Activist Investing

Testimony
of
Robin Greenwood
Assistant Professor of Business Administration
Harvard University
Phone: (617) 495-6979

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Chairman Oberstar and Subcommittee Chairman Brown, it is a pleasure to appear before you today to discuss activist investing, with a particular focus on recent investment in the rail industry. I am an Assistant Professor of Business Administration at Harvard Business School.

My comments today draw on research that I have done on hedge fund activism, as well as summarize contributions of other finance researchers in this area. What is investor activism? Gillan and Starks (1998) define an activist as an investor who "tries to change the status quo through 'voice', without a change in control of the firm." In my own research, I have collected data on every incident of hedge fund investor activism between 1994 and 2006, nearly a thousand events in total. This large sample research has been complemented by two case studies and a number of interviews and site visits with activist investors. The objective in all of this research, which is similar to my objectives here today, is to understand the causes and consequences of investor activism.

I will address four broad sets of questions. First, what is the proper role of activist investors? Second, why is there so much more activism today than ten years ago, and why are hedge funds doing it? Third, what sorts of industries do activists target, and what do they ask management to do? Fourth, in practice, what do activist investors accomplish, and how do their accomplishments increase shareholder value? In answering these questions, I hope to shed light on the objectives and likely consequences of investor activism in the rail industry.

To preview my discussion, allow me to summarize the main conclusions in advance.

First, activism is here to stay: Both in theory and in practice, activists play an important role in monitoring management, who occasionally veer off track. Without proper oversight, managers may reward themselves excessive compensation and perks, remain in power too long, build corporate empires, or otherwise squander investors' capital.

Second, the data support the idea that, on average, activists have a positive impact on the stock price. An investor that simply bought all of the firms that had been the targets of shareholder activism between 1994 and 2006 would have earned annual returns of just over twenty percent.[1] While it is true that this value tends to be created in corporate transactions such as a takeover, as opposed to via operational change, shareholders benefit nonetheless. As such, I see no particular cause of concern that the rail industry is the target of activism today. That is not to say that activists *always* create value—one can point to several examples where they were wrong (but even in these examples, it would be a stretch to claim that the activists do not seek improvement of shareholder value).

Third, activists already have to pay most of the costs of their work, while management can fund their opposition with money from shareholders. Activists also have to be careful to protect their reputation as shareholder advocates. Thus, I believe that regulations are already strongly in favor of management, perhaps too strongly.

Fourth, analysis of activism targets over the past decade reveals a number of common themes to activist demands. Not unlike the current focus on the rail industry, targets tend to have a high degree of industry concentration. Industries with valuable hard assets but sluggish returns on capital are popular targets. One recurring theme is that firms in an industry are undervalued relative to the replacement value of their assets (this theme probably also applies to railroads). Within this broader theme, activists tend to choose targets that have underperformed relative to their peers, because management in underperforming firms is more compelled to listen. Thus, in my view the most important function of the activist is similar to that of a financial market arbitrageur- he/she shines light on a company that could be worth more, and tries to get management to take steps so that this value is recognized by the market, often via a takeover.[2] Absent a takeover, activists typically ask for reductions in capital expenditures, increases in leverage, and share repurchases. But from the perspective of creating shareholder value, none of these outcomes come close to a takeover, in which the activist immediately secures a 20-50 percent return. One implication is that the overall success of activism should depend on takeover interest in the market. Anecdotal evidence from the credit crunch of August and September 2007 appears to confirm this intuition. During this time, private equity interest in debt financed buyouts declined dramatically, and activists saw corresponding drops in the value of their portfolios – many of the firms they had targeted had been purchased in the hope of a takeover. In the press, these research findings have received some attention because they have been perceived as being critical of activists, in the sense that they imply that activists have less success creating value when they focus on operational change, as opposed to a change in control via takeover. I think this mischaracterizes the research: Activists demonstrably create value, but it is important to have a realistic view of what they can and cannot accomplish - they are investors, after all, not managers. An analogy helps: there is an important role for pointing out that a patient is sick and locating a doctor, even if one is not personally qualified to administer the medicine.

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[1] See Greenwood and Schor (2008a), Table A1.
[2] A similar point has been made by Brav et al (2007).

Fifth and finally, one often hears the criticism that activists are short-term investors, not interested in long-term value creation. This is a red-herring, meant to turn the focus away from the performance of management and towards the objectives of the investors, which are irrelevant. I certainly agree that activists are short-term investors, (despite what they occasionally claim!). But this misses the point that the rest of the market has a long horizon, and would not be willing to reward activism with a higher stock price if it felt the activist were destroying the long-term prospects of the business. Thus, to gauge whether the market believes activists can create value in the rail industry, one need look only as far as the share price appreciation.

I. The proper role of activist investors

What is the proper role of activist investors? This question should be the starting point of any dialogue on investor activism. To answer it, a simple thought experiment is useful.

