The Diffusion of Corporate Governance to Emerging Markets: Evaluating Two Dimensions of Investor Heterogeneity

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Abstract

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Keywords: foreign block investors, activist investors, corporate governance, emerging markets

JEL Classifications: F21, G11, G15, G23, G32, G34, G35

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1. INTRODUCTION

The effects of financial globalization for overall growth performance of developing countries are controversial (see Stultz, 2005 on the limits of financial globalization, and a survey of empirical work by Kose et al., 2010 on the subject). On the one hand, some argue that foreign direct investment appears more beneficial and generates less vulnerability to host countries than foreign portfolio investment (Wei, 2001 and 2006). On the other hand, some report evidence that greater openness to foreign portfolio investors can reduce the cost of capital for domestic firms (Bekaert and Harvey, 2000, and Chari and Henri, 2004).

In this paper, we assess empirically one particular potential benefit of openness to foreign portfolio investment as a mechanism for transmitting better corporate governance practices to host country firms, and thereby enhancing shareholder value. The potential for corporate governance improvement through investor engagement is commensurate to the scale of activist investors, which could include activist hedge funds, pension funds, and sovereign wealth funds. The level of assets under management by activist hedge funds alone is estimated to have increased by about $10 billion in 2003 to over $90 billion by 2013 (Marketwatch.com, 2014)[1]. This type of investor engagement could be especially useful in host countries that are not previously known for shareholder-responsive corporate governance. The more room for improvement in corporate governance, the more useful the external pressure for change.

Our particular setting is foreign activist investors in Korea. Korea is known for problematic corporate governance. Research suggests existence of extensive tunneling activities by controlling shareholders (Bae, Kang, and Kim, 2002; Baek, Kang, and Lee, 2006; Black et al., 2008; and Kim, Sung, and Wei, 2011). Because there is significant room for improvement in the corporate governance area, it is meaningful to investigate possible value-enhancing effects of involvement of foreign institutional investors. At the same time, Korea has a well-developed disclosure rule that requires foreign activist investors to disclose their intention whenever they purchase a 5% block or more. The disclosure rule is useful for identifying significant block purchases by foreign activist investors, which is crucial for research on diffusion of cross-border corporate governance.

In this paper, we first use an event study approach, examining the stock price response to foreign institutional investor's block purchase announcements. The relative narrow window (e.g., five days before and after the event) allows us to identify the price effect that is likely attributable to the stock purchase actions. Moreover, we separate block purchases with an explicit activist agenda ("picking a fight") and

[1] "Activists here to stay as war chests near $100 billion," http://www.marketwatch.com/story/invest-like-icahn-the-rise-of-the-activist-investor-2014-04-02.

those prompted solely by valuation judgments ("picking a stock."). The difference in stock price responses is likely to capture the value of activism.

More interestingly, we investigate whether the effect could be stronger if activist investors are coming from countries with a tradition of investor activism. This is based on our conjecture that home country governance practices become an important reference when investment managers invest abroad and set the strength of their engagement with corporate managers in host countries. If this is what the market expects, the stock price reaction of a target firm should be greater when engaged by activist from a country with higher governance standards.

We also analyze changes in firm value, corporate governance, and corporate financial policies (e.g. cash holding, leverage, corporate governance, dividend payouts, and stock repurchases) of the target over a four-year period [-1, +3] around the year of block holding announcement. We check if the results found in our earlier event studies translate into these long-term outcome variables. Lastly, we supplement our study with a survey of international institutional investors with an exposure to Asian markets. The goal is to narratively check whether and to what degree foreign investors from countries with stronger shareholder protection are more effective activists. To our knowledge, this is done for the first time in the literature.

We have two key findings. First, we find that stock prices rise on average, but only when foreign institutional investors declare themselves as activists. We discover that source country identities also matter. The positive stock price reactions are pronounced when the activist investors are coming from source countries with a strong tradition of investor activism. Second, we examine corporate financial policies and governance practices of target firms. We find that target firms are more likely to reduce cash holdings, raise leverage ratios, improve overall corporate governance, and improve dividend payout's (and stock repurchases') responsiveness to earnings if foreign activists are from countries with a strong tradition of investor activism.

The rest of the paper is organized as follows. First, Section 2 discusses the related literature, the hypotheses, and the survey results. Section 3 briefs the data and Section 4 presents the results with robustness checks. Finally, Section 5 concludes.

