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Activism and Empire Building

Finance Working Paper N° 575/2018
Revised August 2019

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Abstract

Hedge fund activists target firms engaging in empire building and improve their future acquisition and divestiture strategy. Following intervention, activist targets make fewer acquisitions but obtain substantially higher returns by avoiding large and diversifying deals and refraining from acquisitions during merger waves. Activist targets also increase the pace of divestitures and achieve higher divestiture returns than matched non-targets. Activists curtail empire building through the removal of empire building CEOs, compensation based incentives, and appointment of new board members. Our findings highlight an important channel through which activists improve efficiency and create shareholder value.

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

JEL Classifications: G14, G23, G34

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Activism and Empire Building[◆]

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1. Introduction

Hedge fund activism has become pervasive in today's corporate landscape with some observers arguing that "no recent development has influenced firms' strategic and financial decision-making as profoundly as the surge in shareholder activism".[1] In this paper, we study the role of hedge fund activists in affecting the acquisition and divestiture strategy of their targets. Media reports suggest that influencing acquisition and divestiture activity is a common theme in many hedge fund activist campaigns and that "activists have had a chilling effect on acquisitions amid complaints that past deals haven't paid off".[2]

We investigate how a firm's acquisition and divestiture strategy affects the likelihood it is targeted by hedge fund activists and whether, following intervention, the targeted firm experiences any shifts in its acquisition and divestiture behavior.[3] We aim to add to the evidence on the potential sources of value creation from hedge fund activism and to the debate about whether the increases in firm value due to activist intervention come at the expense of long-term performance (Bebchuk, Brav, and Jiang, 2015). This debate centers on the claim that hedge funds are "short-term predators" (Coffee and Palia, 2016) whose campaigns generate positive initial stock price reactions but negative returns in the long run. In part, this debate is fueled by an incomplete understanding of the channels through which hedge fund activists impact corporate policies and generate shareholder value gains.[4]

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[1] Between 2009 and 2015, 15% of S&P 500 firms directly engaged with shareholder activists, and about half of S&P 500 firms had an activist among their shareholders. See "An Investor Calls", *The Economist*, February 5, 2015 and "The Activist Revolution", *Corporate Finance Advisory and Mergers and Acquisitions*, JP Morgan, 2015.
[2] See "Tech Firms Seek Ways to Fend Off Activist Investors", *The Wall Street Journal*, May 26, 2015.
[3] Jiang, Li, and Mei (2018b) study cases in which activists target acquirers after M&A announcement to affect deal terms or block a deal. Instead, we focus on activist campaigns in which the activist arrives before a deal is announced.
[4] Several recent papers identify the takeover market as a key channel through which activists create value by attracting takeover bids for the targets and obtaining favorable terms for target shareholders (see Greenwood and Schor, 2009; Boyson, Gantchev, and Shivdasani, 2018; Jiang, Li, and Mei, 2018a).

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We focus on acquisitions and divestitures because these transactions provide a relatively clean setting to evaluate the optimality of investment decisions. Although existing studies show that activism is associated with reduced overinvestment in capital expenditures and R&D, it is harder to evaluate the ex-ante optimality of such policy changes. In addition, as some of the largest and most visible investment decisions made by firms, M&A transactions have been studied extensively to evaluate agency conflicts. Pointing to "the graveyard of failed empire building", the financial press describes M&A as "synonymous with value destruction"[5], a view supported by several studies (Moeller, Schlingemann, and Stulz, 2004 and 2006; Harford, 1999; Masulis, Wang, and Xie, 2007; Harford, Humphery-Jenner, and Powell, 2012).

We show that activists play an influential role in curbing empire building, which we define as value-destroying acquisitions reflecting motives other than shareholder value maximization as well as managerial reluctance to divest assets. Our findings highlight that a firm's past acquisition and divestiture behavior significantly influences its likelihood of becoming the target of an activist campaign. We find that serial acquirers are more likely to attract activist attention, with both the number and volume of stock and cash financed acquisitions displaying a positive association with activist targeting. Firms announcing large or low-return stock-financed deals over the past three years are twice as likely to become activist targets, whereas firms announcing large (low-return) cash-financed deals are two-thirds (one-half) more likely to be targeted. Firms that pursue diversifying acquisitions and those that undertake deals during industry merger waves are also substantially more likely to become targets of activism. In addition, we find that firms conducting divestitures, especially large divestitures, are about one-third less likely to be targeted by hedge fund activists. These results indicate that activists target firms that display empire building tendencies.

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

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Our evidence points to significant changes in the aftermath of activist intervention. Following the arrival of an activist, targeted firms exhibit a substantially lower probability of making acquisitions. Relative to non-targets, activist targets are about a third less likely to engage in an acquisition in the three years after activism. This lower acquisition frequency is statistically significant for both cash- and stock-financed deals, indicating that curtailing capital availability (e.g., by demanding higher payouts) is not the primary channel through which activists influence M&A decisions.

The types of acquisitions change after activist intervention. Activist targets are less likely to conduct acquisitions that prior research identifies as value-destructive. Relative to other firms, activist targets conduct fewer large acquisitions, diversifying acquisitions, and refrain from announcing deals during industry merger waves. Not surprisingly, these post-activism acquisitions are favorably received by investors. Compared to non-targets, acquirers subject to activist campaigns obtain 2.3-2.6% higher announcement returns.

We find that activists also facilitate the dismantling of prior empire building activity by increasing the pace of divestitures post-activism. Compared to matched firms, activist targets are about 28% more likely to engage in divestitures in the three years after activism and about 32% more likely to undertake relatively large divestitures. Further, activist targets that divest assets are twice as likely to experience a reduction in the number of business segments, suggesting that these divestitures result in more focused firms. We also find that divestitures by activist targets generate 0.9-1.8% higher announcement returns than divestitures by matched firms. Taken together, our results illustrate that activism curbs empire building by limiting incentives to engage in value-destroying acquisitions as well as reducing reluctance to divest assets.

To understand the channels through which activists influence empire building, we examine the activists' motives for initiating a campaign. In a substantial fraction of campaigns, activists

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specifically highlight a firm's poor M&A history as a primary motive for intervention. They also present demands such as removing the CEO, changing executive compensation, and appointing new directors as possible ways to improve M&A strategy. We explore each of these channels to understand their importance in how activists influence acquisition and divestiture behavior.

We begin by examining the activists' role in removing CEOs with a history of value-destroying acquisitions. Empire-building motives are often ascribed to CEOs' pursuit of their own agendas. As argued by Bebchuk (2005), "having a larger empire serves management's private interests." We confirm prior work showing that CEOs are disciplined for failed M&A decisions, exhibiting a higher likelihood of forced turnover after value-reducing M&A (Mitchell and Lehn, 1990; Lehn and Zhao, 2006). We find that activism is an important mechanism through which such discipline occurs. Specifically, the arrival of an activist investor raises the likelihood of CEO removal following past value-destroying acquisitions and reduces the likelihood of CEO turnover after past divestitures. The economic magnitudes are substantial; for example, making a large or low-return stock acquisition over the past three years raises the probability of CEO dismissal by almost five times at activist targets relative to non-targets, whereas undertaking a divestiture in the past three years reduces the probability of forced CEO turnover by almost 40 percent.

Consistent with CEO turnover being an important channel through which activists implement improvements in M&A strategy, we show that the market recognizes the role of activists in replacing the CEOs of firms with poor M&A track records. Announcement returns around forced CEO turnover are more sensitive to past M&A activity in the presence of an activist shareholder, suggesting that activists facilitate the removal of empire-building CEOs. For example, turnover announcements at activist targets obtain 1.65% (1.59%) higher three-day returns if the CEO has been involved in a stock (cash) acquisition in the past three years.

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Compensation-based incentives also appear to be an important channel through which activism improves acquisition and divestiture behavior. We study the changes in a target CEO's pay-for-performance sensitivity (PPS) around the arrival of an activist. Our results indicate that targeted firms which experience an increase in the CEO's PPS engage in fewer acquisitions, consistent with the findings in Minnick, Unal, and Yang (2010) that higher PPS is associated with better acquisition outcomes in the banking industry. We also find that targets with increased CEO PPS undertake a greater number of divestitures following activist intervention.

Finally, the appointment of new directors to the board appears to have a meaningful influence on how M&A strategy changes around an activist campaign. Relative to non-target firms with new director appointments, activist targets with new activist-nominated directors are two times less likely to undertake cash and stock acquisitions, and 85% more likely to engage in divestitures post-activism. These effects for acquisitions and divestitures are stronger than the effects in the full sample of activist campaigns, indicating that bringing in new board members is an additional channel through which activists constrain empire building.

To account for systematic differences in observable characteristics between activist targets and other firms, our empirical approach compares activist targets to non-target firms matched on year, industry, market capitalization, and Tobin's *Q*. We also only consider firms with at least one acquisition in the five years prior to the year of matching to control for unobservables that are associated with M&A likelihood. In addition, we perform two robustness tests proposed by Brav, Jiang, and Kim (2015) to address the concern that activists may not influence M&A strategy but rather select firms whose future M&A behavior may improve for other reasons. First, we confirm our findings for firms in which a hedge fund activist holds an active stake, relative to firms in which the same hedge fund is a passive equity holder. Second, we find a similar pattern at firms in which the activist switches its legal status from passive to active ownership. These tests suggest that our results are unlikely to be driven by selection effects alone.

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Our contribution is two-fold. First, we demonstrate that in recent years shareholder activism has performed a role historically ascribed to disciplinary takeovers. We identify wasteful M&A spending as a specific firm inefficiency that activist intervention appears to correct. 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 (see Mitchell and Lehn, 1990; Phalippou, Xu, and Zhao, 2016).

Second, we identify specific mechanisms through which activism impacts acquisition and divestiture strategy. We focus on the activists' role in removing target CEOs with a history of value-destroying M&A, implementing more efficient compensation schemes that limit empire building incentives, and appointing new board members. Our findings in support of these mechanisms suggest a causal link between activist intervention and improved M&A strategy. Taken together, our results highlight an important channel through which activists improve efficiency and create shareholder value.

Our findings are complementary to contemporaneous work by Wu and Chung (2019). Similar to our results, they find that following activism, targeted firms engage in fewer and smaller acquisitions and that investors favorably receive such post-activism acquisitions. Consistent with our results, they also show that the recalibration of acquisition behavior is attributable to improvements in corporate governance such as CEO and director turnover. However, there are several notable differences between our work and theirs. First, a substantial portion of our analysis focuses on establishing that a firm's acquisition and divestiture behavior is an important determinant of whether it becomes an activist target. In contrast, Wu and Chung (2019) do not consider divestitures or explore whether acquisition and divestiture strategy influences activist targeting. By focusing on both acquisitions and divestitures and by examining their impact on the likelihood of activist intervention, we seek to provide a more complete assessment of how activists curb empire building. Second, we also provide direct evidence on the disciplinary role of activists

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by showing that their presence substantially increases the sensitivity of CEO removal to past value-destroying acquisitions and that the market values this disciplinary role performed by activists. Finally, we consider a broader range of potential channels through which activism constrains empire building by including changes in CEO compensation and payout policies.

2. Data and sample

Our data on hedge fund activism is hand-collected from regulatory filings. We first compile a list of activist hedge funds by extending the sample in Gantchev (2013) to 242 activists between 1995 and 2011. For each activist, we obtain all Schedule 13Ds and amendments. A Schedule 13D filing is required when an investor 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 identities of the target and the activist(s). Since some campaigns are initiated before the activist has reached the 5% regulatory threshold for a 13D filing, we supplement the data with FactSet's SharkRepellent.net, which identifies activism reported in the media.

We create an annual firm-year panel by combining the activism campaigns 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. We require that firms remain independent public companies for three years after the initiation of activism to ensure that our results are not mechanically driven by the acquisition-induced attrition of target firms documented by Greenwood and Schor (2009) and Boyson, Gantchev, and Shivdasani (2017).[6] The final panel of firms with

[6] We obtain similar results if we require firms to remain independent for one or two years after the campaign start. The frequency of activism in our sample is consistent with that in Khorana, Hoover, Shivdasani, Sigurdsson, and Zhang (2013) and other recently published papers (e.g., Gantchev, Gredil, and Jotikasthira, 2018; Gantchev and Jotikathira, 2018) once we account for the fact that 24.5% of targets over the latter part of the sample period receive an acquisition bid, according to Boyson, Gantchev, and Shivdasani (2017), who use the same data.

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available data for our analysis contains 1,732 firm-years with hedge fund activism campaigns over 1995-2011, representing an average activism frequency of 1.77%. As seen in Figure IA.1, hedge fund activism has steadily increased over the sample period and peaks between 2005 and 2008.

We track the acquisition and divestiture activity of sample firms from five years before through five years after the launch of an activist campaign. We obtain acquisition and divestiture data from Thomson Reuters Securities Data Company (SDC) Platinum over 1990–2016. 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 include all divestiture transactions, regardless of whether SDC reports the transaction value.[7]

We differentiate between cash and stock acquisitions as their motivation and impact on shareholder wealth may differ. 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). 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

[7] The divestiture data in SDC Platinum are less detailed than the data on acquisitions. For example, the value of the transaction is reported in only about 60% of divestitures. For some divestitures, we extract the size of the transaction from the reported deal synopsis.

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to the target is in stock and cash deals as those that are fully cash-financed.

We also consider the size of an acquisition or a divestiture and define large transactions as those with above-median deal value. Prior literature identifies large acquisitions as typically being value-reducing for shareholders (Moeller, Schlingemann, and Stulz, 2004). Further, large acquisitions are also more visible and thereby likely to attract the attention of an activist investor. In the context of divestitures, a large transaction is more likely to represent a reduction in managerial reluctance to sell assets and a meaningful change in scale of the firm's operations.

In addition, we track whether an acquisition is diversifying. Morck, Shleifer, 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. For divestitures, SDC data do not allow us to clearly identify the industry of the divested assets. Therefore, to understand whether a divestiture leads to a change in diversification, we examine whether it leads to a reduction in the number of business segments that the firm operates in.

We also track acquisitions 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 work, diversifying and in-wave transactions are associated with negative abnormal returns in our sample.[8]

[8] 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.

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3. Do activists target empire builders?

In this section, we examine whether a firm's prior acquisition and divestiture activity affects its likelihood of becoming an activist target. Numerous media anecdotes suggest that a track 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."[9] The article cites several Silicon Valley insiders and bankers who argue that "activists have changed the shape of the M&A market".