Imagine a privately held firm that owns a large piece of land in the center of town. On this piece of land, the owner, a chef, runs a small restaurant. The owner is not a particularly good cook, and so the restaurant is not as profitable as it might be if it were run by someone else. For the sake of illustration, suppose that the restaurant produces after tax profits of $100,000 per year, but a well-run restaurant would produce profits of $300,000. In this sense, the owner is destroying $200,000 per year of economic value by operating the asset at less than its full capacity.

In a well-functioning capital market, another entrepreneur may recognize the hidden value of the property, and offer the owner a high price. But, the owner is within his rights to refuse, choosing to do as he pleases. Perhaps he derives some non monetary benefit from running the restaurant, or perhaps he is overoptimistic about his prospects.

Things are different if the property is owned by a public corporation, and the chef works as a manager of that corporation. As a custodian of shareholder capital, the manager has a fiduciary responsibility to maximize shareholder value. This means that no matter how much he might enjoy cooking, it is his obligation to seek another chef to operate the restaurant better, or to find a buyer for the business.

Because the chef enjoys cooking, it is unlikely that he will take either of these steps without some kind of encouragement. The encouragement can come from several places. One of these is the board of directors, who can facilitate a dialogue between shareholders and management. The board may compare the performance of the restaurant to other restaurants in the area, for example, asking the chef why it is not more profitable. In extreme and incredibly rare circumstances, the board may fire the recalcitrant manager, or seek sale of the business. The board is a useful device because individual shareholders, who each own small stakes in the firm, lack incentive to invest their time and energy to persuade management to do otherwise. For small shareholders, it often makes sense to simply "vote with their feet," by selling their shares and investing in another firm.

The board of directors may act as a filtering device for implementing shareholder proposals. Simply complaining does not make a shareholder right about the best course of action to maximize firm value. Reasonable people can disagree about the proper direction. On the minus side, most boards are stacked with insiders, or with members that have been on the board so long as to effectively be insiders. And, unlike in the United Kingdom, the position of Chief Executive Officer (CEO) and Chairman of the Board are often occupied by the same person, leading to weaker board incentives to monitor performance. The proper functioning of boards has been an active area of research in recent years. Lucian Bebchuk at Harvard Law School has written extensively on the ineffectiveness of boards as shareholder advocates, but some others disagree.[3]

Because boards can be unresponsive, it often makes sense for shareholders to confront management directly. Large shareholders, in particular, have stronger incentives to hold management accountable, and increasingly in recent years, they have become more vocal about the steps that firms should take. In the context of our example, what does this mean? An investor could buy 5 percent of the business, file a 13-D, and publicly (or privately) confront the manager about the lack of success in the restaurant business.[4] Or, more commonly, the investor could ask that management put the business up for sale. In practice, who fills this role? Recently, it has been hedge funds.

Even in the simplified example of an underperforming restaurant, activism could take on a number of forms. In the first, the activist points out that the chef is no good and that he needs to go to culinary school or get replaced for the restaurant to become more profitable. We might call this "operational" activism. In the second variety, which is more common in practice, the activist isn't quite sure what the problem with the chef is, but the activist can see that the restaurant is making less profit than a similar restaurant next door. In this case, the activist might push for greater management accountability. We might call this "governance" activism. In the final variety, the activist is able to see that the land would be more valuable if it were used as a parking lot, and simply pushes for outright sale to a strategic buyer. We might call this "financial" activism. As I will discuss, the "financial" activism is the most successful in the data, at least from the perspective of creating shareholder value. It's not surprising- activists' talent lies in identifying assets that are undervalued. But it is often tough for outsiders to identify whether activism is really operational or financial in nature: while activists will often call for operational changes, they are investors at the end of the day, not managers, and will be satisfied if they make money on their position. Another issue is that activists typically make lots of requests, but are satisfied if management delivers on one or two.

[3] See, for example, Lipton and Savitt (2007).

[4] On attaining 5 percent ownership in a public company, an activist is required to file a 13-D form with the Securities and Exchange Commission. These documents are publicly available.

To summarize, the proper role of investor activism is to take actions that will force managers to increase shareholder value. The rest of my comments will address how closely this description of activism fits with the realities of hedge fund activism over the past ten years. Real firms are much more complicated than the restaurant in my thought experiment, and thus there is often considerable disagreement about the proper way to maximize value. Even in the simple example above, it is clear that the activist may have incomplete information about the true opportunities facing the firm. The question is, on balance, whether activist investing gets us closer to the ideal.

II. Why is there so much more activism now than ten years ago, and why are hedge funds doing it?

While one might expect large shareholders to play a role in the governance of US corporations, the reality until recently was quite different. The consensus in academic research is that, until the late 1990s, large shareholders did not have much impact on corporate performance. For example, Karpoff (2001) and Romano (2001) conclude that institutional investor activism as a whole has done little. Karpoff et al. (1996), Wahal (1996), and Gillan and Starks (2000) report that shareholder proposals have historically done little to improve firms' operations. On the few occasions where investors have attempted to remove management from their jobs, they generally encountered resistance, were faced with high costs, and were unsuccessful.[5] Some pension funds, like Calpers, had success in their shareholder proposals, but they were the exception rather than the rule.