2. Hypothesis, Data, and Survey of Market Participants

A. Related literature

A number of papers have provided evidence that international direct investors may help promote good corporate governance around the world. One obvious channel through which governance standards can

spill over from one country to another is through cross-border mergers. For example, Rossi and Volpin (2004) study cross-border mergers among 49 countries and show that targets are often in countries with poorer investor protection than their acquirers' countries; this is consistent with, though not directly proving the notion that governance typically spills over from countries with stronger corporate governance standards to countries with weaker ones.

A number of studies also suggest that cross-border spillovers through direct investment or M&As produce a valuation effect. Bris and Cabolis (2008) study full takeovers in 39 countries and find that the better the governance practices in the acquirer's country, the higher the merger premium in cross-border mergers. Bris, Brisley, and Cabolis (2008) show that Tobin's *q* of an industry increases when firms within that industry are acquired by foreign firms coming from countries with better corporate governance standards. Martynova and Renneboog (2008) reconfirm this finding in samples limited to partial takeovers. More recently, Albuquerque et al. (2013) show that cross-border mergers and acquisitions are associated with subsequent improvements in the governance, valuation, and productivity of the target firms' local rivals. This productivity spillover effect is stronger when the acquirer is from a country with stronger shareholder protection and if the target's industry is more competitive.

Many developing countries, while open to direct foreign investment, maintain highly restrictive controls on indirect or portfolio investment by foreign investors. China is a prominent example for this. While it is a leading host of foreign direct investment in the world, it places severe restrictions on inward foreign portfolio investment. No foreign mutual funds, pension funds, or hedge funds can directly invest in Chinese companies on the Shanghai or Shenzhen stock exchanges, except through a limited quota of qualified foreign institutional investors (QFII) or through a portion of Chinese shares listed in Hong Kong or New York. Such asymmetric treatments of direct and indirect foreign investment in capital controls regimes are common among developing countries. This means a proper assessment of the costs and benefits of openness to international portfolio investment has important policy implications, especially for developing countries. In this context, it is of particular interest to investigate international institutional investment as a possible mechanism for diffusion of value enhancing corporate governance practices.

In theory, indirect or portfolio investment can also be a channel for diffusion of corporate governance if foreign institutional investors improve monitoring of corporate management via more shareholder activism. For example, foreign investors may be better monitors of corporate governance than domestic investors as the former are not owned, controlled, or have close business ties with local firms. Aggarwal et al. (2011) suggest that one reason for this is that institutional investors at home may feel more compelled to be loyal to management. They cited the example of Fidelity investment, reported in BusinessWeek (2006), which apparently was more aggressive on governance issues in Europe than in its

home country, the United States. Ferreira and Matos (2008) report evidence that foreign institutional ownership is positively correlated with firm value outside the United States, but such correlation is absent in the United States. Kim, Kim, and Kwon (2009) study domestic and foreign blockh olders that switch their investment purpose from passive to active in the Korean market and show that the positive valuation effect around the time of switch is greater for foreign block holders.

The most closely related paper to this study is Aggarwal et al. (2011). They use a panel regression approach with data at annual frequency, linking company level corporate governance scores with foreign institutional holdings from 23 OECD countries during 2003-2008. This is an important paper that has provided first-ever evidence that foreign institutional investors and local corporate governance are linked. At the same time, however, panel regressions do not allow for sharp identification of causality especially when the data are at a relatively low frequency. In addition, their data do not allow them to separate foreign investors with an activist intention versus those without such an intention. In comparison, we focus on a major emerging market economy, Korea, rather than developed markets. (Korea is not in Aggarwal et al.'s data set), and take advantage of a Korean legal disclosure rule that requires block purchasers to declare if they plan to be an activist or not. The first part of our paper will use an event study approach to sharpen the identification of the effects of block purchases by foreign investors. We look into possibly different effects of purchases by activist investors versus pure portfolio investors. Among activist foreign investors, we also examine possible role of home country tradition in investor activism. We will report evidence that both dimensions of investor heterogeneity matter in important ways.

B. Hypotheses

A key hypothesis we investigate in this paper is whether block purchases by foreign activist investors can bring positive valuation responses. We check two dimensions of heterogeneity. The first is between activist and passive investors. An activist investor is one who, at the time of purchase, declares his/her intention to push for changes in management practices or other corporate governance aspects for the explicit purpose of enhancing shareholder value. A passive investor is one who does not have such intention. Note that a truly passive investor does not have an incentive to declare itself as an activist since this might antagonize management with no tangible benefit. By the Korean law, an investor has to declare itself as an activist investor before it can undertake a number of actions such as asking for a board seat, making a shareholder proposal at the shareholder meetings, etc. As we will note later, an investor with an activist intention would always declare itself as an activist. Otherwise, it will not be able to deploy activist

tools legally. On the other hand, a pure portfolio investor is unlikely to declare itself as an activist as it would otherwise antagonize the management for no apparent benefit (See Kim, Kim, and Kwon, 2009, for a detailed description of the disclosure rules on block holders in Korea).