In a similar vein, a recent New York Times article reports that "the activist investor and founder of the hedge fund Third Point has sought to instigate change at the food maker (Campbell Soup). He blames poor deal making for the near-halving of the company's share price over the past three years."[10] Similar media commentary about other campaigns suggests that activists often view acquisitive firms as profitable targets for intervention, pointing to the potential to unlock value in diversified firms with many past acquisitions.[11]

To obtain systematic evidence on empire building concerns as a motive for activist intervention, we hand-collect all Schedule 13D filings and their amendments for our sample of campaigns. We review *Item 4. Purpose of the Transaction*, the section which contains disclosures of any specific plans or demands with respect to the company. Frequently, activists also attach presentations, letters to the board or management, press releases, etc., which provide additional detail about specific proposals or concerns. We start with over 10,000 Schedule 13D and 13D/As

[9] See "Tech Firms Seek Ways to Fend Off Activist Investors", *The Wall Street Journal*, May 26, 2015.
[10] See "Dan Loeb's Win-Win Situation with Campbell Soup", DealBook, *The New York Times*, November 2, 2018.
[11] See "Starboard to Launch Proxy Fight to Replace Entire Newell Brands Board", *The Wall Street Journal,* February 9, 2018 and "A Success Story for European Activism", *The Wall Street Journal,* September 20, 2017.

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for our sample of 1,732 campaigns, of which about 6,000 filings contain *Item 4* disclosures. Similar to prior studies, about half of the campaigns do not disclose specific concerns or demands, indicating instead that the reason for intervention is the targets' general undervaluation.

For the subsample of 905 campaigns in which activists disclose specific concerns or demands, empire building concerns are a frequent complaint. In 125 (14%) of cases, activists explicitly mention empire building concerns, such as poor prior acquisitions, an inefficient conglomerate structure, or the need for restructuring and sale of underperforming assets or divisions. Consistent with prior work (Brav, Jiang, and Barry, 2019), general corporate governance issues, including governance-related demands regarding the targets' management, board, or disclosures, are discussed in 184 (20%) of our sample of campaigns, whereas strategic alternatives and restructuring proposals are emphasized in 163 (18%) of the campaigns. In addition, activists push for higher shareholder payouts in 137 (15%) of the campaigns. Notably, empire building concerns and higher shareholder payouts overlap in only 15% of cases, suggesting that these are often distinct motives in hedge fund activism.

As a specific example, on June 1, 2007, Steel Partners II LP filed an amended Schedule 13D for its campaign at Adaptec Inc. in response to the company's performance, and in particular, its acquisition strategy. In a letter to the board of directors, Steel Partners highlighted Adaptec's recent history of operating losses – over $300 million during the preceding five years, of which around $188 million were incurred under the leadership of Sundi Sundaresh, the company's CEO and President.[12] The letter emphasized that the company's "ill-conceived acquisitions" over the past five years resulted in intangibles and goodwill write-offs in excess of $175 million.

To obtain Adaptec's commitment for a turnaround, Steel Partners requested that "the

[12] The press release by Steel Partners can be found in the Schedule 13D/A from June 1st, 2007 at https://www.sec.gov/Archives/edgar/data/915653/000092189507001210/0000921895-07-001210-index.htm.

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Board agree not to commence further acquisitions until the activist investor is granted Board representation". Steel Partners stated that it would nominate a full slate of directors for election to the Board at the 2007 annual meeting of shareholders, and requested to be part of "the transaction committee".

On October 30th, 2007, Steel Partners reached an agreement with Adaptec[13], in which the company agreed to allow the activist to nominate two new directors, who would be appointed to the Board's Nominating and Governance, Compensation and Audit Committees, if elected. The company also agreed that it "will not enter into any binding agreement or arrangement relating to any acquisition or purchase of assets or a business that constitutes 20% or more of the net revenues, net income or assets of the company and its subsidiaries unless either (i) the binding agreement or arrangement requires the company to seek and obtain the approval of its stockholders with respect to such proposed transaction or (ii) Steel Partners provide their prior written approval with respect to such proposed transaction."

We examine whether empire building behavior increases the likelihood of attracting activist intervention. As shown by Brav, Jiang, and Kim (2010) and Edmans, Fang, and Zur (2013), activist targets differ from other firms across several observable characteristics. For example, activist targets tend to be smaller and have lower valuations, both of which may affect their ability to conduct acquisitions and divestitures. Therefore, we compare activist targets to a matched sample of non-target firms. Specifically, we match a target to at least one non-target firm in the same year, based on industry (Fama-French 48 classification), and deciles of (beginning-of-year) market capitalization and Tobin's *Q*.[14]

[13] The full text of the agreement can be found in the Schedule 13D/A from October 30th, 2007 at https://www.sec.gov/Archives/edgar/data/915653/000092189507002489/0000921895-07-002489-index.htm.

[14] As seen in Panel A of Table IA.1, this matching approach eliminates all differences in observable firm characteristics between targets and control firms.

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Panel A of Table 1 compares activist targets and matched non-targets with respect to their acquisitions and divestitures over the three years prior to year *t*. Relative to industry, size, and Tobin's *Q* matched firms, activist targets have a higher M&A frequency (9.9% vs. 7.2%, respectively). They are also more likely to have engaged in stock-financed, large, diversifying, and in-wave deals, which are typically associated with value destruction. In addition, firms targeted by activists have conducted acquisitions with worse announcement returns. Activist targets also undertake fewer divestitures than non-targets (8.3% vs. 9.6%, respectively) but do not differ from non-targets in the frequency of conducting large divestitures. Prior to activist arrival, divestitures by targeted firms are no more likely to lead to a reduction in the number segments compared to matched firms. Finally, announcement returns around divestitures for activist targets are not statistically different from those for non-targets.

[Insert Table 1]

We explore the relation between empire building behavior and activist intervention in a multivariate framework that allows us to control for a number of additional observable variables. Panel B of Table 1 studies the matched sample of activist targets and non-targets using as explanatory variables attributes of firms' acquisitions and divestitures over the past three years. 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 addition to a host of firm characteristics, all models include industry and year fixed effects.

Columns (1) and (2) in Panel B of Table 1 separately consider whether a stock- or a cash-financed acquisition, announced in the three years prior to year *t*, influences the probability of being targeted by an activist. We find that both stock- and cash-financed acquisitions are positively associated with activist arrival. In economic terms, a prior stock (cash) acquisition increases the probability of being targeted by 79.7% (35.4%) of the unconditional probability in this matched

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sample. The results in columns (2) and (3) show that both the number and volume of stock-financed and cash-financed acquisitions have a strong positive association with activist targeting, suggesting that serial acquirers are more likely to attract activist attention.

Column (4) shows that announcing a large stock or cash deal over the past three years is associated with a higher probability of becoming an activist target. In economic terms, a large stock acquisition doubles the probability of being targeted, whereas a large cash acquisition raises this probability by 69%. In column (5), we consider whether value-destroying acquisitions, i.e., acquisitions with below-median announcement returns, are positively related to activist arrival. We find that both low-return stock and cash acquisitions increase the likelihood of activist targeting, with the economic magnitude of the coefficient on low-return stock acquisition being twice the magnitude of that on low-return cash acquisition.

In column (6), we consider diversifying and in-wave acquisitions. Both variables are positively and significantly associated with the likelihood of activist arrival. Firms conducting in-wave acquisitions are 68.2% more likely to be targeted by activists, relative to the unconditional likelihood of activist arrival. Firms with a history of diversifying acquisitions are about 78.2% more likely to become activist targets.

Finally, in columns (7) and (8), we examine whether prior divestiture activity influences the likelihood of activist intervention. We find that past divestitures are negatively associated with activist targeting; in economic terms, firms that have conducted a divestiture (large divestiture) experience a 22.5% (35.1%) lower probability of being targeted by activists relative to the unconditional probability in the matched sample.

These results illustrate that a firm's acquisition and divestiture track record is an important determinant of activists' targeting decisions. Firms targeted by activists have conducted more acquisitions, both in terms of number and volume, greater number of large, diversifying, and in-

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wave deals, and fewer divestitures. These patterns suggest that empire building activities make firms prone to activist intervention.

4. Changes in acquisition and divestiture strategy of activist targets

4.1 Reduced acquisition activity

We now direct our attention to whether firms change their M&A behavior in the aftermath of an activist campaign. Panel A of Table 2 presents summary statistics on the post-activism acquisition and divestiture activity of targets, comparing it to that of the matched sample of non-targets. Over the three years following activist intervention, targeted firms display a 6.2% frequency of making acquisitions, a pace substantially lower than the 7.5% frequency for non-targeted firms. Compared to matched control firms, activist targets are also less likely to conduct stock-financed, large, diversifying, and in-wave deals; hence, returns around acquisition announcement dates are significantly higher for targets post-activism than for non-targets.

[Insert Table 2]

While making fewer acquisitions, activist targets also undertake a higher number of divestitures than non-targets (15.2% vs. 10.8%, respectively) and a higher number of large divestitures (6.4% vs. 4.3%, respectively). In addition, divestitures by activist targets are almost twice as likely to lead to a reduction in the number of business segments than divestitures by non-target firms (11.9% vs. 6.2%). Finally, activist targets obtain substantially better divestiture announcement returns than non-targets. This univariate evidence is suggestive of a positive influence of activism on firms' acquisition and divestiture strategies.

Since the univariate comparisons display substantial differences in acquisition activity between activist targets and matched non-targets before activist intervention, a potential concern is that post-activism M&A activity may simply reflect unobserved factors correlated with pre-

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activism M&A. Therefore, for subsequent tests, we refine the matching approach to control for pre-activism M&A. Specifically, we perform the matching on year, industry, and deciles of firm size and Tobin's *Q* in the sample of Compustat firms with at least one M&A transaction in the five years prior to matching. For each activist target in our sample, we find an average of 4.4 control firms that meet these matching criteria, resulting in a sample of 241 activist targets and 1,067 matched firms. As shown in Panel B of Table IA.1, this approach yields a matched sample of firms with past M&A that is statistically indistinguishable from the activist sample on observable firm characteristics. This similarity between the activist and matched samples provides reassurance that our results are unlikely to be driven by differences in firm characteristics.

Using this sample of activist targets and matched non-targets, in Panel B of Table 2, we present regression models of a firm's probability of making an acquisition over the next three- or five-year period relative to year *t.* 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 1, 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 also include year and industry fixed effects.

Columns (1) and (2) show that activist targets are substantially less likely to make an acquisition over the next three- and five-year periods, relative to matched non-targets. The economic magnitude of these effects is large, equal to about one-third of the unconditional probability of making an acquisition in this matched sample. This lower acquisition intensity is present for both cash and stock deals (columns (3)-(6)), and has similar economic magnitudes (28% vs. 34%, respectively). The finding that activist targets reduce stock-financed acquisitions suggests that curtailing capital availability by forcing higher shareholder distributions is not the primary channel through which activists influence M&A decisions.

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As an alternative to the matching approach described above, we replicate our main results using propensity score matching. Specifically, we construct a control sample of non-target firms among all Compustat firms with at least one acquisition in the five years prior to matching by estimating a logistic model of the probability that a firm is targeted by activists based on firm characteristics identified by prior literature (Brav, Jiang, and Kim, 2010; Edmans, Fang, and Zur, 2013). These include firm size, Tobin's *Q*, ROA, sales growth, dividend yield, book leverage, institutional ownership, stock return, and illiquidity. The propensity score matched sample is statistically indistinguishable from activist targets with respect to the matching variables, but the two samples differ in R&D expenditures and cash deviation at the 10% level of significance. As shown in Table IA.5, propensity score matching yields results similar to those reported in the paper, suggesting that our inferences are not sensitive to the choice of matching approach.

In the Internet Appendix, we report two additional robustness tests that investigate potential alternative explanations for the negative relationship between activist involvement and the probability of subsequent acquisitions. 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. We report these results in Table IA.2, where the unit of 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 hedge fund characteristics. We define a variable *HF active stake*, which equals one if the activist hedge fund has declared activist intentions (in Schedule 13D), and zero otherwise. The coefficient on *HF active stake* is negative in all specifications, including both cash- and stock-financed deals.

Second, we exploit the decision of an activist hedge fund to change the legal filing status of an ownership position from SEC Schedule 13G to Schedule 13D, indicating a switch from

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passive ownership to activist investing in the *same* firm.[15] 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". The results of these tests are presented in Table IA.3. 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 IA.2, we include hedge fund fixed effects. We find that firms in which the activist switches from a 13G to 13D status have a lower probability of making an acquisition bid in the next three (five) years, compared with firms where no switch is observed. Overall, these robustness tests suggest that the association between activist intervention and subsequent M&A activity is unlikely to be driven by the activist's selection ability.

4.2 Improved selection of acquisition targets

We now examine if activist intervention leads to changes in the types of acquisitions conducted by targeted firms. 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 3 reports results from regressions of the probability of these acquisition types in the sample of targets and matched non-targets. We include the same set of controls and fixed effects as in Table 2.

[Insert Table 3]

The dependent variable in columns (1) and (2) is an indicator for large acquisitions, defined as those above the median transaction value of all deals in a given year. We find that activist targets are substantially less likely to make large acquisitions in the three (five) years from year *t*, compared to matched non-targets. In economic terms, these coefficient magnitudes represent about

[15] We use data on 13G filings, provided to us by Alon Brav (see Brav, Jiang, Ma, and Tian, 2018).

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a third of the unconditional probability of making such acquisitions in the matched sample. In columns (3) and (4), we use as the dependent variable an indicator for a diversifying acquisition. Diversifying acquisitions are about 25% less likely for activist targets, based on the unconditional probability in the matched 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 about half as likely (in economic terms) for activist targets in the three (five) years after activism.

These results suggest that activist targets not only reduce the frequency of making acquisitions but that they also substantially change the selection of M&A targets, avoiding transactions often thought to be associated with empire building. These findings prompt the natural question of whether the improved selection of acquisitions leads to higher shareholder value.

In Panel B of Table 3, we report regression models of daily announcement CARs around acquisitions occurring within three years of year *t*. We estimate returns using the CRSP value-weighted index as the benchmark in columns (1)-(2) and the Fama-French three-factor model in columns (3)-(4). 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). Regardless of the return benchmark we use, the results reveal that activist targets obtain 2.3-2.6% higher announcement returns relative to comparable non-targets, indicating that higher quality M&A activity after activist intervention is indeed associated with a meaningful improvement in value creation.

4.3 Increased divestiture activity

Acquisitions alone provide an incomplete picture of empire building since managerial agency problems can also manifest themselves in a reluctance to sell assets (Bebchuk, 2005; Pan,

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Wang, and Weisbach, 2016). Therefore, we now investigate whether activist targets are more likely to refrain from empire building by examining changes in their divestiture activity.

Anecdotal evidence suggests that activists have been influential in urging firms to implement divestitures. For example, media reports note that "[c]ompanies are more frequently reviewing their own portfolios for divestment opportunities. Fifty-eight percent of executives reported doing these kinds of check-ups annually. […] The rise of activist investors, who often take stakes in public companies and direct managers to sell poorly performing business units, has prompted more companies to stress-test their own portfolios."[16] .