Why, historically, have large shareholders been so ineffective at monitoring management? Some argue that large institutions face conflicts of interest in this endeavor – the firms that they hold in their portfolios are also potential clients in their pension fund business. A better explanation lies in the performance incentives faced by the managers of these funds. Specifically, the compensation of most mutual fund managers is not especially sensitive to performance. Thus, even though their funds own large stakes in public companies, the managers themselves have little incentive to spend time, energy, and money fighting with management.

In recent years, however, hedge funds have embraced shareholder activism. **Figure 1** shows the dramatic increase in the number of hedge fund activism events since 1994. Europe and Asia have had similar growth in activism. Why have hedge funds taken up the role as activists? In contrast with mutual funds, hedge fund managers receive a significant share of the profits of their investing activities. In addition, many hedge funds are quite concentrated, with a few large positions constituting the bulk of their portfolio. With many funds now managing tens of billions of dollars, this means that their individual positions in companies can total $500 million or more.

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[5] See Brav et al. (2006), Black (1990), Roe (1994), Bainbridge (2005), Kahan and Rock (2006), Black (1998), Karpoff (2001), Romano (2001), Bebchuk (2005a, 2005b).

As a result, hedge funds are incentivized to spend considerable resources on a particular position. Thus, hedge funds have filled an important gap.

How does the market view the actions of hedge fund activists? On average, the reaction is positive. Several recent papers show that firms targeted by hedge fund activists between 2004 and 2005 earn abnormal returns upon announcement of their involvement. Brav, Jiang, Partnoy, and Thomas (2006) find that the announcement of hedge fund activism generates abnormal returns of between 5 and 7 percent in a short window around the announcement. In addition, the authors document modest changes in operating performance around the activism. Klein and Zur (2006) document abnormal returns of approximately 7 percent in a longer window around the announcement of activism. Becht, Franks, Mayer, and Rossi (2006) also find that activist investments of the UK pension fund Hermes significantly outperformed benchmarks. Clifford (2007) shows that hedge funds earn a significantly higher return on their activist positions compared to their passive positions. In our research, we have performed a similar exercise using all activist events between 1994 and 2006. **Figure 2**, attached, shows the average abnormal stock returns (meaning, net of the performance of the market) around days when hedge funds announce their activist intentions.[6] Prices rise by an average of about four percent. And, in the months subsequent to the activism, prices continue to go up. But, as I discuss later, much of this is driven by the prospect that these firms will eventually be taken over.

Another way to look at the performance of investor activism is to ask what returns an investor would have achieved, had the investor simply bought all firms that were targeted by activists? The returns to that hypothetical investment strategy are shown in **Figure 3**. The figure shows that this strategy outperformed the market, by as much as 12 percent per year. Thus, no matter how it is measured, activism has benefitted shareholders.

III. What kind of firms do activists target, and what do they ask for?

Table 1, attached, summarizes the industry composition of activism targets. The table shows that activism events tend to be concentrated at the industry level. In my experience, this is because the activism is based on an industry-wide theme. Let me provide an example. The example comes out of a case I teach in our first year finance course at Harvard Business School.

Kerr-McGee was an oil and gas exploration and production company that was acquired by Anadarko in mid 2006. Prior to the takeover, Kerr-McGee was targeted by activist investors Carl Icahn and Jana Partners for poor results in exploration activity, as well as being undervalued. The activist investors proposed that KMG (a) sell it Titanium Dioxide business, (b) reduce capital expenditures on exploration, (c) enter into a forward contract to sell oil at prevailing prices, and (d) use the proceeds of all of the above to repurchase shares. Why ask for

[6] Formally, we choose the date on which the 13D is filed as the period when the market learns about the activist's intentions. A 13D filing is required once an activist attains a 5 percent position.

these things? Kerr-McGee was trading at a substantial discount to the value of the oil that it had already discovered. The activist investors felt that the price did not reflect this value, perhaps because the market penalized the stock price for poor exploration results in previous years.

Was this theme unique to Kerr-McGee? Not at all. A similar analysis would have yielded the same conclusion for virtually any of the U.S. based exploration and production companies at the time. And more generally, this theme is recurring in many activist events: Industries with valuable hard assets but sluggish returns on capital are popular targets.

Why pick on Kerr-McGee and not one of the other oil companies? Here I can only speculate, but I believe that activists target the weaker firms in an industry, firms in which the management does not have a record to fall back on. These firms are more likely to agree to the "arbitrage" that is proposed by the activists, whatever form that might take. The evidence is consistent with this- activism targets have underperformed the average firm in the industry by more than 20 percent in the two years before the activist gets involved.