The second dimension of investor heterogeneity is the type of source countries from which an investor is coming. In some source countries (e.g., the United States or the United Kingdom), it is common for institutional investors to challenge management for their value destroying or other non-value-maximizing practices. Initially, they might engage with the management in private, but if such practices persist, they may take stronger actions against the management in public. In some cases in which corporate management does not respond or does not do so adequately, one may see hostile takeover attempts. In some other countries (e.g., Japan or Denmark), it is relatively uncommon to see such investor activism. These differences may reflect different legal environment, institutional investors' tradition, or their combinations. Whatsoever the reason, we conjecture that home country governance practices can be an important reference when institutional fund managers invest abroad and calibrate their engagement with corporate managers in host countries. If this is what the market expects, the stock price reaction of a target firm should be greater when it is engaged by activist from a country with a stronger tradition of investor activism or higher governance standards.

To summarize, the first hypothesis we test is whether activist foreign institutional investors enhance firm value more than non-activist investors; the second hypothesis we test is whether activist foreign investors from countries with a strong tradition of activism enhance firm value more than activist investors from countries without such a tradition.

We make use of three approaches. The first is a survey of a group of international institutional investors that are active in Asian emerging market economies. The second is an event study approach applied to cumulative abnormal returns at the daily frequency. The third is a panel regression on changes in corporate financial practices at the annual frequency following a block purchase by foreign activist investors.

C. Survey

We start with a survey of institutional investors who are active in Asia, especially in cross-border portfolio investment. This is not meant to be a direct test of our hypotheses per se because a given market practitioner may observe only noisy signals about other investors' actions and have only imperfect knowledge about the effectiveness of other funds' actions. Nonetheless, it is useful to gauge the extent to which market practitioners recognize the occurrence of shareholder activism by foreign institutional

investors in general, their common tactics, and their assessment of effectiveness. As far as we know, such a survey has not been implemented before or at least has not been reported in the existing literature.

The survey respondents are members of the Asia Corporate Governance Association (ACGA). The ACGA is a Hong Kong based non-profit organization established to promote good corporate governance in Asia; its 100 members including pension funds, investment management companies, insurance companies, and other financial institutions.[2]

In the survey, we ask three substantive questions. First, we ask to what extent respondents agree that foreign institutional investors can add value by shareholder engagement or activism. Second, we ask the respondents to indicate their views on the most important areas of engagement or activism. We ask them to pick up to four out of a list of nine potential areas. Third, we ask whether source country tradition matters. More precisely, we ask respondents the extent to which they agree that investors from countries with stronger investor/shareholder rights are more likely to demand actions from the management to enhance value. We attach the actual survey questions in the appendix.

We worked with the Secretariat of the ACGA and posted our survey on the web using Qualtrics. The ACGA secretariat promoted the survey in a meeting with its membership and urged its members to respond to the survey. During a three-week survey period (August 22 – September 13, 2013), we received 38 responses, about 40% of ACGA members. Note that the survey questions are not specifically about foreign investor activism in Korea, and the survey respondents don't necessarily invest in Korea. The responses should be viewed as subjective perceptions about foreign investor activism in general by a group of self-selected fund managers with a special interest in corporate governance in Asia. Nonetheless, if the hypotheses we wish to test are flatly rejected by market practitioners, we will have to be suspicious about claims regarding the benefits of foreign investor activism.

Regarding the first question, 97% of our respondents either strongly agreed or basically agreed that foreign institutional investors can add value by shareholder engagement/activism. Only one respondent disagreed. We conclude that there is a very broad agreement, though not a consensus, that shareholder activism can enhance shareholder value in emerging market economies.

For the second question, our respondents considered 'increase scrutiny on related-party transaction (95% of the responses),' 'improve board independence (89%),' 'link CEO turnover more to performance (53%)' to be the most important areas of engagement or activism. These are followed by 'link dividend payouts more to earnings (47%),' and 'reduce idle cash (34%).' 'Link stock buybacks more to earnings,' and 'increase leverage' received relatively few affirmative responses.

[2] Visit its home page at www.acga-asia.org for details.

Regarding the third question, 95% of our respondents either strongly agreed or basically agreed that investors from countries with stronger investor/shareholder rights are more likely to demand actions from the management to enhance value. Only two respondents disagreed. Responses to our supplementary questions reveal that 97% of our respondents have exposure to emerging market equities and 79% of our respondents have engaged in shareholder activism in emerging markets.

