-1.66)	(-2.00)	(-1.77)
Stock return	0.0096***	0.0085**	0.0030	0.0064*	0.0082***	0.0078***
	(3.57)	(2.16)	(1.42)	(1.82)	(3.03)	(2.99)
Sales growth	0.0315	0.0459**	0.0193**	0.0459***	0.0057	0.0002
	(1.57)	(2.30)	(2.45)	(4.15)	(0.40)	(0.02)
Price-to-earnings	-0.0001	-0.0001**	0.0000	0.0000	-0.0000	-0.0001**
	(-1.30)	(-1.99)	(0.44)	(0.55)	(-1.28)	(-2.54)
Cash deviation	0.0222	0.0180	-0.0043	-0.0185	0.0742***	0.0821***
	(0.75)	(0.48)	(-0.16)	(-0.51)	(3.65)	(3.34)
Herfindahl index	-0.6832**	-0.4835	-0.3023*	-0.1917	-0.3767	-0.3298
	(-2.32)	(-1.41)	(-1.83)	(-0.95)	(-1.53)	(-1.30)
Hedge Fund FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	71,066	71,066	71,066	71,066	71,066	71,066
Adjusted R2	0.184	0.212	0.0947	0.118	0.0788	0.102

Table 8. Types of acquisition bids

This table reports OLS regressions of the probability of making an acquisition bid. The activism sample is between 1995 and 2011. *Activist* is an indicator for an activist campaign in year *t*. *Large bid* is an indicator equal to one for acquisition bids with above median transaction value in a given year. *Diversifying bid* is an indicator for deals outside the acquirer's Fama-French 48 industry. *In-wave bid* is an indicator for deals made during an industry merger wave. All other variables are defined in the Appendix and are as of year *t-1*. All regressions include industry and year fixed effects. Standard errors are clustered by firm. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Large bid [t, t+3]	Large bid [t, t+5]	Diversifying bid [t, t+3]	Diversifying bid [t, t+5]	In-wave bid [t, t+3]	In-wave bid [t, t+5]
Activist	-0.0162**	-0.0192***	-0.0193***	-0.0164**	-0.0051**	-0.0053*
	(-2.55)	(-2.77)	(-2.91)	(-2.11)	(-1.99)	(-1.82)
% Inst. own.	-0.0025	0.0062	0.0483***	0.0599***	0.0135***	0.0146***
	(-0.24)	(0.50)	(4.62)	(4.69)	(5.07)	(4.79)
Stock return volatility	0.0018***	0.0017***	-0.0005**	-0.0007**	0.0000	0.0000
	(7.04)	(5.92)	(-2.16)	(-2.30)	(0.29)	(0.22)
Illiquidity	0.4129***	0.4185***	-0.1364***	-0.1893***	0.0119	0.0116
	(13.85)	(12.22)	(-4.74)	(-5.38)	(1.64)	(1.40)
Tobin's Q	-0.0340***	-0.0340***	-0.0127***	-0.0113**	-0.0009	-0.0002
	(-8.05)	(-6.72)	(-3.20)	(-2.30)	(-0.72)	(-0.13)
Firm size	0.0707***	0.0787***	0.0213***	0.0246***	0.0026***	0.0028***
	(25.77)	(26.46)	(10.57)	(10.09)	(5.20)	(5.16)
ROA	0.0062	0.0043	-0.0077	-0.0051	0.0022	0.0012
	(0.60)	(0.35)	(-0.79)	(-0.43)	(0.72)	(0.33)
Book leverage	0.0341***	0.0379***	0.0283***	0.0326**	0.0025	0.0021
	(3.35)	(3.05)	(2.73)	(2.56)	(0.88)	(0.70)
Dividend yield	-0.0052	-0.0107	-0.0197	-0.0250	-0.0067*	-0.0082**
	(-0.36)	(-0.63)	(-1.16)	(-1.31)	(-1.82)	(-1.97)
R&D expenditure	0.0077	0.0047	-0.0407**	-0.0352	-0.0091	-0.0104
	(0.41)	(0.21)	(-2.17)	(-1.53)	(-1.19)	(-1.23)
Stock return	0.0011	0.0007	0.0035***	0.0024*	0.0014***	0.0012***
	(1.08)	(0.60)	(2.62)	(1.76)	(3.07)	(2.77)
Sales growth	0.0098*	0.0102	0.0250***	0.0262***	0.0017	0.0013
	(1.79)	(1.60)	(4.56)	(4.03)	(1.35)	(0.94)
Price-to-earnings	-0.0000	-0.0000	0.0000	-0.0000	0.0000	0.0000
	(-0.43)	(-1.26)	(0.14)	(-1.10)	(0.49)	(0.66)
Cash deviation	-0.0072	-0.0177	-0.0165	-0.0298**	-0.0022	-0.0050
	(-0.65)	(-1.33)	(-1.41)	(-2.10)	(-0.56)	(-1.12)
Herfindahl index	-0.0523	-0.0746	-0.0496	0.0105	-0.0674***	-0.0705***
	(-0.82)	(-1.00)	(-0.73)	(0.13)	(-6.97)	(-6.73)
Industry & year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	68,080	68,080	68,080	68,080	68,080	68,080
Adjusted R2	0.166	0.188	0.0764	0.0939	0.0591	0.0689