Kerr-McGee is a useful example of activism in another way. While one could argue that the firm was destroying value in its production activities (and that the role of the activist was to stop this value destruction), I think it is not so clear. Certainly, after the fact, it looks as if management was not overpaying for new oil resources (*ex-post*, oil prices have increased considerably since 2004). What then, is the function of the activist? In my view, the activist shone light on a business that had been improperly valued by the market and undermanaged. I believe this is a greatly overlooked aspect of activism: the press focuses more on the operational demands, whereas the main contribution of the activist is closer to that of an arbitrageur- an investor who clarifies to the rest of the market what the asset is actually worth. And part of this process involves tweaks to operational strategy.

Turning to the large sample research I conducted with Michael Schor, we attempted to categorize the demands of the activist in each of about a thousand activist events. In each instance, we read news releases and regulatory filings to get an idea of what the activists were after. These classifications are summarized below and shown in **Table 2**:

Engage Management: The activist intends to engage or discuss issues with management to "increase shareholder value" or makes a general statement that shares are "undervalued" without including any specific plans or proposals. This is the least aggressive form of activism. (45.54% of hedge fund activist events), but often ends in a takeover nonetheless.

Capital Structure: The activist targets capital structure issues. This type of activism relates to a recapitalization, stock or debt issuance, restructuring of debt, dividends or a stock buyback. (10.08% of hedge fund activist events).

Corporate Governance: The activist targets corporate governance issues. This type of activism can include a call to declassify the board, remove a poison pill, elect activist-selected directors, or fire a company officer or board member. The corporate governance classification also applies to activism that targets issues of board or executive compensation, corporate fraud, and lack of transparency. (21.94% of the hedge fund activist events).

Business Strategy: The activist critiques excess diversification and the level of investment in some business lines or cites poor operating strategy at target. (4.59% of hedge fund activist events).

Asset Sale: The activist calls for the target to sell itself or certain assets in order to maximize shareholder value. This classification can also represent an offer by the activist itself to takeover the target. (18.11% of the hedge fund activist events).

Block Merger: The activist blocks a proposed merger, usually because it deems the terms of the deal unfavorable to target shareholders. Often, the activist will demand a higher price. (5.61% of the hedge fund activist events).

Financing/Bankruptcy: The activist provides financing for a target in bankruptcy or financial distress. (1.40% of the hedge fund activist events).

Strategic Alternatives: Activist requests that the target pursue various strategic alternatives for the firm, including a spinoff of an underperforming division. (2.42% of the hedge fund activist events).

Proxy Contest: The activist files under Schedule 14A with the SEC, signaling an intention to solicit proxies from shareholders either to elect its own proposed director(s) or to adopt a shareholder proposal that the activist has submitted or plans on submitting. (9.06% of the hedge fund activist events).

The most represented categories above are *Engage Management, Corporate Governance,* and *Asset Sale*. Thus, in most incidents, the objective of the activist is to raise the stock price (engage management), to improve the governance of the firm, or to secure a takeover.

IV. What do activist investors accomplish, and how does this relate to shareholder value?

It turns out that there is not that much correlation between what activists ask for, and what they accomplish. We followed up on each of the events to see what happened after the activist made his/her initial demands. We read press releases and regulatory filings up to eighteen months after the initial activist involvement. We also computed statistical measures of improvements in operational performance after the event. Naturally, for firms that were taken over, it was not possible to compute these measures.

Starting with our assessment of outcomes based on news, we present the tabulation in Table 4. The outcomes we consider are as follows: *Merger or Asset Sale Completed:* the target completed a merger or sale of either all or part of its assets; *Merger or Asset Sale Announced*: the target announced a merger or sale of either all or part of its assets (that either was later cancelled or is still pending); *Merger Called Off or Bid Increased*: a merger announced prior to the activist intervention involving the target was either called off or the bid price was increased; *Spinoff Completed or Announced*: the target announced a spinoff of one of its divisions that was either completed or is still pending; *Target Hires IB or Begins Auction*: the target hired an investment banking firm to explore strategic alternatives or began an auction process for either all or part of its assets without any further news of an announced or completed deal; *Shares Repurchased/Special Dividend*: the target announced an intention to repurchase its shares or pay a special dividend; *Greenmail*: the target bought back its shares from the activist; *Removal of Poison Pill*: removal, suspension, amendment or expiration of the target's poison pill; *Resignation of CEO/CFO/Chairman:* the announcement of resignations by the targets CEO and/or CFO and/or Chairman of the Board; *Board Seats Granted to Activist*: activist gains seats on the target's board of directors, either through a proxy contest or deal with the target; *Proxy Defeated* : the activist's proxy fight, either for directors or a shareholder proposal, was defeated at the target's shareholder meeting; *Activist Cuts Position Below 5%:* the activist reduce its stake in the target to below 5% of the shares outstanding thereby ending their 13D filing requirements; *Financing/Bankruptcy Agreement*: the target announces a financing deal, with either the activist and/or a third party as creditor. The financing agreement can pertain to cases where the target is about to enter, is in, or is about to exit bankruptcy; finally, *No News*: we could not find any further information about the company after the initial activist filing.