Using our sample of activist targets and matched non-targets, in Panel A of Table 4, we find that activist targets engage in a higher number of divestitures following activist arrival, as seen in columns (1)-(3). In economic terms, targets are 46.4% more likely to engage in divestitures in the first year post-activism, 27.9% in the second year and 17.7% in the third year, indicating that the effect of activism on divestiture activity is stronger closer to the start of a campaign. In contemporaneous work, Hege and Zhang (2019) find that not-yet-targeted firms that face the threat of activism also see an increase in the frequency of divestitures, and argue that the activists' influence on M&A strategy spills over to other firms in the targets' industries. Thus, their findings suggest that our estimates potentially understate the effect of activism on divestiture likelihood.

[Insert Table 4]

In columns (4)-(6), we investigate whether activist targets are more likely to undertake large divestitures than matched non-targets. We classify large divestitures as those with an above-median transaction size. Columns (4) and (5) reveal that relative to matched non-targets, activist targets are more likely to engage in large divestitures following activism. In economic terms,

[16] See "U.S. Business Leaders Anticipate Stronger Deal Flow in Next Year", *The Wall Street Journal*, October 8, 2018.

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targets are 49.6% more likely to undertake a large divestiture in the first year post-activism and 32.0% more likely to do so in the three years after activism. These results are complementary to our findings on acquisitions that activist targets tend to avoid large acquisitions after activism. Taken together, our findings suggest that activist intervention leads to a reduction in the size of acquisitions and an increase in the size of divestitures.

To explore firms' divestiture activity further, we examine the extent to which divestitures lead to refocusing of firm operations.[17] To do so, we combine data from SDC Platinum with available information on firms' business segments from Compustat. Specifically, we define an indicator variable – *Reduction in business segments* – equal to one if a divestiture leads to a reduction in the segments in which a firm operates. We present the results of these tests in the last three columns of Panel A. Relative to non-targets, activist targets appear more likely to undertake divestitures that reduce the scope of the firm. For example, the coefficient in column (8) indicates that targets are two times more likely (in economic terms) to reduce the number of business segments when divesting assets, compared to matched non-targets. The impact of activism is stronger in the earlier years after the initiation of the campaign; by the fifth year, we do not find a statistically significant difference in the reduction of segments.

Our results suggest that activists reduce managerial reluctance to sell assets. However, some observers have expressed the view that activists are focused on short-term gains, and hence, they push firms to sell assets at the expense of long-term value. For example, the Brokaw Act, introduced in the U.S. Senate in 2017 proposes increased oversight and disclosure of activist hedge

[17] Due to limitations in publicly available data, we are not able to reliably classify divested assets into specific industries (to identify core and non-core assets) or verify whether a company fully exits an industry or simply sells some of its assets in an industry. As an alternative, we use data on the number of business segments to examine whether divestitures lead to refocusing of the firm.

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funds to combat such short-termism.[18] To examine whether activist actions are detrimental to long-term value, we investigate the abnormal returns associated with post-activism divestitures.

In Panel B of Table 4, we present regression estimates of daily CARs, using the CRSP value-weighted index as the benchmark in columns (1)-(2) and the Fama-French three-factor model in columns (3)-(4). The key independent variable, *Activist*, is an indicator equal to one if an activist initiates a campaign against the firm in year *t*, and zero otherwise. We include the same control variables and fixed effects as in Panel B of Table 3, where we study acquisition returns.

Regardless of the return benchmark we use, the results reveal that the divestitures of activist targets experience 0.9-1.8% higher CARs around the divestiture announcement. The positive announcement returns that we obtain are consistent with contemporaneous findings by Guo, Utham, and Wang (2019) who show that activist targets exhibit higher return on assets and profitability following divestiture transactions. These findings cast doubt on the view that activist involvement leads firms to divest assets at the expense of shareholder value.

5. How do activists mitigate empire building?

In this section, we turn our attention to understanding the specific channels through which activists facilitate better acquisition and divestiture activity. We focus on two potential explanations for these effects. Activists may influence a firm's M&A strategy by demanding higher shareholder payouts which constrain the use of free cash flow for acquisitions. Alternatively, activists can instigate changes in corporate governance that provide increased discipline over acquisition and divestiture decisions. We focus on three non-mutually exclusive channels for improved governance, including the removal of CEOs with poor M&A records, increased focus on CEO compensation-based incentives, and the appointment of new board

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

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members.

5.1 Pressure over payout policy

To explore whether changes in M&A strategy can be explained by activist demands for increased shareholder payouts, we use the activists' public disclosures in SEC filings and press releases. As described earlier, in 13% of our sample of campaigns, activists express concerns or demands over empire building behavior, while in 14% of cases, their concerns or demands are over the firm's payout policy. In Table 5, we replace the independent variable – *Activist* – with indicators for *Empire building concern* and *Payout demand*, and investigate whether targets receiving such demands experience a change in their acquisition and divestiture strategy post-activism. We include an indicator *No empire building concern* for all other concerns or demands presented by activists.

[Insert Table 5]

As seen in Table 5, campaigns in which activists specifically emphasize empire building problems are associated with a lower frequency of both cash- and stock-financed acquisitions. In economic terms, cash acquisitions are 59.8% less likely (column (3)) and stock acquisitions are 73.2% less likely (column (5)), relative to matched non-targets. Notably, the coefficient on the indicator *No empire building concern* is several times smaller in magnitude and has varying statistical significance, suggesting that firms are more likely to reduce their future acquisitions when activists explicitly raise empire building concerns.[19] We also find that activist demands for increased payout are negatively related to the probability of future (cash-financed) acquisitions, but the coefficients are not statistically significant at conventional levels.

[19] This conclusion is confirmed by the F-tests reported in the last two rows, which are always positive and generally statistically significant, even though the statistical significance varies as expected because this is one of several channels through which activists impact M&A activity.

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In the last two columns of Table 5, we consider the role of activist demands on a firm's divestiture activity post-activism. We find that when activists raise empire building concerns, the firm is more likely to undertake divestitures. In economic terms, relative to matched non-targets, divestitures at activist targets are 149% more likely in the first year and about 96% more likely in the three years after activism. The coefficient on the indicator *No empire building concern* is not statistically significant, suggesting that firms are more likely to increase their pace of divestitures when activists explicitly raise empire building concerns. In addition, activist demands for higher shareholder payout are not statistically significant in explaining future divestitures.

5.2 Removing CEOs with poor M&A records

As highlighted by the example of Steel Partners' campaign against Adaptec, when activists target firms with a poor M&A track record, they frequently focus on the CEO since empire building is often attributed to CEOs' personal motives to enhance compensation and private benefits.

An important body of research shows that CEOs face discipline for undertaking inefficient acquisitions. Mitchell and Lehn (1990) find that in the 1980s the market for corporate control disciplined managers who conducted value-destroying acquisitions. Similarly, Lehn and Zhao (2006) find that a significant fraction of CEOs overseeing bad acquisitions in the 1990s were disciplined through internal governance. Yet, the continued prevalence of value-destroying acquisitions suggests that corporate takeovers and internal governance are insufficient to eliminate empire-building incentives. Therefore, we conjecture that shareholder activism may represent a channel through which additional discipline is imposed on CEOs to restrain empire-building behavior. We explore this channel by investigating whether CEOs are more likely to be removed for conducting value-destroying acquisitions when they are subject to shareholder activism.

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Our sample of CEO turnovers consists of 3,077 CEO successions between 1995 and 2011. The sample includes firms in the Standard & Poor (S&P)'s ExecuComp database, which limits our analysis to the largest 1,500 U.S. public firms.[20] In the sample, 937 of the CEO turnovers are classified as forced.[21] As is common in the literature, we exclude CEO turnover events due to mergers or spin-offs. As control variables, we include *CEO of retirement age*, *CEO tenure*, *CEO with high ownership* and *CEO-Chairman duality*.

Does the presence of an activist investor increase the sensitivity of forced CEO turnover to past value-destroying M&A activity? Using the sample of activist targets and matched non-targets, in Panel A of Table 6, we estimate the probability of *Forced CEO turnover* (over years *t* and *t+1*) on *Activist* and its interaction with indicators for acquisitions and divestitures over the three years prior to year *t*. In these models, the coefficient on *Activist* is always statistically significant, indicating that the arrival of an activist increases the likelihood of CEO removal over the subsequent two years. In economic terms, activist intervention doubles the probability of forced CEO turnover over the two years following the campaign, relative to the unconditional probability of 7.7% in the matched sample.

[Insert Table 6]

More importantly, the interaction between *Activist* and *Stock bid* is also positive and statistically significant in column (1), indicating a much higher sensitivity of forced CEO turnover to past stock acquisitions for activist targets, relative to matched non-targets. The coefficient on the interaction between *Activist* and *Cash bid* is not statistically significant.

[20] The data are provided to us by Dirk Jenter and Lucian Taylor. As a result of including only S&P 1,500 firms and adding CEO controls, our sample in Table 6 is smaller than that in Table 2.

[21] We follow the standard definition of a forced CEO turnover: (i) CEOs who are reported in the press to be fired, forced out, or retiring/resigning due to policy differences or pressure, (ii) CEOs below the age of 60 for whose departures the press does not report the reason as death, poor health, or the acceptance of another position, and (iii) CEOs whose retirement is not announced in the press at least six months before the succession.

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As seen in columns (3) and (5), CEOs of firms conducting large and low-return stock acquisitions are almost five times more likely to be forced out in the presence of an activist. Even though the coefficient on low-return cash acquisition (in column (6)) is smaller in magnitude, it is statistically significant at the 5% level, suggesting that activists are likely to remove CEOs at targets with value-destroying past M&A, regardless of the method of payment. Columns (7)-(8) reveal that activist targets are more likely to replace CEOs conducting diversifying and in-wave acquisitions. Finally, column (9) shows that CEOs undertaking divestitures are marginally less likely to be forced out.

Overall, the results in Panel A of Table 6 suggest that the arrival of an activist significantly increases the sensitivity of CEO dismissal to prior empire-building activity. Lehn and Zhao (2006) find no relation between board characteristics and the removal of CEOs conducting value-destroying acquisitions. In this regard, our results suggest that activists perform a governance role that boards are typically unable to perform, perhaps due to the control that CEOs often exercise over boards.[22]

Does the market value the role of activists in removing CEOs with a poor acquisition history? To address this question, Panel B of Table 6 estimates regression models of daily abnormal CARs around the announcement of forced CEO turnover events. Columns (1) and (2) show that forced CEO turnover announcements by activist targets obtain 1.65% (1.59%) higher three-day announcement CARs if the CEO has been involved in a stock (cash) M&A deal in the past three years. Similarly, turnover announcement returns are higher for activist targets that have conducted large stock-financed acquisitions (column (3)), low-return stock-financed acquisitions (column (5)), acquisitions during a merger wave (column (7)) and diversifying acquisitions

[22] Consistent with this interpretation, in unreported results, we find that the interaction between *Activist* and *CEO-Chairman duality* is positive (0.0454) and significant at 5 percent, whereas the coefficient on *CEO-Chairman duality* is negative (-0.098) and significant at 10%. This suggests that activism serves a governance function when boards may be constrained from doing so.

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(column (8)). These results suggest that the market views the activists' role in removing empire-building CEOs as value enhancing for shareholders.

Our results on the CEO turnover channel differ from the evidence in Wu and Chung (2019). Specifically, we directly relate CEO removal to past M&A behavior by showing that activists increase the sensitivity of CEO removal to value-destroying M&A. In addition, as direct evidence that activists improve CEO turnover decisions, we show that announcement returns to removing CEOs with poor M&A records are more positive in the presence of an activist.

Our results have broader implications for the role of external governance through hedge fund activism. Although the market for corporate control disciplines CEOs who undertake value-destroying acquisitions (Mitchell and Lehn, 1990), the question remains whether external governance through corporate takeovers is efficient. As shown by Phalippou, Xu, and Zhao (2015), acquisitions of firms with a very high incidence of past M&A activity result in disappointing outcomes for the acquirers. Activism avoids the significant costs associated with acquisitions of firms with a history of poor M&A and potentially represents a more efficient mechanism for curbing empire building.

5.3 Increasing CEOs' pay-for-performance sensitivity

An alternative channel through which activists can influence a firm's acquisition and divestiture strategy is by instituting changes in CEO compensation practices. Minnick, Unal, and Yang (2010) find that higher CEO pay-for-performance sensitivity (PPS) lowers the probability of (bad) acquisitions in the banking industry. In a similar spirit, we investigate whether the change in the CEO's PPS from t-1 to t+1 around the arrival of an activist influences the target's probability of making acquisitions and divestitures in the next three to five years.

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As a measure of a CEO's PPS, we use the scaled wealth performance sensitivity proposed by Edmans, Gabaix, and Landier (2009), defined as the dollar change in CEO wealth for a one hundred percentage point change in firm value, divided by annual flow compensation.[23] As Edmans et al. (2009) argue, this measure offers the advantage of being independent of firm size and is comparable across firms and over time.

In columns (1)-(6) of Table 7, we study whether an increase in a CEO's PPS is associated with the future acquisition intensity of activist targets and matched non-targets. The coefficient on *Activist* is negative and statistically significant in most specifications, confirming earlier results that activist intervention is associated with lower M&A activity.

[Insert Table 7]

More importantly, the interaction between *Activist* and *Increase in PPS* is negative and statistically significant in all columns, indicating that the presence of an activist raises the effect of increased PPS on acquisition intensity. For example, the coefficient on the interaction term in column (1) shows that activist targets display a sensitivity to PPS that is roughly twice as large in magnitude as that of matched non-target firms. Comparing cash to stock acquisition bids, the economic magnitude of the interaction coefficients in columns (3) and (5) are similar (23.6% vs. 25.0%), suggesting that increasing a CEO's PPS reduces the tendency to conduct both cash and stock acquisitions.[24] In unreported results, we also find that the presence of an activist shareholder is associated with a 34.9% higher likelihood of an increase in a CEO's PPS from *t*-1 to *t*+1.[25]

In the last two columns of Table 7, we consider the role of CEO PPS on divestiture activity

[23] The data are publicly available at http://alexedmans.com/data/.
[24] For example, the economic magnitude of the interaction in column 3 is estimated as the coefficient on the interaction term x (SD of Increase in PPS/SD of Cash Bid) = -0.0237 x (3.78/0.38) = 23.58. The magnitude of the coefficient in column 5 is 25.02.
[25] In a multivariate regression with *Increase in PPS* as the dependent variable, the coefficient on *Activist* is statistically significant at 10%, when controlling for the same firm characteristics and fixed effects as in Table 7.