Table 9. Acquisition returns

This table reports OLS estimates of daily CARs in columns (1)-(2), monthly CARs in columns (3)-(4), and monthly buy-and-hold returns (BHARs) in columns (5)-(6). Observations are acquisition bids over the next 3 years relative to year *t*. Returns are estimated with respect to the market model with the CRSP value-weighted index as the benchmark. The activism sample period is between 1995 and 2011. *Activis*t is an indicator for an activist campaign in year *t*. All other variables are defined in the Appendix. All regressions include industry and year fixed effects. Standard errors are clustered by firm. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR	CAR	CAR	CAR	BHAR	BHAR
	[-1d, +1d]	[-5d, +5d]	[-1m, +12m]	[-1m, +24m]	[-1m, +12m]	[-1m, +24m]
Activist	0.0233**	0.0253**	0.1146*	0.1913**	0.1484**	0.2648**
	(2.20)	(1.97)	(1.92)	(2.15)	(1.97)	(2.30)
Cash bid	0.0115***	0.0081***	0.0496***	0.0952***	0.0543***	0.1080***
	(5.31)	(2.83)	(3.44)	(3.65)	(2.92)	(3.16)
% Inst. own.	0.0104	0.0127	-0.1291***	-0.1109	-0.1256**	-0.0681
	(1.62)	(1.43)	(-2.79)	(-1.35)	(-2.25)	(-0.68)
Stock return volatility	-0.0014**	-0.0020***	-0.0296***	-0.0464***	-0.0464***	-0.0752***
	(-2.32)	(-2.68)	(-7.86)	(-6.91)	(-8.35)	(-9.01)
Illiquidity	0.0444	0.0143	0.1534	0.7422	0.7250	2.1724***
	(0.73)	(0.20)	(0.40)	(0.99)	(1.58)	(2.58)
Tobin's Q	0.0052	0.0004	-0.1677***	-0.4289***	-0.2426***	-0.6705***
	(1.40)	(0.08)	(-6.56)	(-9.36)	(-7.24)	(-11.78)
Firm size	-0.0027***	-0.0033**	-0.0043	-0.0175	-0.0009	0.0119
	(-2.66)	(-2.51)	(-0.63)	(-1.44)	(-0.10)	(0.81)
ROA	0.0133	0.0112	-0.2834**	-0.5753***	-0.3045*	-0.8373***
	(0.83)	(0.48)	(-2.44)	(-2.78)	(-1.91)	(-3.23)
Book leverage	0.0082	0.0118	-0.0345	-0.2050**	-0.0559	-0.3305***
	(1.22)	(1.36)	(-0.74)	(-2.45)	(-0.96)	(-2.97)
Dividend yield	0.0377	0.0452	0.4848	1.4294***	0.4176	1.2005*
	(0.96)	(0.77)	(1.58)	(2.69)	(1.15)	(1.76)
R&D expenditure	-0.1227***	-0.1243***	0.0858	1.2645***	0.5185*	1.6098***
	(-3.19)	(-2.80)	(0.37)	(3.47)	(1.76)	(3.36)
Free cash flow	0.0082	0.0251	0.3604***	0.7752***	0.3069*	0.6176**
	(0.49)	(0.97)	(2.67)	(3.63)	(1.76)	(2.26)
BHAR [-13m,-2m]	0.0004	-0.0008	0.1904***	0.4586***	0.3026***	0.6410***
	(0.15)	(-0.23)	(11.13)	(14.76)	(12.73)	(15.89)
Herfindahl index	0.0026	-0.1054	-0.0555	0.2872	-0.2150	0.6000
	(0.05)	(-1.55)	(-0.15)	(0.44)	(-0.48)	(0.74)
Competitive industry	0.0020	-0.0038	0.0062	0.0183	0.0154	0.0506
	(0.48)	(-0.71)	(0.24)	(0.38)	(0.50)	(0.86)
Unique industry	-0.0061	-0.0107	-0.0621*	-0.0642	-0.0556	-0.0865
	(-0.94)	(-1.46)	(-1.73)	(-1.03)	(-1.40)	(-1.11)
High tech industry	-0.0134***	-0.0089	-0.0022	0.0087	-0.0217	-0.0240
	(-2.99)	(-1.52)	(-0.07)	(0.18)	(-0.61)	(-0.38)
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,916	2,916	2,917	2,917	2,917	2,917
Adjusted R2	0.0770	0.0552	0.196	0.270	0.261	0.320