3. DATA

A. Foreign block holding data

Our event study sample covers all block purchasing announcements made by foreign portfolio investors in the Korean stock market (KRX) from 2005 to 2009. 2005 is the first year when block purchases are required to disclose the purpose of their holdings. We exclude block buying announcements made by non-financial institutions as we wish to focus on portfolio investments by institutional investors. We also exclude announcements where pre- or post-announcement block ownership is greater than 20%.

We manually collect the data from the Data Analysis and Retrieval Transfer (DART) system, which is an electronic disclosure system administered by the Financial Supervisory Service (FSS), the Korean securities authority. Similar to the EDGAR system operated by the U.S. SEC, the system allows companies or investors to submit disclosures online. From DART, we collect the date of block holding disclosure, the target firm, foreign block holder's name, its country of incorporation, and its equity holdings in the target firm. As for investors incorporated in tax heaven territories, we track the residence of their investor managers by investigating their annual reports or periodicals.[3]

Korea's rule on block holding disclosure is very similar to that in the U.S. Any investor who acquires share ownership of 5% or more of a public company must file a report to FSS within 5 (or 10) days. A subsequent change in share ownership by one percent or more also triggers a disclosure requirement. Block holders also have the obligation to disclose whether they have the intention to influence management at the time of their filing, which is the basis of our classification of *activist purchases* vs. non-activist purchases. If they do, they must file a detailed long-form within 5 days after the acquisition. If not, they must file an abridged short-form within 10 days. The long-form includes a section that lists ten potential areas of activism. The filing activist must disclose its detailed intention by checking whichever area that is relevant. Unfortunately, in practice, most of foreign active investors tend

[3] One example is Templeton Asian Growth Fund, which is incorporated in Luxembourg, but actually managed in Hong Kong.

to check all ten areas, apparently to give themselves the maximum flexibility in engaging with the management. A switch in block holding purpose also triggers a filing within 5 days.[4] For detailed discussions on Korea's 5% rule and its comparison to the U.S. rule, we refer to Kim, Kim, and Kwon (2009).

Figure 1 shows the number of foreign block buying announcements over time. Notice that we do not limit the sample to the first 5% announcements made by block holders. We also include their subsequent announcements that had to be made when they increased their holdings by one percent or more. Thus, one block holder can make multiple announcements in a given target firm. In principle, one block holder can make announcements in multiple firms, and one firm can be a target of multiple block holders; but, in practice, these happen rarely.

The first bar chart (A) shows the number of all foreign block buying announcements from 1998 to 2009. The sample includes active (in darker shade since 2005) as well as passive block holders (in lighter shade). One can see that there was a clear upward trend until 2007. The number of announcements, which was just one in 1998, soared to 582 in 2007. But, subsequent to the peak year of 2007, the number of block buying announcements drop significantly. The relative retrenchment after 2007 possibly reflects a global capital reversal out of emerging market economies back to major source countries that were facing a financial crisis at home. Becht, Franks, and Grant (2014) also find a similar result in their study of international hedge fund activism. From this bar chart, one can also see that the number of activists takes up only a small fraction (less than 10%) of all block holders. The second bar chart (B) limits the sample to announcements made by activist block holders.

Table 1 lists the origins (country of incorporation or registration; for tax heaven territories, the domicile of the management company) of foreign block holders with their home country governance characteristics: hostile takeover, M&A volume, and board independence. Hostile takeover is the percentage of domestic firms that experienced hostile takeover attempts during 1990-1999. M&A volume is the percentage of domestic firms that were targeted in completed deals during 1990-1999. These two measures are from Rossi and Volpin (2004). Board independence is the mean percentage of independent directors (number of independent directors divided by board size), and it is from Dahya, Dimitrov, and McConnell (2008).

For each home country characteristics, we group countries into two: above and below the country median values (see second row parentheses). That is, high (H) vs. low (L) countries. In the first column,

[4] Korea's 5% rule went through three major revisions since its first adoption in 1991. The definition of share ownership widened to include indirect ownership (1994) and other types of beneficial ownership, such as convertible bonds, warrants, bonds with warrants, and exchange bonds (1997). It also required block holders to disclosure the purpose of their holdings (2005).

we also indicate which countries are non-entrenched (NE) and which are entrenched (E). A country is classified as having a strong tradition of investor activism (or "non-entrenched" for short) if at least two of the home country governance characteristics are above median. For Ireland and New Zealand, one of the indicators is above the median, a second indicator is below the median, and a third indicator is missing. We classify both countries as "non-entrenched." (No other countries are in the same situation.) All other countries with information on activism indicators are classified as without a strong tradition of activism (or "entrenched" for short). Countries without such any information on any of the activism indicators are not classified.