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following activist intervention. The coefficient on *Activist* is positive and statistically significant, confirming that activism is associated with greater divestiture activity. In addition, the interaction between *Activist* and *Increase in PPS* is negative and statistically significant in both specifications, indicating that the presence of an activist increases the effect of higher PPS on divestiture intensity.

Overall, our findings in Table 7 show that target firms with an increase in their CEOs' PPS are much less likely to undertake acquisitions and more likely to divest assets, suggesting that one channel through which activists mitigate empire building is through facilitating the use of more performance sensitive CEO compensation structures.[26]

5.4 Changing board composition

As the Adaptec campaign illustrates, another channel through which activists can influence empire building is by appointing their nominees to the board of directors. To examine the board channel, we obtain data on new board appointments from BoardEx. We supplement BoardEx with hand-collected data (from Schedule 13D and proxy filings) on director seats won by dissidents.[27] We create an indicator variable – *New director* – equal to one if a firm appoints at least one new director in the two years after activism (years t and $t+1$).[28] We then examine whether the appointment of a new director influences acquisition and divestiture activity.

[26] Our results suggest that on average, increased compensation incentives improve acquisition behavior, but they do not imply that greater CEO incentive-based compensation always improves the efficiency of M&A decisions. Cooper, Gulen, and Rao (2016) argue that CEOs who accept higher incentive-based compensation tend to be overconfident and subsequently make worse acquisitions. Consistent with this view, anecdotal evidence from ValueAct's campaign against Valeant suggests that higher compensation incentives encouraged an acquisition strategy that proved to be non-value enhancing for shareholders.

[27] The hand-collected data include all dissident director seats won via a settlement or a proxy vote. In 293 (16.8%) of the campaigns in our sample, activists threaten a proxy contest (in Schedule 13D) or file a preliminary or definitive proxy statement. Of these, 110 (38%) result in a voted proxy contest, 131 (45%) result in a settlement, and the remaining are withdrawn. These statistics are similar to those in Bebchuk, Brav, Jiang, and Keusch (2019).

[28] The BoardEx data are available after 2000. Between 2000-2013, on average 8.8% of firm years have at least one new director. In some cases, BoardEx does not report a new director for a firm (e.g., when the beginning date of a director's tenure is missing) but our hand-collected data on dissident director appointments show a seat won by a dissident. In such cases, we code *New director* as one based on the hand-collected data.

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As seen in Table 8, the coefficient on *Activist* is always statistically significant, indicating that the presence of an activist shareholder decreases the probability of an acquisition (columns (1)-(6)) and increases the probability of a divestiture (columns (7)-(8)) post-activism. More importantly, the interaction between *Activist* and *New director* is always negative and statistically significant in the acquisition regressions (columns (1)-(6)) and positive and significant in the divestiture regressions (columns (7)-(8)). Hence, in the presence of an activist investor, new board members influence acquisition and divestiture activity to a larger degree than matched firms with new directors. In terms of economic magnitude, both cash acquisitions (column (3)) and stock acquisitions (column (5)) are two times less likely, relative to matched non-targets; divestitures are about 85% more likely, based on the coefficient in column (8).

[Insert Table 8]

These findings suggest that the appointment of new board members is another channel through which activist investors curb empire building. Overall, the results on CEO turnover, CEO pay-performance sensitivity, and new board appointments are broadly consistent with activists exerting influence over acquisition and divestiture activity through changes in the targets' corporate governance.

6. Conclusions

We demonstrate that activists target firms with empire building track records and improve the subsequent acquisition and divestiture activity of their targets. To reduce wasteful acquisitions and facilitate the reversal of past empire building, activists remove CEOs with a history of value-destroying M&A, implement compensation schemes to constrain empire building motives, and bring in new board members.

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As a result of activist intervention, firms conduct fewer acquisitions, become more selective in choosing acquisition targets and engage in more divestitures that refocus firm operations. Further, their post-activism acquisitions and divestitures are associated with positive shareholder announcement returns. Given the magnitude of M&A spending and its impact on shareholder value, our results highlight an important channel through which hedge fund activism enhances firm value.

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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.
Empire building concern	Indicator for an activist campaign, in which the activist references inefficient past M&A activity. Source: SEC Schedules 13D and 13D/A.
Payout demand	Indicator for an activist campaign, in which the activist demands shareholder payout. Source: SEC Schedules 13D and 13D/A.
Activist wins board seat	Indicator equal to one if the activist places a director on the target's board. Source: SEC proxy filings (DFAN 14A).
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.
Relative bid size	Ratio of deal transaction value to acquirer's market capitalization. Source: SDC Platinum, CRSP.
Number of bids	Number of acquisition bids a firm makes in a given year. Source: SDC Platinum.
Volume of bids	Volume of acquisition bids a firm makes in a given year scaled by the firm's market capitalization. Source: 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.
Large divestiture	Indicator equal to one for a divestiture with above-median transaction value. Source: SDC Platinum.
Reduction in business segments	Indicator equal to one for a divestiture transaction resulting in fewer business segments. Source: Compustat Segments.
Abnormal return	Stock return minus contemporaneous CRSP value-weighted return for market model adjustment. Source: CRSP.
Firm controls	
% 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.

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Variable	Definition
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.
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.
CEO controls	
CEO of retirement age	Indicator equal to one if the CEO is 63 years of age or older. Source: ExecuComp.
CEO Tenure	*ln* (number of years the current CEO has served as CEO). Source: ExecuComp.
CEO with high own	Indicator equal to one if the CEO owns more than 5% of the firm's stock. Source: ExecuComp.
CEO-Chairman duality	Indicator equal to one if the CEO also chairs the firm's board. Source: IRRC.
Increase in PPS	The percentage change in pay-for-performance sensitivity (PPS) from *t*-1 to *t*+1 around the event year *t*. PPS is defined as the dollar change in CEO wealth for a one hundred percentage point change in firm value, divided by annual flow compensation. Source: Alex Edmans' website.

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Table 1. Activist targeting

Panel A reports univariate comparisons of acquisitions and divestitures by activist targets and matched non-targets in the three years prior to the event year *t*. The activism sample period is between 1995 and 2011. Activist targets are matched to non-targets based on industry (Fama-French 48), year, and deciles of market capitalization and Tobin's *Q*. Returns are estimated with respect to the market model (MM) with the CRSP value-weighted index as the benchmark, or the Fama-French three-factor model (3F). Panel B reports OLS regressions of the probability of becoming an *Activist target in year t* on indicators for various types of acquisitions and divestitures over the 3 years prior to year *t*. All variables are defined in the Appendix and controls 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.

Panel A. Acquisition and divestiture activity (*t-3* to *t*) - matched comparison

	(1)	(2)	(3)	(4)	(5)	(6)
	Activist targets		Activist non-targets		Difference in means	
	# obs.	Mean	# obs.	Mean	Difference	t-stat
M&A frequency	1732	0.0993	34100	0.0716	0.028	3.78***
Stock bid	1732	0.0191	34100	0.0108	0.008	2.49**
Large bid	1732	0.0497	34100	0.0379	0.012	2.22**
Diversifying bid	1732	0.0398	34100	0.0266	0.013	2.76***
In-wave bid	1732	0.0173	34100	0.0089	0.008	2.64**
Relative bid size	154	0.563	1032	0.421	0.14	1.96*
CAR MM [-1d,+1d]	157	-0.007	1047	-0.002	-0.004	-1.04
CAR MM [-5d,+5d]	157	-0.016	1047	-0.002	-0.012	-1.98**
CAR 3F [-1d,+1d]	157	-0.008	1047	-0.001	-0.007	-1.35
CAR 3F [-5d,+5d]	157	-0.019	1047	-0.002	-0.017	-2.34**
Divestiture frequency	1732	0.0830	34100	0.0956	-0.013	-1.9273*
Large divestiture	1732	0.0404	34100	0.0373	0.003	0.668
Divestiture (reduction in segments)	1732	0.0697	34100	0.0643	0.005	0.747
CAR MM [-1d,+1d]	186	0.008	1132	0.007	0.000	0.105
CAR MM [-5d,+5d]	186	0.017	1132	0.017	0.001	0.107
CAR 3F [-1d,+1d]	186	0.020	1132	0.020	0.000	-0.040
CAR 3F [-5d,+5d]	186	0.024	1132	0.024	-0.001	-0.084

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Panel B. Activist targeting

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Activist target in year *t*							
Stock bid	0.0389***							
	(2.92)							
Cash bid	0.0173**							
	(1.97)							
Number stock bids		0.0494***						
		(3.26)						
Number cash bids		0.0246***						
		(2.62)						
Volume stock bids			0.0295***					
			(2.83)					
Volume cash bids			0.0201*					
			(1.87)					
Large stock bid				0.0490***				
				(2.63)				
Large cash bid				0.0337**				
				(2.16)				
Low return stock bid					0.0539***			
					(2.96)			
Low return cash bid					0.0265*			
					(1.87)			
In-wave bid						0.0333**		
						(2.45)		
Diversifying bid						0.0382***		
						(4.46)		
Divestiture							-0.0107**	
							(-2.52)	
Large divestiture								-0.0172***
								(-2.61)
% Inst. own.	-0.0357***	-0.0357***	-0.0348***	-0.0344***	-0.0351***	-0.0366***	0.0651***	0.0648***
	(-3.34)	(-3.34)	(-3.26)	(-3.22)	(-3.29)	(-3.41)	(8.95)	(8.92)
Stock vol	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	-0.0006**	-0.0006**
	(0.27)	(0.21)	(0.19)	(0.23)	(0.25)	(0.24)	(-2.07)	(-2.08)
Illiquidity	0.3731***	0.3717***	0.3815***	0.3628***	0.3731***	0.3760***	-0.0216	-0.0197
	(6.68)	(6.66)	(6.82)	(6.48)	(6.68)	(6.73)	(-0.85)	(-0.78)

Tobin's Q	-0.0108**	-0.0103**	-0.0107**	-0.0107**	-0.0111**	-0.0095*	-0.0133***	-0.0133***
	(-2.10)	(-2.00)	(-2.07)	(-2.09)	(-2.17)	(-1.85)	(-2.88)	(-2.89)
Firm size	0.0115***	0.0107***	0.0122***	0.0108***	0.0116***	0.0104***	-0.0121***	-0.0117***
	(4.63)	(4.32)	(4.93)	(4.31)	(4.68)	(4.19)	(-6.58)	(-6.33)
ROA	-0.0468***	-0.0472***	-0.0479***	-0.0461***	-0.0460***	-0.0476***	-0.0135	-0.0135
	(-2.87)	(-2.90)	(-2.93)	(-2.82)	(-2.82)	(-2.92)	(-1.30)	(-1.31)
Book leverage	-0.0097	-0.0109	-0.0113	-0.0101	-0.0093	-0.0125	0.0077	0.0076
	(-1.06)	(-1.19)	(-1.23)	(-1.11)	(-1.01)	(-1.36)	(1.01)	(1.00)
Dividend yield	0.0208	0.0216	0.0222	0.0196	0.0199	0.0213	0.0334	0.0349
	(0.43)	(0.44)	(0.45)	(0.40)	(0.41)	(0.44)	(0.67)	(0.70)
R&D expenditure	-0.0082	-0.0091	-0.0087	-0.0087	-0.0082	-0.0079	0.0449**	0.0448**
	(-0.51)	(-0.57)	(-0.54)	(-0.54)	(-0.51)	(-0.49)	(2.43)	(2.42)
Stock Return	0.0087	0.0088	0.0083	0.0088	0.0088	0.0087	0.0014	0.0013
	(1.61)	(1.64)	(1.51)	(1.63)	(1.63)	(1.60)	(0.64)	(0.62)
Herfindahl index	0.3325**	0.3333**	0.3486**	0.3290**	0.3300**	0.3381**	0.3451**	0.3395**
	(2.30)	(2.31)	(2.44)	(2.28)	(2.29)	(2.34)	(2.45)	(2.42)
Constant	-0.0311	-0.0271	-0.0358*	-0.0265	-0.0313	-0.0269	0.0748***	0.0722***
	(-1.55)	(-1.35)	(-1.78)	(-1.31)	(-1.56)	(-1.33)	(5.08)	(4.92)
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	23,109	23,109	23,109	23,109	23,109	23,109	23,109	23,109
Adjusted R2	0.0323	0.0332	0.0337	0.0325	0.0325	0.0340	0.0265	0.0265

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Table 2. M&A following activism

Panel A of this table reports univariate comparisons of acquisitions and divestitures by activist targets and matched non-targets in the three years after the event year *t*. The activism sample period is between 1995 and 2011. Activist targets are matched to non-targets based on industry (Fama-French 48), year, and deciles of market capitalization and Tobin's *Q*. Returns are estimated with respect to the market model (MM) with the CRSP value-weighted index as the benchmark, or the Fama-French three-factor model (3F). Panel B reports OLS regressions of the probability of making an acquisition bid by activist targets and matched non-targets. The matched sample is restricted to firms with at least one M&A transaction in the past five years. 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.