Table 10. Divestitures and spinoffs

This table reports OLS regressions of the probability of making a divestiture or spinoff over the next three or five years relative to year *t*. The activism sample period is between 1995 and 2011. *Activist* is an indicator for an activist campaign in year *t*. All other variables are defined in the Appendix and are as of year *t-1*. All regressions include industry and year fixed effects. Standard errors are clustered by firm. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
		Divestitures			Spinoffs	
	[t, t+1]	[t, t+3]	[t, t+5]	[t, t+1]	[t, t+3]	[t, t+5]
Activist	0.0341***	0.0303***	0.0091	0.0017	0.0005	-0.0001
	(3.31)	(2.65)	(0.78)	(0.82)	(0.24)	(-0.06)
% Inst. own.	0.0080	0.0148	0.0201	-0.0020	-0.0021	-0.0024
	(0.93)	(1.16)	(1.29)	(-1.15)	(-0.75)	(-0.64)
Stock return volatility	0.0011***	0.0001	-0.0003	-0.0001	-0.0000	-0.0001
	(3.42)	(0.27)	(-0.66)	(-1.13)	(-0.58)	(-0.57)
Illiquidity	-0.0139	-0.0347	-0.0620	0.0099*	0.0179*	0.0285**
	(-0.51)	(-0.88)	(-1.32)	(1.65)	(1.84)	(2.24)
Tobin's Q	-0.0627***	-0.0895***	-0.1025***	-0.0040***	-0.0066***	-0.0084***
	(-17.01)	(-17.11)	(-16.49)	(-4.83)	(-4.87)	(-4.76)
Firm size	0.0215***	0.0307***	0.0359***	0.0031***	0.0054***	0.0072***
	(11.56)	(11.59)	(11.47)	(6.78)	(6.66)	(6.49)
ROA	-0.0985***	-0.1225***	-0.1188***	-0.0061***	-0.0115***	-0.0142***
	(-9.98)	(-8.52)	(-6.81)	(-3.30)	(-3.56)	(-3.32)
Book leverage	0.0887***	0.1018***	0.1006***	-0.0010	-0.0033	-0.0047
	(9.04)	(7.15)	(6.00)	(-0.50)	(-1.01)	(-1.13)
Dividend yield	0.0411*	0.0401	0.0356	-0.0006	0.0004	0.0008
	(1.72)	(1.52)	(1.29)	(-0.27)	(0.11)	(0.19)
R&D expenditure	0.0424**	0.0743**	0.0877**	-0.0061*	-0.0094	-0.0099
	(2.00)	(2.29)	(2.26)	(-1.86)	(-1.38)	(-1.21)
Stock return	-0.0027**	-0.0017	-0.0008	0.0001	0.0002	0.0004
	(-2.25)	(-1.26)	(-0.56)	(0.69)	(0.72)	(1.46)
Sales growth	-0.0014	0.0010	0.0044	0.0001	-0.0008	-0.0004
	(-0.24)	(0.13)	(0.51)	(0.04)	(-0.31)	(-0.13)
Price-to-earnings	-0.0000	-0.0000	-0.0001	-0.0000	-0.0000	-0.0000
	(-1.15)	(-1.50)	(-1.64)	(-1.07)	(-0.92)	(-1.14)
Cash deviation	-0.0719***	-0.1177***	-0.1393***	-0.0056***	-0.0106***	-0.0141***
	(-7.52)	(-8.07)	(-7.75)	(-2.64)	(-2.80)	(-3.06)
Herfindahl index	0.0173	0.0329	0.1057	0.0293**	0.0484**	0.0486*
	(0.28)	(0.36)	(0.98)	(2.24)	(2.17)	(1.93)
Industry & year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	68,080	68,080	68,080	68,080	68,080	68,080
Adjusted R2	0.0572	0.0861	0.104	0.00717	0.0130	0.0178