We have also derived the first principal component (PC) of the three indicators. We can label those countries with a PC value above the median as "non-entrenched" and others as "entrenched." Because the indicators may have missing information for different countries, this can be done only for a smaller set of countries. In any case, for these countries, we find that the country labels on "entrenched" and "non-entrenched" are fully consistent with the simpler methodology described earlier. That is, no country classified as "entrenched" under one scheme would be re-classified as "non-entrenched" under another scheme, and vice versa. In subsequent analysis, we adopt the country classification scheme from the simpler methodology.

Note that some funds within a larger family can be managed out of different source countries. For example, while Franklin Templeton Investments Corp. and Lionhart Investment Limited are managed out of the United States, FTIF Templeton Asia Growth Fund and Lionhart (HK) Limited are managed out of Hong Kong. Our discussion with some international funds suggests that investment and corporate engagement decisions are made by local offices rather than by headquarters. For this reason, we classify a fund's source country by the location of its management office rather than by its headquarters' location.

In the last two columns, we show the number of block buying events by all block holders and activist block holders. The last two rows show the total number of countries and the total number of buying events. We drop three events by tax heaven activists, whose domiciles of management companies are unknown. (Domiciles reported as England, Wales, and Scotland are all classified as UK funds.)

B. Firm level data

Table 2 reports the summary statistics of the key variables used in our investigation of firm characteristics of target firms during 2004-2008. Panel A uses the full sample, while Panel B splits the sample into those with foreign block holders and those without. Panel C splits the targets into those with activists and those without. Panel D splits the targets into those with activists from non-entrenched countries and those without. The last columns in Panels B, C, and D report the difference-in-mean test

results. ***, **, and * respectively indicate that the difference is statistically significant at 1%, 5%, and 10% levels.

Assets are in million Korean wons (which are approximately a thousand U.S. dollars). Cash includes cash equivalents. RPT is the sum of related-party sales and related-party purchases. "Dividend" includes cash dividends to common and preferred stockholders. Tobin's q is measured by (market value of equity plus book value of debt) divided by book value of assets. Inside ownership is percentage of shares held by the company's controlling shareholder and its related-parties. Accounting data are from TS2000, a database constructed by the Korean Listed Companies Association (KLCA). The stock market data are from DataGuide.

The difference-in-mean t-tests results, shown in the last column of each panel, tell us that firms with foreign block holders, on average, are more profitable (higher EBITDA/Assets), have a higher Tobin's q, and are more likely to have some foreign ownership to start with. Among the firms with foreign block holders, those with foreign activists have higher profitability, lower firm value, and higher foreign ownership than those without them. Among the firms with foreign activists, those with activists from non-entrenched countries have lower cash holdings, higher leverage, lower profitability, lower dividend payouts, and lower firm value.

4. RESULTS

Before we report our preferred specifications, we first replicate some main specifications in Aggarwal et al. (2011) in section 3.A. Interestingly, for our sample, the effect of foreign ownership on firm-level corporate governance score is not reproduced here.

A. Foreign block investor ownership and corporate governance

In this subsection, we employ the method used in Aggarwal et al. (2011) and run a set of similar regressions using Korean data. Table 3 shows the results. In Columns 1-4, we run firm fixed effects regression of *ln*(corporate governance score) over a sample period of 2006-2012. In Columns 5-8, we run first-difference regressions of Δ*ln*(corporate governance score) over a sample period of 2007-2012. Corporate governance scores are from Korea Corporate Governance Service (CGS), which has been announcing the score every year since 2001. Our key regressors are foreign ownership, foreign block ownership, foreign activist ownership, and foreign non-activist ownership. Foreign block ownership data are from Korea Exchange (KRX). The other three, however, had to be estimated using the block purchase

and sell announcements data. As in Aggarwal et al. (2011), foreign ownership variables are lagged by one year. Also note that we use the same set of control variables used in Aggarwal et al. (2011). The exception is the ADR dummy, which appears in Aggarwal et al. (2011), but omitted here since it is fixed over time during our sample period. Coefficient standard errors are clustered at the firm level.