Panel A. Acquisition and divestiture activity (*t* to t+3) - matched comparison

	(1)	(2)	(3)	(4)	(5)	(6)
	Activist targets		Activist non-targets		Difference in means	
	# obs.	Mean	# obs.	Mean	Difference	t-stat
M&A frequency	1732	0.0624	34100	0.0752	0.000	-2.14**
Stock bid	1732	0.0068	34100	0.0119	0.000	-2.45**
Large bid	1732	0.0289	34100	0.0425	0.000	-3.26***
Diversifying bid	1732	0.0219	34100	0.0283	0.000	-1.79*
In-wave bid	1732	0.0046	34100	0.0092	0.000	-2.69***
Relative bid size	93	0.335	1021	0.403	-0.07	-2.07**
CAR MM [-1d,+1d]	94	0.018	1038	-0.002	0.021	2.90***
CAR MM [-5d,+5d]	94	0.015	1038	-0.004	0.019	2.19**
CAR 3F [-1d,+1d]	94	0.015	1038	-0.003	0.018	2.61**
CAR 3F [-5d,+5d]	94	0.011	1038	-0.005	0.015	1.87*
Divestiture frequency	1732	0.1517	34100	0.1084	0.043	5.132***
Large divestiture	1732	0.0639	34100	0.0429	0.021	3.653***
Divestiture (reduction in segments)	1732	0.1189	34100	0.0617	0.057	0.007***
CAR MM [-1d,+1d]	199	0.017	1119	0.007	0.010	2.381**
CAR MM [-5d,+5d]	199	0.037	1119	0.015	0.022	2.633***
CAR 3F [-1d,+1d]	199	0.030	1119	0.019	0.011	1.836*
CAR 3F [-5d,+5d]	199	0.044	1119	0.023	0.021	2.146**

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Panel B. Making an acquisition bid

	(1) Bid [t, t+3]	(2) Bid [t, t+5]	(3) Cash bid [t, t+3]	(4) Cash bid [t, t+5]	(5) Stock bid [t, t+3]	(6) Stock bid [t, t+5]
Activist	-0.1141***	-0.1379***	-0.0612**	-0.0667**	-0.0361**	-0.0402**
	(-3.36)	(-3.96)	(-2.05)	(-2.26)	(-2.15)	(-2.28)
% Inst. own.	0.0397	0.0326	0.0441	0.1103	-0.0889*	-0.1286**
	(0.41)	(0.33)	(0.50)	(1.24)	(-1.65)	(-2.25)
Stock return volatility	-0.0201***	-0.0245***	-0.0141***	-0.0158***	-0.0056**	-0.0069**
	(-4.63)	(-5.25)	(-3.49)	(-4.38)	(-2.12)	(-2.38)
Illiquidity	-1.1088***	-1.2752***	-0.7311**	-0.7212**	-0.1096	-0.1751
	(-3.07)	(-3.39)	(-2.21)	(-2.23)	(-0.45)	(-0.68)
Tobin's Q	0.0909**	0.1120***	-0.0012	0.0204	0.0349	0.0564**
	(2.21)	(2.63)	(-0.03)	(0.52)	(1.38)	(2.06)
Firm size	-0.0166	-0.0037	-0.0068	0.0060	-0.0261***	-0.0265***
	(-1.28)	(-0.26)	(-0.56)	(0.48)	(-3.65)	(-3.21)
ROA	0.0778	0.0426	0.2044*	0.1647	-0.1236*	-0.1233
	(0.63)	(0.32)	(1.74)	(1.27)	(-1.65)	(-1.45)
Book leverage	-0.0922	-0.0009	-0.0867	-0.0875	0.0252	0.0327
	(-1.61)	(-0.01)	(-1.57)	(-1.42)	(0.65)	(0.73)
Dividend yield	-0.2764	-0.6085	-0.8619	-0.6522	-0.0515	-0.0748
	(-0.33)	(-0.69)	(-1.12)	(-0.86)	(-0.10)	(-0.14)
R&D expenditure	-1.3146***	-1.4406***	-0.8109**	-0.8108*	-0.4133**	-0.4430*
	(-3.10)	(-3.19)	(-1.96)	(-1.91)	(-2.09)	(-1.94)
Stock Return	0.0002	-0.0185	-0.0181	-0.0133	0.0388**	0.0219
	(0.01)	(-0.76)	(-0.90)	(-0.65)	(2.29)	(1.19)
Sales growth	0.0557	0.0438	0.0139	0.0241	0.0383	0.0288
	(1.42)	(1.13)	(0.37)	(0.71)	(1.41)	(1.05)
Price-to-earnings	-0.0001	-0.0002	-0.0001	-0.0001	-0.0000	-0.0001*
	(-0.65)	(-1.13)	(-0.66)	(-0.65)	(-0.84)	(-1.80)
Cash deviation	0.3881***	0.3487***	0.3102***	0.2870***	0.0981**	0.1207**
	(4.46)	(3.74)	(3.75)	(3.33)	(2.00)	(2.25)
Herfindahl index	1.4626	1.5989	0.8066	1.1181	0.7695	0.9100
	(1.45)	(1.53)	(0.79)	(1.07)	(1.26)	(1.48)
Constant	0.5726***	0.5572***	0.3687***	0.2320*	0.3461***	0.3889***
	(4.22)	(3.87)	(2.77)	(1.68)	(4.76)	(4.66)
Industry & year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3352	3352	3352	3352	3352	3352
Adjusted R2	0.0664	0.0772	0.0558	0.0815	0.0678	0.0643

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Table 3. Types of acquisitions and acquisition returns

Panel A of this table reports OLS regressions of the probability of making large, diversifying, and in-wave acquisition bids. *Activist* is an indicator for an activist campaign in year *t*. The activism sample period is between 1995 and 2011. Activist targets are matched to non-targets based on industry (Fama-French 48), year, deciles of market capitalization and Tobin's *Q,* and past M&A activity. Panel B reports OLS estimates of daily CARs for acquisition bids over the next 3 years relative to year *t*. Returns are estimated with respect to the market model (MM) with the CRSP value-weighted index as the benchmark, or the Fama-French three-factor model (3F). 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.

Panel A. Types of acquisition bids

	(1)	(2)	(3)	(4)	(5)	(6)
	Large bid	Large bid	Diversifying bid	Diversifying bid	In-wave bid	In-wave bid
	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]
Activist	-0.0755***	-0.0792***	-0.0557**	-0.0635**	-0.0346**	-0.0425***
	(-3.01)	(-2.96)	(-2.05)	(-2.17)	(-2.55)	(-2.72)
% Inst. own.	0.0562	0.0730	-0.0892	-0.0784	-0.0362	-0.0224
	(0.81)	(0.91)	(-1.06)	(-0.87)	(-0.89)	(-0.46)
Stock return volatility	-0.0016	-0.0059	-0.0126***	-0.0144***	-0.0054***	-0.0066***
	(-0.47)	(-1.54)	(-3.46)	(-3.64)	(-2.91)	(-3.10)
Illiquidity	-0.0510	0.0511	-1.1161***	-1.2139***	0.0526	0.2795
	(-0.21)	(0.18)	(-3.92)	(-3.77)	(0.33)	(1.48)
Tobin's Q	-0.0322	-0.0555	0.0994***	0.1193***	0.0313	0.0492*
	(-1.02)	(-1.60)	(2.73)	(2.93)	(1.23)	(1.87)
Firm size	0.0952***	0.1175***	-0.0125	-0.0043	-0.0102*	-0.0113
	(8.51)	(9.65)	(-1.14)	(-0.34)	(-1.74)	(-1.62)
ROA	0.0030	0.1677	0.0704	-0.0267	0.0422	0.0625
	(0.03)	(1.55)	(0.67)	(-0.22)	(0.65)	(0.87)
Book leverage	0.0472	0.0561	0.0192	0.0671	-0.0265	-0.0337
	(1.07)	(1.07)	(0.37)	(1.04)	(-1.03)	(-1.09)
Dividend yield	-0.2380	-0.2930	-0.5109	-0.7320	-0.3925	-0.5119
	(-0.40)	(-0.45)	(-0.73)	(-0.96)	(-1.13)	(-1.18)
R&D expenditure	-0.1363	-0.3930	-1.1173***	-1.2567***	-0.4163*	-0.5373*
	(-0.38)	(-1.01)	(-2.83)	(-2.72)	(-1.74)	(-1.96)
Stock Return	0.0074	-0.0043	-0.0068	-0.0134	0.0183	0.0072
	(0.39)	(-0.20)	(-0.35)	(-0.61)	(1.34)	(0.50)
Sales growth	0.0419	0.0312	0.0289	0.0324	-0.0023	0.0009
	(1.14)	(0.87)	(0.84)	(0.95)	(-0.14)	(0.05)
Price-to-earnings	0.0001	-0.0000	-0.0000	-0.0002	0.0000	0.0000
	(0.68)	(-0.14)	(-0.40)	(-1.39)	(0.66)	(0.56)
Cash deviation	0.1161*	0.1671**	0.1843**	0.1396	0.0887*	0.0814
	(1.70)	(2.07)	(2.22)	(1.56)	(1.81)	(1.50)
Herfindahl index	-0.0874	0.2239	0.1959	0.0817	1.0315*	0.6859
	(-0.10)	(0.24)	(0.25)	(0.10)	(1.73)	(0.98)
Constant	-0.5023***	-0.6021***	0.4522***	0.4520***	0.1630**	0.1967**
	(-4.83)	(-5.09)	(3.96)	(3.53)	(2.47)	(2.35)
Industry & year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3552	3552	3552	3552	3552	3552
Adjusted R2	0.108	0.132	0.0547	0.0658	0.147	0.133

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Panel B. Acquisition returns

	(1)	(2)	(3)	(4)
	CAR MM		CAR 3F	
	[-1d, +1d]	[-5d, +5d]	[-1d, +1d]	[-5d, +5d]
Activist	0.0233**	0.0253**	0.0228**	0.0257**
	(2.20)	(1.97)	(2.15)	(2.01)
Cash bid	0.0115***	0.0081***	0.0111***	0.0078***
	(5.31)	(2.83)	(5.14)	(2.73)
% Inst. own.	0.0104	0.0127	0.0083	0.0152*
	(1.62)	(1.43)	(1.30)	(1.71)
Stock return volatility	-0.0014**	-0.0020***	-0.0013**	-0.0024***
	(-2.32)	(-2.68)	(-2.15)	(-3.19)
Illiquidity	0.0444	0.0143	0.0423	0.0454
	(0.73)	(0.20)	(0.70)	(0.66)
Tobin's Q	0.0052	0.0004	0.0064*	0.0025
	(1.40)	(0.08)	(1.75)	(0.50)
Firm size	-0.0027***	-0.0033**	-0.0025**	-0.0031**
	(-2.66)	(-2.51)	(-2.43)	(-2.42)
ROA	0.0133	0.0112	0.0120	0.0192
	(0.83)	(0.48)	(0.74)	(0.80)
Book leverage	0.0082	0.0118	0.0104	0.0140
	(1.22)	(1.36)	(1.56)	(1.61)
Dividend yield	0.0377	0.0452	0.0325	0.0520
	(0.96)	(0.77)	(0.81)	(0.88)
R&D expenditure	-0.1227***	-0.1243***	-0.1392***	-0.1490***
	(-3.19)	(-2.80)	(-3.58)	(-3.50)
Free cash flow	0.0082	0.0251	0.0104	0.0075
	(0.49)	(0.97)	(0.60)	(0.28)
BHAR [-13m,-2m]	0.0004	-0.0008	0.0011	0.0010
	(0.15)	(-0.23)	(0.46)	(0.30)
Herfindahl index	0.0026	-0.1054	0.0008	-0.1315*
	(0.05)	(-1.55)	(0.02)	(-1.91)
Competitive industry	0.0020	-0.0038	0.0019	-0.0047
	(0.48)	(-0.71)	(0.48)	(-0.90)
Unique industry	-0.0061	-0.0107	-0.0064	-0.0108
	(-0.94)	(-1.46)	(-0.96)	(-1.38)
High tech industry	-0.0134***	-0.0089	-0.0123***	-0.0056
	(-2.99)	(-1.52)	(-2.75)	(-0.96)
Constant	0.0103	0.0231	0.0085	0.0224
	(0.87)	(1.53)	(0.72)	(1.49)
Industry & Year FE	Yes	Yes	Yes	Yes
Observations	2,916	2,916	2,916	2,916
Adjusted R2	0.0770	0.0552	0.0783	0.0654

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Table 4. Types of divestitures and divestiture returns

Panel A of this table reports OLS regressions of the probability of making a divestiture over the next one, three and five years relative to the event year *t*. *Activist* is an indicator for an activist campaign in year *t*. The activism sample period is between 1995 and 2011. Activist targets are matched to non-targets based on industry (Fama-French 48), year, deciles of market capitalization and Tobin's *Q,* and past M&A activity. *Large divestiture* is an indicator variable for a divestiture with above-median transaction value. *Reduction in business segments* is an indicator variable for a divestiture transaction resulting in fewer business segments, as reported in Compustat Segments. Panel B reports OLS estimates of daily CARs for divestitures over the next 3 years relative to year *t*. Returns are estimated with respect to the market model (MM) with the CRSP value-weighted index as the benchmark, or the Fama-French three-factor model (3F). 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.

Panel A. Types of divestitures

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Divestitures			Large divestiture			Reduction in business segments		
	[t, t+1]	[t, t+3]	[t, t+5]	[t, t+1]	[t, t+3]	[t, t+5]	[t, t+1]	[t, t+3]	[t, t+5]
Activist	0.0752**	0.0717**	0.0562*	0.0494**	0.0549*	0.0254	0.0427**	0.0521**	0.0205
	(2.55)	(2.29)	(1.67)	(2.04)	(1.68)	(0.91)	(2.17)	(2.32)	(1.02)
% Inst. own.	-0.0447	0.0314	0.0254	0.0121	0.0532	0.0756	0.0096	0.0245	-0.0174
	(-1.05)	(0.58)	(0.40)	(0.39)	(1.17)	(1.42)	(0.56)	(0.93)	(-0.72)
Stock return volatility	0.0068***	0.0056**	0.0033	0.0049**	0.0043*	0.0049*	0.0027*	0.0023	-0.0002
	(2.67)	(2.00)	(1.09)	(2.34)	(1.79)	(1.83)	(1.81)	(1.57)	(-0.20)
Illiquidity	-0.1752	-0.0062	0.0163	0.0838	0.0755	0.0331	0.1207	-0.0909	0.0868
	(-0.88)	(-0.02)	(0.06)	(0.57)	(0.39)	(0.16)	(1.33)	(-0.77)	(0.77)
Tobin's Q	-0.1135***	-0.1072***	-0.1307***	-0.0811***	-0.0911***	-0.1048***	-0.0070	-0.0170	-0.0254*
	(-4.49)	(-3.22)	(-3.38)	(-4.20)	(-3.18)	(-3.10)	(-0.65)	(-1.00)	(-1.73)
Firm size	0.0258***	0.0259**	0.0312**	0.0444***	0.0528***	0.0657***	0.0160***	0.0005	0.0127**
	(2.98)	(2.22)	(2.34)	(6.22)	(5.12)	(5.53)	(3.27)	(0.10)	(2.13)
ROA	-0.0441	-0.1544	-0.0958	0.0095	-0.0010	0.0197	-0.0396	-0.0611	-0.0461
	(-0.60)	(-1.41)	(-0.79)	(0.18)	(-0.01)	(0.18)	(-1.20)	(-1.31)	(-1.19)
Book leverage	0.1156**	0.1417**	0.1468**	0.0925**	0.1363***	0.1469**	0.0161	0.0300	-0.0477*
	(2.48)	(2.28)	(2.11)	(2.53)	(2.59)	(2.50)	(0.68)	(1.03)	(-1.82)
Dividend yield	0.7964***	0.8776**	1.0335**	0.8275***	0.8842***	1.0591***	0.2869	0.1655	0.0586
	(2.67)	(2.43)	(2.51)	(2.73)	(2.69)	(3.06)	(0.79)	(0.62)	(0.25)
R&D expenditure	0.2129	0.0824	-0.0440	0.0024	-0.0733	-0.1660	-0.0136	-0.1889***	-0.0791
	(1.56)	(0.45)	(-0.22)	(0.03)	(-0.59)	(-1.09)	(-0.26)	(-2.62)	(-1.25)
Stock return	-0.0092	-0.0174**	-0.0197**	-0.0114**	-0.0211***	-0.0237***	-0.0092***	-0.0180***	-0.0054
	(-1.26)	(-2.03)	(-2.22)	(-2.18)	(-3.46)	(-3.46)	(-2.67)	(-3.79)	(-1.59)