Table 11. Divestiture returns

This table reports OLS estimates of daily CARs in columns (1)-(2), monthly CARs in columns (3)-(4), and monthly buy-and-hold returns (BHARs) in columns (5)-(6). Observations are divestitures over the next 3 years relative to year *t*. *Activis*t is an indicator for an activist campaign in year *t*. Returns are estimated with respect to the market model with the CRSP value-weighted index as the benchmark. The activism sample period is between 1995 and 2011. All other variables are defined in the Appendix. All regressions include industry and year fixed effects. Standard errors are clustered by firm. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR	CAR	CAR	CAR	BHAR	BHAR
	[-1d, +1d]	[-5d, +5d]	[-1m, +12m]	[-1m, +24m]	[-1m, +12m]	[-1m, +24m]
Activist	0.0071*	0.0165**	0.0948**	0.1452**	0.0961**	0.1854**
	(1.69)	(2.31)	(2.17)	(2.41)	(1.98)	(2.57)
% Inst. own.	-0.0026	-0.0054	0.1215*	0.1665*	0.0682	0.1073
	(-0.39)	(-0.45)	(1.72)	(1.74)	(0.87)	(0.92)
Stock return volatility	-0.0007*	-0.0005	0.0013	-0.0044	-0.0009	-0.0107*
	(-1.73)	(-0.73)	(0.33)	(-0.90)	(-0.22)	(-1.80)
Illiquidity	-0.0045	-0.0020	0.2733	0.5347	0.3340	1.0160**
	(-0.16)	(-0.04)	(0.95)	(1.38)	(1.03)	(2.12)
Tobin's Q	-0.0089**	-0.0251***	-0.3138***	-0.4852***	-0.3749***	-0.6749***
	(-2.40)	(-3.62)	(-8.20)	(-8.97)	(-9.04)	(-9.96)
Firm size	-0.0018**	-0.0030**	-0.0077	-0.0122	0.0006	0.0187
	(-2.16)	(-2.05)	(-0.87)	(-1.08)	(0.07)	(1.32)
ROA	0.0034	-0.0250	-0.1870	-0.5318***	-0.1523	-0.6293**
	(0.22)	(-0.91)	(-1.22)	(-2.70)	(-0.95)	(-2.42)
Book leverage	-0.0145**	-0.0253**	0.0614	0.1046	0.0873	0.1696
	(-2.20)	(-2.19)	(0.90)	(1.15)	(1.12)	(1.51)
Dividend yield	0.0472**	0.0628	0.5462***	0.9714***	0.2948*	0.7812***
	(2.08)	(1.10)	(2.94)	(3.51)	(1.89)	(2.82)
R&D expenditure	-0.0288	-0.0671	0.4384	1.2893***	0.4594	1.1878***
	(-1.03)	(-1.40)	(1.60)	(3.60)	(1.51)	(2.67)
Free cash flow	-0.0012	0.0340	0.3232*	0.7371***	0.1710	0.4549
	(-0.07)	(1.11)	(1.91)	(3.35)	(0.93)	(1.61)
BHAR [-13m,-2m]	-0.0024	-0.0088**	0.2566***	0.4026***	0.2956***	0.5272***
	(-1.08)	(-2.08)	(10.93)	(12.37)	(11.39)	(12.16)
Herfindahl index	-0.0142	0.0183	0.9140	0.3424	1.1493*	0.9346
	(-0.26)	(0.18)	(1.36)	(0.42)	(1.69)	(0.97)
Competitive industry	-0.0025	-0.0008	-0.0215	-0.0539	0.0153	0.0233
	(-0.61)	(-0.11)	(-0.53)	(-0.96)	(0.34)	(0.36)
Unique industry	-0.0037	0.0003	-0.0116	-0.0186	0.0188	-0.0049
	(-0.95)	(0.05)	(-0.32)	(-0.34)	(0.51)	(-0.07)
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,235	3,235	3,236	3,237	3,236	3,237
Adjusted R2	0.00616	0.0272	0.163	0.221	0.151	0.192

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