Unlike Aggarwal et al. (2011), foreign ownership has no explanatory power over corporate governance scores. The coefficients on each of our foreign ownership variables are statistically insignificant. (Since Korean firms are not part of the sample used by Aggarwal et al., we cannot directly compare our results to their results on Korea.) One possible reason is that the corporate governance scores are particular noisy for Korea, so their variations over time are not correlated with any observables. However, firm size, sales growth, leverage, PP&E/Assets, and analyst coverage do seem to matter. So measurement errors of the governance score may not be a satisfactory explanation. This motivates us to use alternative approaches to investigate the role of activist foreign block purchases.

B. Price reaction to block purchases by foreign institutional investors

In this subsection, we turn to an event study method. For each block purchase event by foreign institutional investors, we compute cumulative abnormal returns (CARs) estimated from a market model over a 190 trading day period [-200, -11] prior to the event window. We use KOSPI and KODAQ index returns as market returns respectively for KOSPI and KOSDAQ member firms. Figure 2 reports the averages of CAR[-10, x], where x = -10, -9,…, 0, 1, 2,…,10. Returns are in percentage terms. In Panel A of Figure 2, we keep separate tracks of CARs, one for those involving activist investors (the top line, 139 such announcements in total), and another for those that do not (the bottom line, 1696 such announcements in total). Solid dots on the lines indicate statistical significance at the 10% level (alternative hypothesis of average CAR > 0).

There are two noteworthy features of the graph. First, the CAR line involving activist investors lies everywhere above the one involving non-activist investors. Panel B of Figure 2 indicates that the difference between the two becomes statistically significant at the 10% level starting from the day of announcement, and stays so at least for the next ten days (the dotted lines indicate the 90 percent confidence interval). The difference on day 10 is about 3-4%. Some of the positive CAR reaction to block purchase announcement reflects market recognition of possible stock picking skills of foreign institutional investors. If we assume that the stock picking skills are the same between activist and non-activist

investors, then the positive CAR reaction of activist investors over that of non-activist investors is an indication of market's belief that activism will pay off in the form of higher firm value.

Second, for both types of announcement, CARs become significantly positive starting five or six days before the actual announcement. This is probably so because actual purchases typically take place a number of days before the date of disclosure (at most 5 days for activist and at most 10 days for non-activist), and such purchases are known in the market. Alternatively, if some of the stocks are not very liquid, large block purchases could push up the prices. Becht, Franks, and Grant (2014) find a similar pattern in their study on international hedge fund activism.

We now explore the heterogeneity across the source countries of activist investors. We examine two proxies for investor activism (the frequency of hostile takeovers and the volume of mergers and acquisition activities), and one proxy for the quality of corporate governance (the independence of company boards from management). More precisely, incidence of hostile takeovers refers to the percentage of domestic firms that experienced hostile takeover attempts during 1990-1999, as reported by Rossi and Volpin (2004). The M&A volume refers to percentage of domestic firms that were targets of completed M&A deals during 1990-1999 (Rossi and Volpin, 2004). Board independence refers to the mean percentage of independent directors (the number of independent directors divided by board size), as reported by Dahya, Dimitrov, and McConnell (2008). The calculations of the first two measures predate our sample period. Our maintained assumption is that these features reflect the tradition of local institutional investors, local legal environment, or their combinations, and persist over time.[5] The information is summarized in Table 1. The median values for the three indicators are 1.37% for hostile takeover frequency, 34.09% for M&A volume, and 53.15% for board independence.

Some of the measures are not available for some source countries in our sample. For those for which the information is available, we use H and L to respectively denote whether a country scores above the median or below. For example, for Australia, all three measures score above the median, suggesting that the country has a higher than median amount of investor activism and a higher than median level of board independence. For Denmark, on the other hand, all three indicators score below the medians, indicating a lower than median degree of investor activism and lower than median level of board independence.

We also aggregate the information from the three measures into a single dimensional binary measure. A country is classified as having a strong tradition of investor activism (or "non-entrenched" for short) if at least two of the home country governance characteristics are above median. For Ireland and New Zealand, one of the indicators is above the median, a second indicator is below the median, and a third

[5] Caprio, Laeven and Levine (2007) used the same M&A activity volumes as an indicator of investor activism; Alexandridis, Petmezas, and Travlos (2010) have used the same indicator of board independence in their study.

indicator is missing. We classify both countries as "non-entrenched." (No other countries are in the same situation.) All other countries with information on activism indicators are classified as without a strong tradition of activism (or "entrenched" for short). Countries without such any information on any of the activism indicators are not classified. Beside country names in Table 1, we indicate which countries are non-entrenched (NE) and which are entrenched (E).

In Column 7, we report, for each country, the total number of block purchase announcements by institutional investors of any type over 1998-2009. In the last column, we report, for each country, the number of block purchase announcements from self-declared activist investors since January 2005. Clearly, the latter is a small subset of the former.