The table shows that "No News" is the most common outcome. That is telling—in most cases, we never hear from the activist again. In these cases, the average stock returns associated with activism is approximately zero (meaning that the activist neither creates, nor destroys value). The next most common outcome is that the activist manages to secure a takeover. On occasion, we also find that the activist manages to get a share repurchase or special dividend, or secure corporate governance improvements such as board seats or a resignation of top management.

Our statistical analysis of operating performance leaves us with similar conclusions. The most significant outcome is clearly a takeover. Absent a takeover, we find that firms that remain independent tend to cut capital expenditures (something that is requested in the current campaign of TCI against CSX), increase leverage, and become slightly more profitable. On other accounting-based measures of performance, such as asset growth or dividend payout ratios, we don't detect much of an effect.

How do the outcomes achieved by activists relate to shareholder value? It turns out that for the vast majority of cases, the stock price is roughly flat around the time of the activism. However, when a merger or asset sale is completed, stockholders collect between 20 and 40 percent returns, in the form of a takeover premium. This result is seen in **Figure 4**, where I partition activist events into those in which the target was eventually taken over, and those in which the target remained independent.

A more rigorous analysis would calculate average returns for firms under each set of outcomes. The conclusions, however, remain virtually the same: targets of investor activism earn high returns only in the subset of events in which the activist successfully persuades the target to merge or get acquired. The majority of activism targets – firms that do not end up being acquired – earn average abnormal returns that are not statistically distinguishable from zero, though our expectation was that the change in value would be positive. This result applies to both announcement returns, as well as to the long-term returns following the initial activist filing. This does not mean that one cannot identify isolated examples in the data where the activist creates value and the target remains independent – my observation is simply that these cases are the exception, rather than the rule.

As discussed earlier, this finding has some implications for forecasts of activism going forward. If activists are only successful when they are able to secure a takeover, then presumably they will be less active during times when market-wide takeover interest is low. Consistent with this, evidence from the credit crunch of August and September 2007 confirms this basic idea. During this time, private equity interest in debt financed buyouts declined dramatically due to spikes in interest rates. Many activists saw corresponding drops in the value of their portfolios – many of the firms they had targeted had been purchased in the hope of a takeover, the probability of which declined when rates fell. Activist investor Carl C. Icahn made this especially clear when he told The New York Times in August 2007 that the credit crunch was going to make it more difficult to generate high returns using activism.

V. Conclusions

Investor activism plays a vital role ensuring that management of public corporations is responsive to the demands of its owners. In recent years, hedge funds have become increasingly activist in their investments. Generalizing over all these investments, activism has been a successful strategy for investors.

Part of the success of activism in recent years has been a vibrant takeover market, fuelled by demand from private equity buyers. As takeover interest falls, we might expect the returns to activist strategies to fall, and hedge fund interest in pursuing these strategies to also fall. But this does not lessen their potential benefits. In an economy where most large firms are public corporations, it is important to have institutions that make sure that firms are delivering value to their owners.

There is enormous variety in what activists accomplish, and how those accomplishments correlate with shareholder value. However, some generalizations are possible. Activists tend to target industries with valuable assets but sluggish returns on capital. And within these industries, activists target lagging firms. Activists tend not to have a great record at fostering operational improvements, but nevertheless create significant value for shareholders, primarily by encouraging transactions in which there is a change of control. Thus, a realistic view of activists is that they are akin to financial market arbitrageurs – spotting assets that are out of favor and getting management to take steps to get the prices back. A forecast is that the arrival of activists in the rail industry is a good predictor of future industry consolidation and takeover activity.

Activists already have to pay most of the costs of their work, while management can fund their opposition with shareholder money. As a result, I think most hedge funds are extremely cautious in their approach to activism. Successful activists typically have many other positions in which they act as passive investors. And even the most aggressive hedge funds, in my experience, use activism as a measure of last resort, preferring a constructive dialogue instead. And most hedge fund managers are aware of the massive reputational costs of being wrong in an activist investment, and are therefore careful in their analysis. At the end of the day, activists must convince other shareholders if they want to accomplish change. On balance, therefore, I would not favor rules that made activism any more difficult.

A final point: I often hear the criticism that activists are short-term investors, not interested in long-term value creation. This is a red-herring. I certainly agree that activists are short-term investors, and parts of my research support that claim. At some level, it is obvious in their desire to secure a takeover and get a quick exit from whatever position they have taken. But this misses the point that the rest of the market has a long horizon, and would not be willing to reward activism with a higher stock price if it felt that activists were destroying the long-term value. If the market felt that activists were a distraction rather than a benefit, the stock price would fall as soon as investors found out about the involvement of activists. Thus, to gauge whether the market believes activists can create value in the rail industry, one need look only as far as the share price appreciation. Naturally, one can always argue that the rest of the market has it wrong and management has it right, but this is not giving investors as much credit as they deserve.