Sales growth	-0.0152	-0.0520	-0.0207	-0.0087	-0.0656**	-0.0749**	-0.0050	-0.0490***	-0.0157
	(-0.55)	(-1.59)	(-0.55)	(-0.39)	(-2.34)	(-2.43)	(-0.32)	(-3.42)	(-0.96)
Price-to-earnings	0.0000	-0.0000	-0.0001	-0.0001	-0.0000	0.0000	-0.0001*	0.0000	-0.0000
	(0.20)	(-0.15)	(-0.53)	(-0.98)	(-0.13)	(0.15)	(-1.83)	(0.28)	(-0.95)
Cash deviation	-0.1403***	-0.3246***	-0.3062***	-0.0746*	-0.1735***	-0.1773***	-0.0276	-0.0581	-0.0353
	(-2.75)	(-4.84)	(-3.83)	(-1.86)	(-3.13)	(-2.71)	(-1.12)	(-1.63)	(-1.02)
Herfindahl index	0.0744	-0.7269	0.0734	0.5573	0.6399	0.6632	-0.5043	-0.3631	-0.7333
	(0.09)	(-0.68)	(0.06)	(0.94)	(0.75)	(0.73)	(-1.22)	(-0.66)	(-1.44)
Constant	-0.0551	0.0331	0.0382	-0.2967***	-0.3187***	-0.3783***	-0.0769*	0.0577	0.0502
	(-0.68)	(0.31)	(0.31)	(-4.67)	(-3.53)	(-3.58)	(-1.75)	(1.13)	(0.95)
Industry & year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,772	2,772	2,772	1,668	1,668	1,668	2,338	2,338	2,338
Adjusted R2	0.0759	0.0997	0.101	0.0907	0.114	0.132	0.0413	0.0573	0.0563

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Panel B. Divestiture returns

	(1)	(2)	(1)	(2)
	CAR MM		CAR 3F	
	[-1d, +1d]	[-5d, +5d]	[-1d, +1d]	[-5d, +5d]
Activist	0.0088**	0.0163**	0.0134**	0.0177**
	(2.02)	(2.28)	(2.03)	(2.19)
Cash bid	-0.0027	-0.0055	-0.0055	-0.0104
	(-0.41)	(-0.45)	(-0.58)	(-0.74)
% Inst. own.	-0.0007*	-0.0005	0.0001	-0.0001
	(-1.72)	(-0.76)	(0.17)	(-0.07)
Stock return volatility	-0.0047	-0.0020	0.0175	0.0182
	(-0.17)	(-0.04)	(0.42)	(0.30)
Illiquidity	-0.0089**	-0.0255***	-0.0126**	-0.0266***
	(-2.39)	(-3.67)	(-2.20)	(-3.04)
Tobin's Q	-0.0018**	-0.0030**	-0.0037***	-0.0048***
	(-2.16)	(-2.06)	(-3.01)	(-2.70)
Firm size	0.0036	-0.0254	-0.0119	-0.0408
	(0.24)	(-0.93)	(-0.47)	(-1.10)
ROA	-0.0148**	-0.0245**	-0.0189*	-0.0249*
	(-2.23)	(-2.12)	(-1.93)	(-1.72)
Book leverage	0.0470**	0.0632	0.0806*	0.1187*
	(2.07)	(1.11)	(1.79)	(1.90)
Dividend yield	-0.0268	-0.0721	-0.0347	-0.0813
	(-0.93)	(-1.48)	(-0.92)	(-1.44)
R&D expenditure	-0.0012	0.0334	0.0117	0.0482
	(-0.07)	(1.09)	(0.42)	(1.20)
Free cash flow	-0.0025	-0.0089**	-0.0070**	-0.0134***
	(-1.08)	(-2.10)	(-2.17)	(-2.74)
BHAR [-13m,-2m]	-0.0145	0.0165	-0.0543	-0.0148
	(-0.27)	(0.16)	(-0.64)	(-0.12)
Herfindahl index	-0.0014	0.0145	-0.0000	0.0132
	(-0.20)	(1.29)	(-0.00)	(0.96)
Competitive industry	-0.0025	-0.0007	-0.0031	-0.0048
	(-0.62)	(-0.09)	(-0.52)	(-0.59)
Unique industry	-0.0039	0.0005	-0.0048	-0.0041
	(-0.98)	(0.07)	(-0.77)	(-0.47)
High tech industry	-0.0021	0.0055	-0.0036	0.0049
	(-0.58)	(0.88)	(-0.71)	(0.65)
Constant	0.0376***	0.0567***	0.0597***	0.0763***
	(3.59)	(3.08)	(3.84)	(3.41)
Industry & Year FE	Yes	Yes	Yes	Yes
Observations	3,235	3,235	3,235	3,235
Adjusted R2	0.00656	0.0272	0.0244	0.0370

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Table 5. Activist demands

This table reports OLS regressions of the probability of making an acquisition or a divestiture. Activist targets are matched to non-targets based on industry (Fama-French 48), year, deciles of market capitalization and Tobin's *Q,* and past M&A activity. *Empire building concern* is an indicator for an activist campaign, in which the activist references inefficient past M&A activity. *Payout demand* is an indicator for an activist campaign, in which the activist demands shareholder payout. *No empire building concern* is an indicator for all other concerns or demands presented by activists. Data on activist demands are collected from Item 4 of SEC Schedules 13D and 13D/As. All 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)	(7)	(8)
	Bid	Bid	Cash bid	Cash bid	Stock bid	Stock bid	Divestiture	Divestiture
	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+1]	[t, t+3]
Empire building concern (1)	-0.2410***	-0.2905***	-0.1298**	-0.1698***	-0.0769***	-0.0799***	0.2416**	0.2547**
	(-2.95)	(-3.63)	(-2.16)	(-2.69)	(-4.21)	(-4.11)	(2.38)	(2.53)
No empire building concern (2)	-0.0994***	-0.0756*	-0.0534*	-0.0239	-0.0364**	-0.0338*	0.0318	0.0377
	(-2.68)	(-1.95)	(-1.84)	(-0.74)	(-2.04)	(-1.83)	(1.06)	(1.14)
Payout demand (3)	-0.0562	-0.1518	-0.0759	-0.1509	0.1166	0.1114	0.1703	0.0444
	(-0.29)	(-0.79)	(-0.51)	(-1.01)	(0.83)	(0.78)	(1.35)	(0.40)
% Inst. own.	0.0380	-0.0032	0.0454	0.0687	-0.0903*	-0.1036*	-0.0476	0.0288
	(0.39)	(-0.03)	(0.58)	(0.79)	(-1.68)	(-1.93)	(-1.12)	(0.53)
Stock return volatility	-0.0203***	-0.0249***	-0.0120***	-0.0156***	-0.0056**	-0.0059**	0.0071***	0.0058**
	(-4.68)	(-5.38)	(-3.63)	(-4.38)	(-2.12)	(-2.18)	(2.78)	(2.05)
Illiquidity	-1.0977***	-1.2611***	-0.5634**	-0.5942*	-0.1096	-0.2167	-0.1924	-0.0264
	(-3.04)	(-3.25)	(-2.03)	(-1.92)	(-0.45)	(-0.87)	(-0.96)	(-0.11)
Tobin's Q	0.0911**	0.1074**	0.0050	0.0095	0.0344	0.0501**	-0.1114***	-0.1046***
	(2.22)	(2.52)	(0.14)	(0.25)	(1.35)	(2.00)	(-4.42)	(-3.14)
Firm size	-0.0162	-0.0044	0.0134	0.0187	-0.0260***	-0.0276***	0.0249***	0.0246**
	(-1.25)	(-0.31)	(1.21)	(1.53)	(-3.63)	(-3.58)	(2.88)	(2.10)
ROA	0.0695	0.0401	0.1633	0.1107	-0.1245*	-0.1059	-0.0293	-0.1434
	(0.57)	(0.30)	(1.52)	(0.88)	(-1.66)	(-1.32)	(-0.40)	(-1.31)
Book leverage	-0.0909	-0.0038	-0.0855*	-0.0723	0.0264	0.0130	0.1157**	0.1415**
	(-1.59)	(-0.06)	(-1.65)	(-1.18)	(0.68)	(0.32)	(2.50)	(2.29)
Dividend yield	-0.2792	-0.8114	-0.7628	-0.8949	-0.0447	0.0842	0.7884***	0.8674**
	(-0.34)	(-0.91)	(-1.06)	(-1.16)	(-0.09)	(0.16)	(2.63)	(2.40)
R&D expenditure	-1.3103***	-1.4385***	-0.6392*	-0.7675*	-0.3990**	-0.3336*	0.2208	0.0869
	(-3.08)	(-3.18)	(-1.68)	(-1.84)	(-2.07)	(-1.68)	(1.62)	(0.48)

Stock Return	-0.0001	-0.0121	-0.0104	-0.0089	0.0387**	0.0283*	-0.0091	-0.0175**
	(-0.00)	(-0.49)	(-0.55)	(-0.46)	(2.29)	(1.67)	(-1.26)	(-2.04)
Sales growth	0.0559	0.0458	-0.0047	0.0042	0.0389	0.0372	-0.0133	-0.0507
	(1.43)	(1.18)	(-0.16)	(0.14)	(1.43)	(1.36)	(-0.48)	(-1.55)
Price-to-earnings	-0.0001	-0.0002	-0.0002	-0.0002*	-0.0000	-0.0001	0.0000	-0.0000
	(-0.64)	(-1.05)	(-1.56)	(-1.67)	(-0.83)	(-1.44)	(0.14)	(-0.20)
Cash deviation	0.3899***	0.3528***	0.2455***	0.2675***	0.0971**	0.1064**	-0.1480***	-0.3320***
	(4.47)	(3.78)	(3.00)	(3.07)	(1.98)	(2.19)	(-2.93)	(-4.97)
Herfindahl index	1.5007	1.7194	0.9052	1.1716	0.7830	0.9765	0.1065	-0.7498
	(1.48)	(1.64)	(0.93)	(1.17)	(1.28)	(1.56)	(0.13)	(-0.70)
Constant	0.5707***	0.5901***	0.1569	0.1582	0.3451***	0.3591***	-0.0546	0.0410
	(4.20)	(4.05)	(1.30)	(1.16)	(4.74)	(4.55)	(-0.67)	(0.38)
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3352	3352	3352	3352	3352	3352	3552	3552
Adjusted R2	0.0662	0.0745	0.0692	0.0917	0.0677	0.0681	0.0764	0.0998
F-test (1)=(2)	2.48	5.80**	1.31	4.24**	2.66	3.24*	3.97**	4.18**
F-test (1)=(3)	0.75	0.44	0.11	0.01	1.92	1.85	0.17	1.67

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Table 6. Forced CEO turnover and past M&A behavior

Panel A of this table reports OLS regressions of *Forced CEO turnover* in years *t* and *t+1*. The sample includes activist targets matched to non-targets based on industry (Fama-French 48), year, deciles of market capitalization and Tobin's *Q,* and past M&A activity. *Activist* is defined as an activist campaign in years *t* and *t+1*. Panel B reports OLS estimates of CARs in the 3 days around a forced CEO turnover. Returns are estimated with respect to the market model with the CRSP value-weighted index as the benchmark. All variables are defined in the Appendix and controls 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.

Panel A. Forced CEO turnover (*t* and *t+1*)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Forced CEO turnover								
Activist	0.0802**	0.1000**	0.0756**	0.0947**	0.0753**	0.0667**	0.0790**	0.0729*	0.1104**
	(2.18)	(2.38)	(2.23)	(2.35)	(2.19)	(2.14)	(2.63)	(1.85)	(2.19)
Stock bid	0.0326*								
	(1.70)								
Activist x Stock bid	0.2054**								
	(2.12)								
Cash bid		-0.0048							
		(-0.39)							
Activist x Cash bid		0.0668							
		(1.53)							
Large stock bid			0.0666*						
			(1.85)						
Activist x Large stock bid			0.3670***						
			(3.11)						
Large cash bid				-0.0058					
				(-0.31)					
Activist x Large cash bid				0.0645					
				(1.23)					
Low return stock bid					0.0582				
					(1.40)				
Activist x Low return stock bid					0.3304**				
					(2.70)				
Low return cash bid						-0.0091			
						(-0.48)			
Activist x Low return cash bid						0.2237**			
						(2.30)			
In-wave bid							0.1045***		
							(3.01)		
Activist x In-wave bid							0.2012**		
							(2.07)		

Diversifying bid								0.0381***	
								(2.80)	
Activist x Diversifying bid								0.1418***	
								(3.09)	
Divestiture									-0.0094
									(-0.82)
Activist x Divestiture									-0.0293*
									(-1.90)
% Inst. own.	0.0681*	0.0694*	0.0568*	0.0666*	0.0615*	0.0643*	0.0652*	0.0674*	0.0761**
	(1.92)	(1.93)	(1.76)	(1.80)	(1.83)	(1.74)	(1.85)	(1.85)	(2.19)
Tobin's Q	-0.0113	-0.0079	-0.0076	-0.0072	-0.0141	-0.0017	-0.0040	-0.0024	-0.0064
	(-0.71)	(-0.50)	(-0.50)	(-0.44)	(-0.85)	(-0.10)	(-0.24)	(-0.17)	(-0.44)
Firm size	0.0107	0.0094	0.0080	0.0106	0.0107	0.0089	0.0099	0.0107	0.0096
	(1.21)	(1.03)	(0.86)	(1.17)	(1.20)	(0.95)	(1.10)	(1.17)	(1.09)
ROA	-0.0405	-0.0527	-0.0444	-0.0604	-0.0153	-0.0859	-0.0609	-0.0906	-0.0773
	(-0.62)	(-0.83)	(-0.69)	(-0.89)	(-0.20)	(-1.37)	(-0.84)	(-1.26)	(-1.09)
Book leverage	-0.0197	-0.0207	-0.0300	-0.0183	-0.0311	-0.0255	-0.0244	-0.0180	-0.0297
	(-0.52)	(-0.55)	(-0.77)	(-0.46)	(-0.81)	(-0.68)	(-0.66)	(-0.47)	(-0.84)
Dividend yield	0.2891	0.2769	0.2766	0.2707	0.2904	0.3020	0.2802	0.2733	0.2807
	(1.17)	(1.20)	(1.09)	(1.16)	(1.13)	(1.16)	(1.17)	(1.19)	(1.22)
R&D expenditure	-0.1145	-0.0906	-0.1633	-0.0879	-0.1578	-0.0713	-0.0705	-0.0492	-0.0870
	(-0.65)	(-0.52)	(-0.97)	(-0.51)	(-0.94)	(-0.40)	(-0.40)	(-0.27)	(-0.54)
Stock Return	-0.0099	-0.0112	-0.0091	-0.0114	-0.0072	-0.0087	-0.0179	-0.0124	-0.0100
	(-0.88)	(-1.04)	(-0.77)	(-1.05)	(-0.69)	(-0.77)	(-1.26)	(-1.11)	(-0.92)
CEO of retirement age	-0.0692*	-0.0739*	-0.0664	-0.0758*	-0.0668*	-0.0769*	-0.0725*	-0.0703*	-0.0606*
	(-1.74)	(-1.84)	(-1.65)	(-1.85)	(-1.69)	(-1.99)	(-2.00)	(-1.84)	(-1.78)
CEO tenure	0.0077	0.0082	0.0059	0.0094	0.0052	0.0068	0.0019	0.0057	0.0058
	(0.54)	(0.54)	(0.44)	(0.60)	(0.39)	(0.45)	(0.14)	(0.40)	(0.40)
CEO with high own	-0.0089	-0.0105	-0.0128	-0.0119	-0.0079	-0.0068	-0.0133	-0.0099	-0.0013
	(-0.71)	(-0.79)	(-0.94)	(-0.78)	(-0.67)	(-0.56)	(-1.20)	(-0.74)	(-0.13)
CEO-Chairman duality	0.0083	0.0099	0.0069	0.0105	0.0075	0.0304	0.0182	0.0213	-0.0005
	(0.20)	(0.22)	(0.17)	(0.25)	(0.18)	(0.67)	(0.45)	(0.49)	(-0.02)
Constant	-0.0991	-0.0884	-0.0657	-0.0972	-0.0881	-0.0916	-0.0997	-0.1163	-0.0805
	(-1.33)	(-1.21)	(-0.89)	(-1.37)	(-1.18)	(-1.31)	(-1.27)	(-1.51)	(-1.25)
Year and industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	1,058	1,058	1,058	1,058	1,058	1,058	1,058	1,058	1,058
Adjusted R2	0.0861	0.0787	0.108	0.0781	0.102	0.0944	0.104	0.0897	0.0818