We now examine how the CAR reactions vary by the type of source countries the activist investors come from. In Table 4, we organize the results in four row panels, corresponding to the four ways of sorting source countries: frequency of hostile takeovers, M&A volumes, degree of board independence, and a composite measure of "non-entrenchment." For each of them, we compute CARs over three event windows, [-1, +1], [-5, +5], and [-10, +10]. In the first two columns, we report CARs for activist investors from non-entrenched countries and those from entrenched countries (measured in four ways). Generally speaking, the CARs are always positive and statistically significant for non-entrenched country activist investors and rise from the narrow to wider windows. On the other hand, the CARs for entrenched country activist investors are only significant for the narrowest window of [-1, +1] but are indifferent from zero in wider windows.

In Column 3, we report the difference in CARs between these two groups of investors. The difference is always positive for all three event windows and are statistically significant for [-5, +5] and [-10, +10]. For example, using the composite measure of entrenchment (the last panel), the CARs for non-entrenched country activists are 4.8 percentage points higher over [-5, +5] and 7.2 percentage points higher over [-10, +10].

Because US investors dominate our sample and are sometimes considered special in the literature, we want to make sure that our results are not driven by them. We re-compute CARs for investors from non-entrenched countries after excluding US as a source country and report the results in Column 4. Interestingly, the CARs excluding the United States as a part of the non-entrenched group tend to be higher. Indeed, in Column 5, when we compute the excess CARs of non-entrenched countries over those of entrenched countries, we find a bigger difference when US is excluded[6].

[6] One possible explanation is that some of the US investors that might consider themselves as non-activists if they had come from other countries are used to consider themselves as activists in the United States. We thank Wei Jiang for this suggestion.

In Figure 3, we present a graphic summary of the results using the composite measure of non-entrenchment. As one can see, while the CARs for investors from entrenched countries are generally insignificantly different from zero, except for the window of [-10, +1], those for investors from non-entrenched countries are significant and rise with the width of event windows. Indeed, the difference between the two is clearly significant from day zero onwards. If we exclude the United States as a source country, the difference in CARs between the two groups becomes even greater.

In unreported analyses, we also examine the share price reactions around the time of block purchase made by domestic investors. First, we find that share price reacts more strongly for domestic activists than for domestic non-activists. But the difference between the two loses statistical significance as we move from a short to longer event windows, making it hard to determine true value creation by domestic activism. Second, the share price reaction prompted by domestic activists is smaller than that by foreign activists, 3.1% and 4.2%, respectively, over an event window of [-10, +10]. If we compare the two after netting out the share price reactions prompted by their respective non-activist block holders, the difference widens from 1.1% to 2.3% (3.67% for foreign activist versus 1.37% for domestic activists). This difference is statistically significant. Overall, these patterns are consistent with the notion that foreign activist investors are bolder and more aggressive than domestic investors in pressing firm management to change financial and governance practices that could enhance shareholder values.

We have pursued a number of additional extensions that explore target firm heterogeneity. First, when we separate target firms into large versus small ones based on market capitalization, we find that the CAR response is stronger for smaller firms than for larger firms (when block purchases are made by activist investors from non-entrenched countries.) This may reflect the possibility that smaller firms' corporate governance and financial policies are more likely to be influenced by foreign activist investors. However, the difference in the CAR reactions between the two types of target firms is not statistically significant.

Second, we look into potentially different CAR reactions for Chaebol and non-Chaebol firms as targets of block purchases. Chaebol firms are members of large conglomerates that are typically controlled by families through elaborate cross shareholding or pyramids (see Kim, Sung, and Wei, 2011, for examples and their effects on foreign investments). We find that the CAR response is generally stronger when target firms are not affiliated with a Chaebol. This may reflect the possibility that foreign investor activism is more likely to be effective when targets are non-Chaebol firms. Unfortunately, the difference in the CARs is not statistically significantly different from zero between these two types of target firms. These extensions are not reported in table format to save space.

C. Do foreign activist purchases raise firm values?

Beyond the price reactions to announcements of activist purchases over relatively short event windows, we now check if these price reactions are confirmed by changes in firm value over the subsequent years. This check is useful for another reason: sometimes investor activism is criticized as actions that only lead to a temporary increase in the stock price that may be reversed in the long run (see, for example, Kahan and Rock, 2007). Our analysis will shed light on whether typical investor engagement produces only a short-term change or a longer-lasting improvement in firm value.