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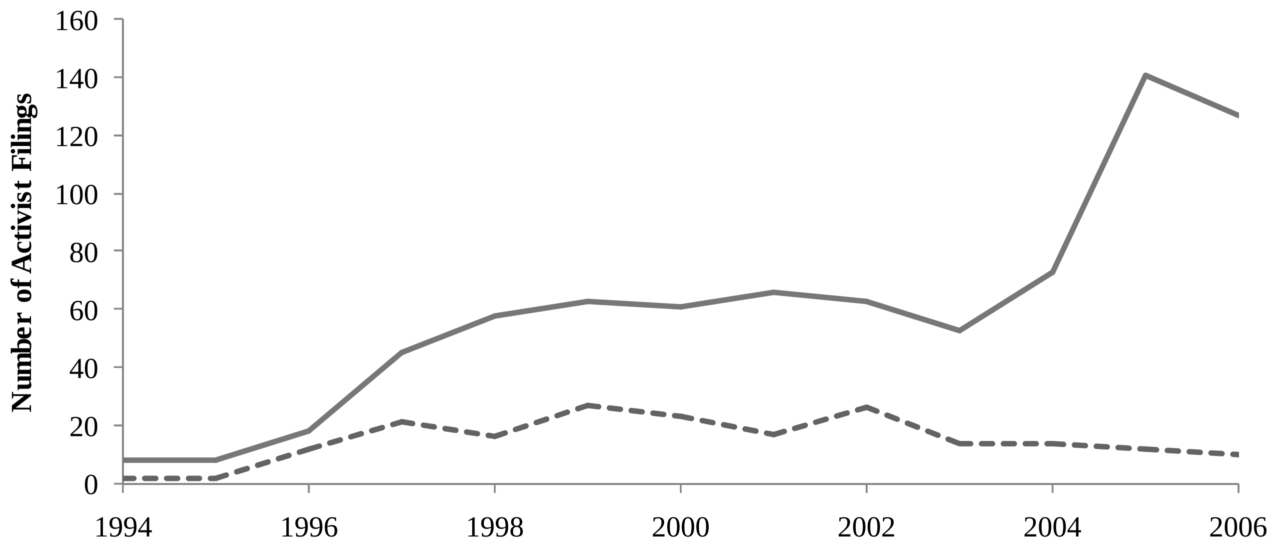
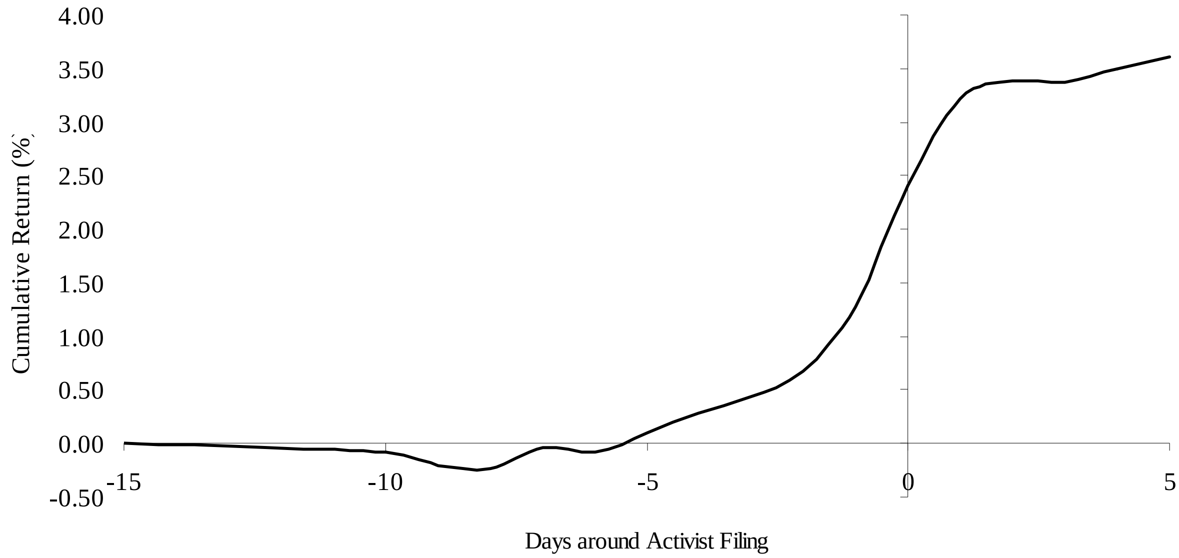
Figure 1
Number of 13D Activist Filings by Year and Type of Activist
(solid line – Hedge Fund Activist, dashed line – Non-Hedge Fund Activist).