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Panel B. CARs around CEO turnover

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	CAR [-1d, +1d] around Forced CEO turnover								
Activist	-0.0009	-0.0027	-0.0015	-0.0011	-0.0006	-0.0010	-0.0011	-0.0053	-0.0025
	(-0.15)	(-0.43)	(-0.23)	(-0.18)	(-0.10)	(-0.16)	(-0.18)	(-0.77)	(-0.29)
Stock bid	0.0093*								
	(1.85)								
Activist x Stock bid	0.0165***								
	(3.29)								
Cash bid		-0.0061							
		(-1.43)							
Activist x Cash bid		0.0159*							
		(1.82)							
Large stock bid			0.0105						
			(1.61)						
Activist x Large stock bid			0.0395*						
			(1.95)						
Large cash bid				-0.0027					
				(-0.62)					
Activist x Large cash bid				0.0075					
				(1.20)					
Low return stock bid					0.0108**				
					(2.02)				
Activist x Low return stock bid					0.0257***				
					(4.14)				
Low return cash bid						-0.0009			
						(-0.20)			
Activist x Low return cash bid						0.0118			
						(1.59)			
In-wave bid							0.0171***		
							(2.85)		
Activist x In-wave bid							0.0282***		
							(7.53)		
Diversifying bid								-0.0022	
								(-0.56)	
Activist x Diversifying bid								0.0276**	
								(2.32)	
Divestiture									-0.0024
									(-0.56)
Activist x Divestiture									-0.0168
									(-1.05)

% Inst. own.	0.0018	0.0025	0.0025	0.0020	0.0022	0.0022	0.0017	0.0024	0.0084
	(0.21)	(0.29)	(0.28)	(0.24)	(0.24)	(0.25)	(0.20)	(0.27)	(0.95)
Tobin's Q	-0.0004	-0.0005	-0.0005	-0.0005	-0.0004	-0.0003	-0.0004	-0.0003	-0.0005
	(-0.08)	(-0.12)	(-0.11)	(-0.11)	(-0.09)	(-0.07)	(-0.09)	(-0.08)	(-0.09)
Firm size	0.0018	0.0021*	0.0017	0.0021*	0.0018	0.0020*	0.0018*	0.0020*	0.0026**
	(1.66)	(1.85)	(1.57)	(1.99)	(1.67)	(1.76)	(1.72)	(1.78)	(2.35)
ROA	-0.0317**	-0.0324**	-0.0317**	-0.0324**	-0.0323**	-0.0324**	-0.0308**	-0.0326**	-0.0345**
	(-2.44)	(-2.52)	(-2.45)	(-2.52)	(-2.49)	(-2.54)	(-2.39)	(-2.53)	(-2.42)
Book leverage	0.0065	0.0067	0.0059	0.0066	0.0064	0.0065	0.0068	0.0065	-0.0080
	(0.86)	(0.89)	(0.77)	(0.88)	(0.85)	(0.86)	(0.90)	(0.87)	(-0.82)
Dividend yield	0.0130	0.0128	0.0135	0.0133	0.0128	0.0133	0.0130	0.0121	0.0315
	(0.36)	(0.36)	(0.37)	(0.38)	(0.35)	(0.38)	(0.37)	(0.34)	(1.06)
R&D expenditure	-0.0381	-0.0377	-0.0379	-0.0371	-0.0387	-0.0375	-0.0372	-0.0377	-0.0588
	(-0.78)	(-0.78)	(-0.78)	(-0.77)	(-0.79)	(-0.77)	(-0.77)	(-0.78)	(-1.31)
Stock Return	-0.0015	-0.0016	-0.0015	-0.0016	-0.0015	-0.0016	-0.0019	-0.0016	-0.0008
	(-0.29)	(-0.30)	(-0.29)	(-0.31)	(-0.28)	(-0.30)	(-0.36)	(-0.31)	(-0.15)
CEO of retirement age	-0.0115	-0.0114	-0.0115	-0.0114	-0.0114	-0.0114	-0.0113	-0.0109	-0.0137
	(-0.80)	(-0.80)	(-0.81)	(-0.79)	(-0.80)	(-0.79)	(-0.79)	(-0.75)	(-0.96)
CEO tenure	-0.0088	-0.0086	-0.0088	-0.0088	-0.0088	-0.0087	-0.0087	-0.0091	-0.0078
	(-0.91)	(-0.90)	(-0.91)	(-0.91)	(-0.91)	(-0.90)	(-0.90)	(-0.95)	(-0.82)
CEO with high own	0.0118	0.0117	0.0118	0.0118	0.0117	0.0118	0.0116	0.0119	0.0116
	(1.34)	(1.35)	(1.34)	(1.35)	(1.34)	(1.35)	(1.32)	(1.35)	(1.25)
CEO-Chairman duality	0.0020	0.0017	0.0021	0.0018	0.0019	0.0018	0.0019	0.0017	-0.0007
	(0.65)	(0.55)	(0.69)	(0.58)	(0.62)	(0.58)	(0.59)	(0.56)	(-0.26)
Constant	-0.0042	-0.0057	-0.0035	-0.0058	-0.0042	-0.0053	-0.0045	-0.0047	-0.0110
	(-0.35)	(-0.47)	(-0.30)	(-0.48)	(-0.35)	(-0.43)	(-0.38)	(-0.39)	(-0.95)
Year and industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217	2,217
Adjusted R2	0.00782	0.00777	0.00819	0.00701	0.00779	0.00692	0.00887	0.00836	0.0111

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Table 7. CEO pay-for-performance sensitivity (PPS)

This table reports OLS regressions of the probability of making an acquisition or a divestiture. Activist targets are matched to non-targets based on industry (Fama-French 48), year, deciles of market capitalization and Tobin's *Q,* and past M&A activity. *Activist* is an indicator for an activist campaign in year *t*. *Increase in PPS* is the percentage change in PPS from *t*-1 *to t*+1 around the event 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)	(7)	(8)
	Bid	Bid	Cash bid	Cash bid	Stock bid	Stock bid	Divestiture	Divestiture
	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+1]	[t, t+3]
Activist	-0.2058***	-0.2116***	-0.1483***	-0.1464***	-0.0283	-0.0324*	0.1689***	0.1232**
	(-4.29)	(-4.07)	(-3.94)	(-3.26)	(-1.50)	(-1.69)	(3.31)	(2.15)
Increase in PPS	-0.0225***	-0.0214***	-0.0083	-0.0097*	-0.0063*	-0.0056	-0.0006	0.0007
	(-4.40)	(-4.06)	(-1.61)	(-1.72)	(-1.81)	(-1.57)	(-0.15)	(0.11)
Activist x Increase in PPS	-0.0271**	-0.0256**	-0.0237**	-0.0239**	-0.0190*	-0.0194*	0.0703**	0.0847**
	(-2.14)	(-2.18)	(-2.01)	(-1.97)	(-1.89)	(-1.92)	(2.29)	(1.97)
% Inst. own.	0.1479	0.0679	0.0347	0.0632	0.0406	0.0158	-0.0761	0.0504
	(0.93)	(0.42)	(0.25)	(0.41)	(0.55)	(0.22)	(-1.03)	(0.50)
Stock return volatility	-0.0163*	-0.0170*	-0.0083	-0.0110	-0.0038	-0.0028	-0.0016	0.0006
	(-1.91)	(-1.92)	(-1.17)	(-1.49)	(-0.81)	(-0.60)	(-0.36)	(0.11)
Illiquidity	-1.3273	-0.5372	-1.8758**	-1.9205**	0.8125	0.6814	-0.3383	-0.7541
	(-1.25)	(-0.46)	(-2.29)	(-2.17)	(1.16)	(1.00)	(-0.61)	(-1.17)
Tobin's Q	0.0492	0.0142	-0.0185	-0.0505	0.0318	0.0596	-0.1211***	-0.0961**
	(0.68)	(0.20)	(-0.29)	(-0.77)	(0.73)	(1.45)	(-2.97)	(-1.98)
Firm size	-0.0237	0.0153	-0.0018	0.0060	-0.0067	-0.0070	0.0444***	0.0468***
	(-1.13)	(0.73)	(-0.09)	(0.29)	(-0.66)	(-0.64)	(3.47)	(2.69)
ROA	0.2700	0.3508	0.2335	0.2868	-0.1153	-0.1101	-0.1524	-0.2918
	(1.25)	(1.53)	(1.21)	(1.37)	(-1.09)	(-0.95)	(-1.16)	(-1.44)
Book leverage	-0.1467	0.0132	-0.1634	-0.2205*	0.0007	0.0174	0.1099	0.1020
	(-1.27)	(0.10)	(-1.48)	(-1.83)	(0.01)	(0.25)	(1.42)	(1.05)
Dividend yield	-1.5833	-1.8323	-1.6805	-1.7797	-1.2131	-0.8790	1.0325	1.0049
	(-0.91)	(-1.05)	(-1.09)	(-1.08)	(-1.43)	(-0.87)	(1.21)	(1.07)
R&D expenditure	-1.3665**	-1.9058***	-0.5630	-1.1100*	-0.7097***	-0.5844**	0.1860	-0.1112
	(-2.15)	(-2.90)	(-0.99)	(-1.83)	(-3.07)	(-2.42)	(1.00)	(-0.39)

Stock Return	-0.0672	-0.0465	-0.0409	-0.0443	0.0270	0.0082	-0.0110	-0.0261**
	(-1.52)	(-1.01)	(-1.11)	(-1.16)	(0.99)	(0.28)	(-1.27)	(-2.39)
Sales growth	-0.0564	-0.0649	-0.1106*	-0.0560	0.0514	0.0635	-0.0449	-0.1211**
	(-0.81)	(-0.86)	(-1.78)	(-0.87)	(0.99)	(1.21)	(-0.99)	(-2.39)
Price-to-earnings	0.0001	-0.0000	-0.0002	-0.0002	-0.0000	-0.0000	-0.0001	-0.0002
	(0.31)	(-0.01)	(-0.75)	(-0.77)	(-0.54)	(-0.22)	(-0.56)	(-1.06)
Cash deviation	0.4585***	0.4804***	0.2317*	0.3575**	0.0835	0.0879	-0.2101***	-0.3814***
	(3.21)	(3.24)	(1.81)	(2.58)	(1.31)	(1.45)	(-2.69)	(-3.56)
Herfindahl index	-1.3975	-0.3373	0.0109	0.5213	0.4547	0.7399	1.6252	-0.1880
	(-0.84)	(-0.20)	(0.01)	(0.33)	(0.64)	(0.95)	(1.54)	(-0.13)
Constant	0.7098***	0.4991*	0.3698	0.3647	0.1062	0.0862	-0.1639	-0.0668
	(2.82)	(1.94)	(1.60)	(1.42)	(0.87)	(0.67)	(-1.30)	(-0.37)
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236
Adjusted R2	0.0691	0.0566	0.0464	0.0667	0.135	0.119	0.124	0.139

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Table 8. Activist board representation

This table reports OLS regressions of the probability of making an acquisition or a divestiture. Activist targets are matched to non-targets based on industry (Fama-French 48), year, deciles of market capitalization and Tobin's *Q,* and past M&A activity. *New director* is an indicator equal to one if a firm appoints at least one new director in the two years after activism (years *t* and *t*+1). Data on board appointments are from BoardEx and regulatory filings (Schedule 13D and proxy filings). 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)	(7)	(8)
	Bid	Bid	Cash bid	Cash bid	Stock bid	Stock bid	Divestiture	Divestiture
	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+1]	[t, t+3]
New director	-0.0120	-0.0094	-0.0077	-0.0077	0.0162	0.0087	0.0131	0.0009
	(-0.52)	(-0.39)	(-0.39)	(-0.38)	(1.23)	(0.66)	(0.77)	(0.05)
Activist	-0.1059**	-0.1013*	-0.0725*	-0.0869*	-0.0406*	-0.0469**	0.0865*	0.0999*
	(-2.01)	(-1.84)	(-1.82)	(-1.90)	(-1.72)	(-1.98)	(1.88)	(1.94)
Activist x New director	-0.1900***	-0.1493**	-0.1105**	-0.1156**	-0.0382*	-0.0413**	0.1994***	0.1055**
	(-3.49)	(-2.42)	(-2.39)	(-2.31)	(-1.85)	(-1.98)	(3.60)	(1.97)
% Inst. own.	-0.0014	-0.0469	-0.0040	0.0533	-0.0880	-0.1002*	-0.0421	0.0295
	(-0.01)	(-0.43)	(-0.04)	(0.55)	(-1.50)	(-1.73)	(-0.82)	(0.47)
Stock return volatility	-0.0215***	-0.0251***	-0.0128***	-0.0150***	-0.0064**	-0.0065**	0.0030	0.0030
	(-4.27)	(-4.79)	(-2.80)	(-3.09)	(-2.32)	(-2.27)	(0.90)	(0.85)
Illiquidity	-0.9212*	-0.9456*	-0.8367**	-0.6989*	0.1185	0.0973	-0.2156	-0.2848
	(-1.94)	(-1.86)	(-2.21)	(-1.75)	(0.35)	(0.28)	(-0.93)	(-0.97)
Tobin's Q	0.0564	0.0680	-0.0075	-0.0036	0.0224	0.0384	-0.0994***	-0.0866**
	(1.16)	(1.36)	(-0.17)	(-0.08)	(0.81)	(1.42)	(-3.56)	(-2.27)
Firm size	-0.0118	0.0034	0.0079	0.0176	-0.0250***	-0.0250***	0.0253***	0.0213*
	(-0.79)	(0.22)	(0.61)	(1.25)	(-3.04)	(-2.89)	(2.65)	(1.65)
ROA	0.2016	0.2052	0.2908**	0.3006*	-0.0817	-0.0623	-0.1548*	-0.3835***
	(1.33)	(1.26)	(2.02)	(1.81)	(-0.93)	(-0.67)	(-1.72)	(-3.03)
Book leverage	-0.0872	0.0256	-0.1286**	-0.0957	0.0576	0.0480	0.0964*	0.1210*
	(-1.21)	(0.30)	(-2.03)	(-1.26)	(1.23)	(0.98)	(1.82)	(1.70)
Dividend yield	-0.5808	-1.1378	-0.7473	-0.6551	-0.2900	-0.1921	0.6551*	0.6531
	(-0.60)	(-1.07)	(-0.93)	(-0.77)	(-0.53)	(-0.34)	(1.93)	(1.54)
R&D expenditure	-1.2290**	-1.3677***	-0.5965	-0.6632	-0.2140	-0.1398	0.0115	-0.1764
	(-2.57)	(-2.68)	(-1.33)	(-1.37)	(-0.96)	(-0.61)	(0.08)	(-0.85)

Stock Return	-0.0249	-0.0331	-0.0290	-0.0218	0.0240	0.0110	-0.0091	-0.0188**
	(-0.90)	(-1.19)	(-1.23)	(-0.93)	(1.35)	(0.62)	(-1.29)	(-2.29)
Sales growth	0.0818	0.0766	-0.0117	-0.0178	0.0495	0.0523	-0.0432	-0.0956**
	(1.60)	(1.48)	(-0.28)	(-0.44)	(1.39)	(1.47)	(-1.27)	(-2.30)
Price-to-earnings	-0.0002	-0.0003**	-0.0003**	-0.0002*	-0.0000	-0.0002*	0.0001	0.0001
	(-1.60)	(-2.10)	(-2.08)	(-1.95)	(-0.75)	(-1.67)	(0.90)	(0.47)
Cash deviation	0.4384***	0.3729***	0.2961***	0.3183***	0.1106*	0.1159**	-0.0784	-0.3062***
	(4.08)	(3.30)	(2.98)	(3.12)	(1.89)	(2.01)	(-1.43)	(-3.94)
Herfindahl index	2.1009	2.7749*	1.9712	2.1248	0.5930	0.8204	0.4043	-1.1748
	(1.41)	(1.85)	(1.30)	(1.34)	(0.78)	(1.04)	(0.38)	(-0.88)
Constant	0.5542***	0.5086***	0.2062	0.1300	0.3275***	0.3253***	-0.0226	0.1467
	(3.28)	(2.88)	(1.31)	(0.75)	(3.68)	(3.45)	(-0.24)	(1.18)
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,146	2,146	2,146	2,146	2,146	2,146	2,146	2,146
Adjusted R2	0.0616	0.0632	0.0792	0.0956	0.0606	0.0653	0.0844	0.106

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Internet Appendix for
Activism and Empire Building

Supplemental and Robustness Results:

Figure IA.1: Hedge fund activism

Table IA.1: Firm characteristics of activist targets and non-targets – Matched sample

Table IA.2: Probability of making an acquisition bid – Active vs. passive hedge fund ownership

Table IA.3: Probability of making an acquisition bid – Switch from 13G to 13D filing

Table IA.4: Probability of making an acquisition or divestiture - Propensity score matched sample

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Figure IA.1. Hedge fund activism

This figure plots the number of firms targeted by hedge fund activists (left axis) and the frequency of activist targeting among Compustat firms (right axis) over 1995-2011. The sample includes all activist targets that remain independent public companies for at least three years after activism. The activism data are from SEC Schedule 13D and FactSet's SharkRepellent.net.

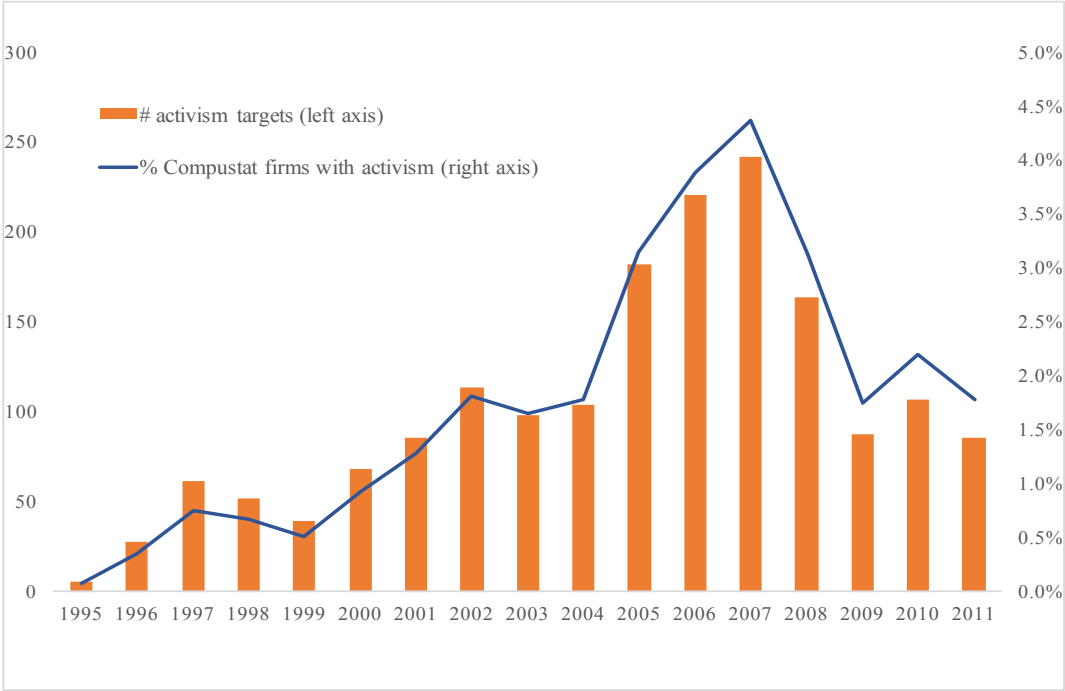

Table IA.1. Firm characteristics of activist targets and non-targets – Matched sample

This table reports firm characteristics of activist targets and non-targets over the sample period from 1995 to 2011. In Panel A, activist targets are matched to non-targets based on industry (Fama-French 48), year, and deciles of market capitalization and Tobin's *Q*. In Panel B, the matching is performed in the sample of firms with at least one M&A transaction in the past five years. *N* denotes the number of firms with available data to calculate the reported firm characteristics. All variables are defined in the Appendix in the paper. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level for differences in means.

Panel A. Targets and non-targets matched on year, industry, and deciles of Tobin's *Q* and firm size

	(1)	(2)	(3)	(4)
	Activist non-targets (N = 21912)	Activist targets (N = 1197)	Difference in means	
			Difference	t-stat
Firm size	5.226	5.274	-0.048	-0.86
Tobin's *Q*	0.330	0.320	0.011	0.69
% Inst. own.	0.511	0.518	-0.007	-0.83
Stock return volatility	8.935	8.961	-0.027	-0.16
Illiquidity	0.089	0.084	0.004	1.37
ROA	0.073	0.077	-0.004	-0.67
Book leverage	0.204	0.198	0.007	1.12
Dividend yield	0.011	0.010	0.001	0.50
R&D expenditure	0.048	0.052	-0.003	-0.93
Stock Return	0.072	0.052	0.020	0.44
Sales growth	0.137	0.130	0.007	0.67
Price-to-earnings	13.387	11.607	1.780	0.91
Cash deviation	-0.015	-0.013	-0.003	-0.45

Panel B. Targets and non-targets matched on year, industry, deciles of Tobin's *Q* and firm size, *and prior M&A*

	(1)	(2)	(3)	(4)
	Activist non-targets (N = 1067)	Activist targets (N = 241)	Difference in means	
			Difference	t-stat
Firm size	7.132	7.031	0.100	0.88
Tobin's Q	0.448	0.414	0.034	1.10
% Inst. own.	0.762	0.775	-0.013	-0.78
Stock return volatility	7.086	7.416	-0.330	-0.97
Illiquidity	0.010	0.014	-0.004	-1.49
ROA	0.128	0.135	-0.007	-0.73
Book leverage	0.290	0.298	-0.008	-0.43
Dividend yield	0.007	0.007	0.000	0.13
R&D expenditure	0.037	0.033	0.004	0.87
Stock Return	-0.025	-0.050	0.025	0.47
Sales growth	0.192	0.212	-0.019	-0.68
Price-to-earnings	19.609	18.347	1.261	0.26
Cash deviation	-0.084	-0.069	-0.015	-1.17

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Table IA.2. 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 in the paper 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

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Table IA.3. 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 in the paper 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

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Table IA.4. Probability of making an acquisition or divestiture - Propensity score matched sample

This table reports OLS regressions of the probability of making an acquisition or a divestiture. Activist targets are matched to non-targets using a logistic regression based on firm characteristics – firm size, Tobin's *Q*, ROA, sales growth, dividend yield, book leverage, institutional ownership, stock return, and illiquidity. All variables are defined in the Appendix in the paper and are as of year *t-1*. The matched sample is also restricted to firms with at least one M&A transaction in the past five years. The dependent variables in columns (1)-(6) are indicators for making an acquisition bid (or a cash/stock bid) in the next three or five years relative to year *t*. The dependent variables in columns (7)-(8) are indicators for making a divestiture in the next one or three years relative to year *t*. *Activist* is an indicator for an activist campaign in year *t*. 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)	(7)	(8)
	Bid	Bid	Cash bid	Cash bid	Stock bid	Stock bid	Divestiture	Divestiture
	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+3]	[t, t+5]	[t, t+1]	[t, t+3]
Activist	-0.1705***	-0.1718***	-0.1050***	-0.1040**	-0.0445*	-0.0435*	0.1260**	0.1183*
	(-3.39)	(-3.28)	(-2.68)	(-2.55)	(-1.96)	(-1.79)	(2.17)	(1.78)
% Inst. own.	-0.2844	-0.3233*	-0.2070	-0.1122	-0.1180	-0.0749	-0.2337	-0.1489
	(-1.52)	(-1.76)	(-1.40)	(-0.80)	(-1.13)	(-0.68)	(-1.13)	(-0.65)
Stock return volatility	-0.0121	-0.0108	-0.0091	-0.0116*	0.0034	0.0020	-0.0014	-0.0064
	(-1.15)	(-0.96)	(-1.30)	(-1.78)	(0.50)	(0.29)	(-0.15)	(-0.63)
Illiquidity	-0.6764	-0.4365	-1.1505	-0.2173	-0.0649	0.1974	-0.0216	-1.3876
	(-0.60)	(-0.35)	(-1.30)	(-0.27)	(-0.18)	(0.47)	(-0.01)	(-0.82)
Tobin's Q	0.0149	0.1530	0.0217	0.1212	-0.0430	-0.0309	-0.1270	-0.1698
	(0.12)	(1.15)	(0.23)	(1.16)	(-0.91)	(-0.60)	(-1.11)	(-1.34)
Firm size	-0.0117	0.0348	-0.0160	0.0013	0.0063	0.0075	0.0997*	0.0500
	(-0.33)	(0.86)	(-0.57)	(0.05)	(0.59)	(0.63)	(1.95)	(0.94)
ROA	0.2994	0.0838	0.3380	0.0026	-0.0267	-0.0385	-0.1670	-0.7721**
	(0.86)	(0.22)	(1.51)	(0.01)	(-0.16)	(-0.22)	(-0.53)	(-2.14)
Book leverage	-0.1249	0.0623	-0.1232	-0.0736	0.0055	-0.0302	0.2846	0.1403
	(-0.87)	(0.37)	(-1.08)	(-0.55)	(0.10)	(-0.50)	(1.35)	(0.61)
Dividend yield	-1.0013	-0.2371	-0.5271	0.1955	-0.2190	-0.2619	0.9518	-0.1391
	(-1.10)	(-0.29)	(-0.72)	(0.28)	(-1.04)	(-1.19)	(0.88)	(-0.12)
R&D expenditure	-1.6524***	-1.6567**	-0.9544**	-0.9327	-0.4935*	-0.3961	0.1228	-0.3074
	(-2.73)	(-2.26)	(-2.07)	(-1.57)	(-1.87)	(-1.32)	(0.18)	(-0.39)
Stock Return	-0.0042	0.0211	-0.0392	-0.0405	0.0012	0.0093	0.0186	0.0287
	(-0.12)	(0.58)	(-1.32)	(-1.29)	(0.11)	(0.72)	(0.52)	(0.65)
Sales growth	-0.0588	-0.0012	-0.0300	0.0881	0.0028	-0.0459	0.1383	0.1306

	(-0.58)	(-0.01)	(-0.44)	(1.17)	(0.04)	(-0.65)	(1.08)	(0.92)
Price-to-earnings	-0.0004	-0.0002	0.0002	0.0004	-0.0002	-0.0000	-0.0013**	-0.0010
	(-0.77)	(-0.28)	(0.43)	(0.89)	(-1.16)	(-0.28)	(-2.32)	(-1.62)
Cash deviation	0.7418***	0.3496	0.4489**	0.1395	0.1489*	0.2314**	-0.2912	-0.4939
	(2.98)	(1.34)	(2.11)	(0.59)	(1.74)	(2.24)	(-0.86)	(-1.24)
Herfindahl index	-4.8412*	-6.4670***	-3.9491**	-3.9955**	0.7596	0.8478	-0.2211	-2.2746
	(-1.88)	(-2.75)	(-2.09)	(-2.46)	(1.23)	(1.27)	(-0.08)	(-0.78)
Constant	1.1574**	1.0336**	0.4875	0.5526*	0.1049	0.0447	0.8617*	1.4932***
	(2.49)	(2.25)	(1.60)	(1.75)	(0.56)	(0.22)	(1.75)	(2.64)
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	876	876	876	876	876	876	876	876
Adjusted R2	0.0703	0.0729	0.0882	0.1320	0.0363	0.0282	0.2110	0.2050

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