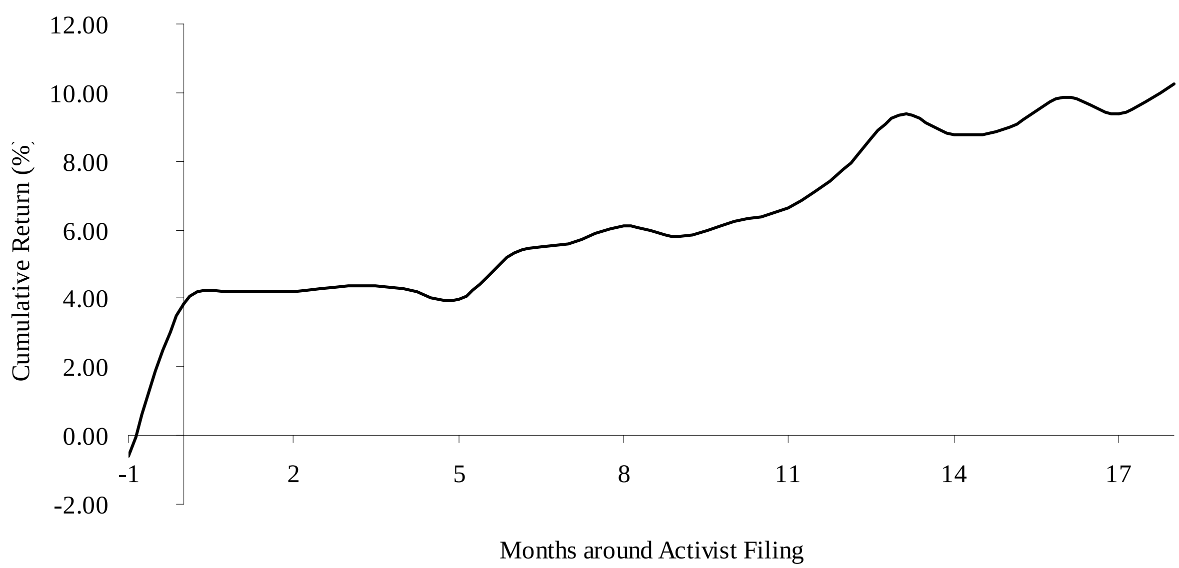
Notes: The figure plots the number of activist 13D filings in each year, by activist type. Activist events are culled from 13D filings with the SEC. Repeat filings with the same purpose of transaction are ignored for the purposes of the annual count. The figure is from Greenwood and Schor (2008).

Figure 2
Stock Returns around Shareholder Activism

Short-term abnormal returns (until 5 days after the 13D filing)



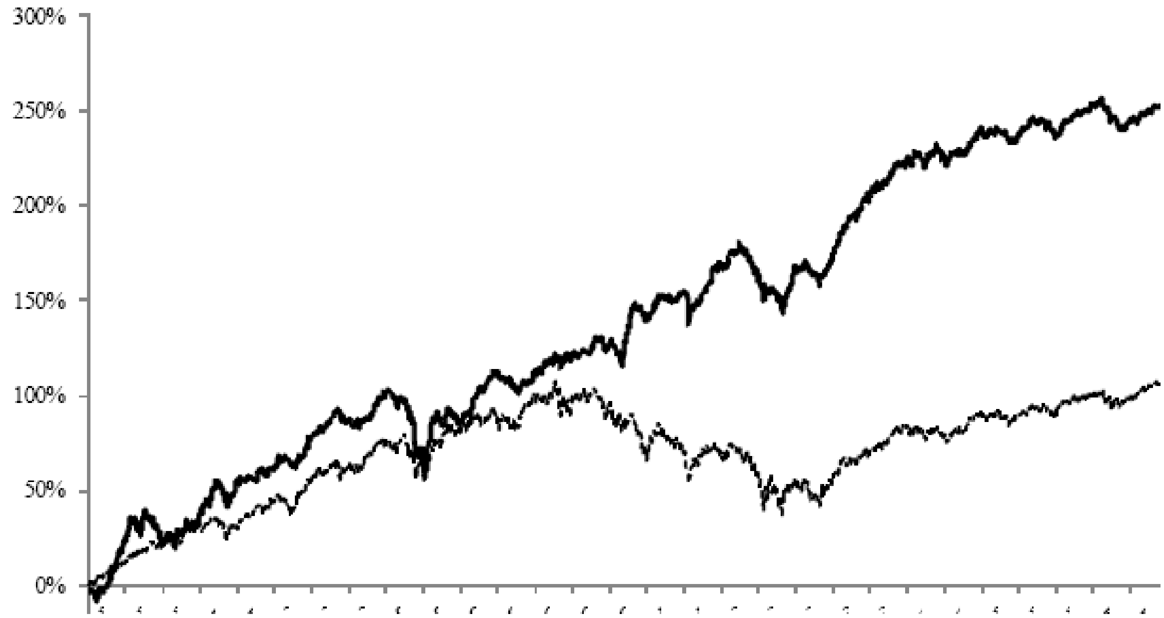
Long-term abnormal returns (until 18 months after the 13D filing)



Source: Greenwood and Schor (2008a)

Figure 3
Returns to a strategy that purchases all stocks targeted by activism

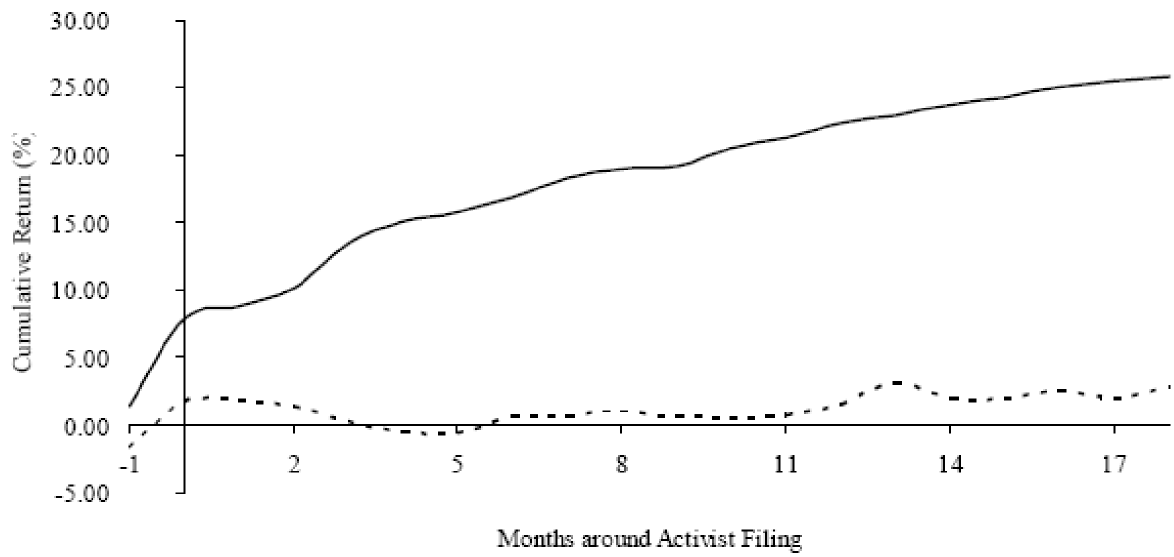
The top line denotes returns to this strategy. The bottom line denotes returns to buying the market index. The time period is 1994-2006.



Source: Greenwood and Schor (2008a), Figure A1

Figure 4
Long-term abnormal returns around activist filing, by outcome

(solid = targets that were eventually acquired; Dashed = all other outcomes)



Source: Greenwood and Schor (2008a), Figure 3

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Table 1
Number of Activist Events by Year

	Hedge Fund	Non-Hedge Fund
1994	8	2
1995	8	2
1996	18	12
1997	45	21
1998	58	16
1999	63	27
2000	61	23
2001	66	17
2002	63	26
2003	53	14
2004	73	14
2005	141	12
2006	127	10
Total	784	196

Source: Greenwood and Schor (2008a)

Table 2
Industry concentration of activism activity

Industry	Number of Activist Events
Business Services	93
Chemicals & Allied Products	58
Electronic & Other Electric Equipment	56
Holding & Other Investment Offices	47
Industrial Machinery & Equipment	41
Communication	32
Instruments & Related Products	31
Eating & Drinking Places	26
Wholesale Trade - Durable Goods	22
Electric, Gas, & Sanitary Services	21
Miscellaneous Retail	20
Engineering & Management Services	20
Health Services	19
Paper & Allied Products	18
Depository Institutions	17
Oil & Gas Extraction	16
Printing & Publishing	15
Primary Metal Industries	15
Transportation Equipment	15
Wholesale Trade - Nondurable Goods	15
Apparel & Other Textile Products	14
Rubber & Misc. Plastics Products	14
Insurance Carriers	14
General Merchandise Stores	13
Food & Kindred Products	12
Security & Commodity Brokers	11
Motion Pictures	11
Fabricated Metal Products	10
Real Estate	10
Other	116
Total	822

Source: Author’s analysis

Table 3
Activist events by type of request

	Hedge Fund	Non-Hedge Fund	Total
Engage management –	357	44	401
Capital structure	79	12	91
Corporate governance	172	95	267
Business strategy	36	12	48
Strategic Alternatives	19	10	29
Asset sale	142	26	168
Block merger	44	20	64
Financing/Bankruptcy	11	4	15
Proxy contest	71	6	77

Source: Greenwood and Schor (2008a)

Table 4
Activist events by outcome

Outcome	Number
No News	379
News:	
Asset Sale Related:	
Merger or Asset Sale Completed	178
Merger or Asset Sale Announced	48
Merger Called Off or Bid Increased	12
Spinoff Completed or Announced	7
Activist Takes Over Target	7
Target Hires IB or Begins Auction	14
Capital Structure (non asset sale	
Shares repurchased/Special Div.	23
Greenmail	4
Corporate Governance:	
Removal of Poison Pill	15
Resignation of CEO/CFO/Chairman	25
Board Seats Granted to Activist	96
Proxy Defeated	14
Other:	
Activist Cuts Position Below 5%	35
Financing/Bankruptcy Agreement	17

Source: Greenwood and Schor (2008a)