We examine this question by looking at how a firm's Tobin's *q* may be affected by the share purchase of foreign activist investors from non-entrenched countries. We start with a naïve specification that ignores endogenous selection of firms targeted by foreign activist investors. We then address this endogeneity via two ways: propensity score matching and Heckman selection equation.

Initial naïve specification

We first estimate Equation (1) for two sub-samples, one consisting of firms targeted by activists from non-entrenched countries during 2005-2009 (treatment group) and another consisting of firms targeted by entrenched-country activists during 2005-2009 (control group). If a firm is targeted by a non-entrenched country activist and also by an entrenched country activist, we assign these firms to be in the treatment group.

$$\ln(TQ)_{it} = \alpha + \alpha_0 T_{0it} + \alpha_1 T_{1it} + \alpha_2 T_{2it} + \alpha_3 T_{3it} + \sum_{t=2004}^{2012} \lambda_t + \sum_{j=1}^{n} \delta_j + \varepsilon_{it} \quad (1)$$

$\ln(TQ)_{it}$ is Tobin's *q* in natural logarithm of firm *i* in year *t*. T_{0it} is a binary variable taking a value of 1 if year *t* is the year of block buying announcement by non-entrenched country activist for firm *i*, and 0 otherwise. T_{1it} is binary variable taking a value of 1 if year *t* is one year after the block buying announcement by non-entrenched country activist for firm *i*, and 0 otherwise. T_{2it} and T_{3it} are similarly defined. Coefficient α captures the firm value before the treatment, and coefficients α_0, α_1, α_2, and α_3 respectively captures the increase in firm value during [-1, 0], [-1, +1], [-1, +2], and [-1, +3]. λ_t is a calendar year dummy, taking a value of 1 for year *t*, and 0 otherwise. Since we use a sample period from 2004 to 2012, we include eight year dummies. δ_j is an industry dummy (11 industries from 2-digit Korea

SIC code), taking a value of 1 for industry *j*, and 0 otherwise. When estimating the coefficients, we use standard errors clustered at the firm level.

If a firm is subject to multiple buying announcements by the same non-entrenched country activist in different years (or buying announcements by different activists in different years), T_{0it} equals 1 in the year when there was the first buying announcement. This rule is also applied to targets of entrenched country activists. To preserve sample size, we keep the firms even if there were selling announcements made by foreign block holders during our sample period.

We also estimate Equation (2), which is estimated using the full sample that pools the two subsamples together and use interaction terms between the number of years following the block purchases and a dummy for treatment group firms.

$$\ln(TQ)_{it} = \alpha + \alpha_0 T_{0it} + \alpha_1 T_{1it} + \alpha_2 T_{2it} + \alpha_3 T_{3it} + \beta D_i + \beta_0 T_{0it} D_i + \beta_1 T_{1it} D_i + \beta_2 T_{2it} D_i + \beta_3 T_{3it} D_i + \sum_{t=2004}^{2012} \lambda_t + \sum_{t=2004}^{2012} \lambda_t D_i + \sum_{j=1}^{n} \delta_j + \varepsilon_{it} \quad (2)$$

D_i is a binary treatment dummy taking a value of 1 if firm *i* is targeted by a non-entrenched country activist, and 0 otherwise.[7] Notice that we also include the interactions between the treatment dummy (D_i) and calendar year dummies. Since Equation (2) is basically a difference-in-differences (DiD) equation, coefficients β_0, β_1, β_2, and β_3 are *DiD* estimators, and they capture how the difference in firm value between the treatment group and the control group change before and after the treatment. Coefficient β captures the difference in firm value between the treatment group and the control group before the treatment. Again, the coefficient standard errors are clustered at the firm level.

Columns 1-3 in Table 5 report our results. We see that firm value in the treatment group rises on the year of block purchase and then rises further in subsequent years (Column 1), whereas the firm value in the control group actually experiences a decline on the year of block purchase and then falls further in subsequent years (Column 2). The *DiD* regression in Column 3 confirms the previous result: the positive firm valuation effect comes exclusively from block purchases by non-entrenched country activists. The coefficient of 0.34 (specifically, 0.3435) on the interaction term between the treatment group dummy (D_i)

[7] In unreported analysis, we run a similar set of regressions using a treatment group dummy, which takes a value of 1 if firm *i* is targeted by an activist (regardless of its source country), and 0 otherwise. The control group includes firms purchased by non-activist foreign block holders. We did not find any statistically significant difference between the treatment and the control groups.

and the treatment year dummy (T_{0it}) suggests that the firm value of treatment group firms, relative to that of control group firms, increases by 34.35% on the year of treatment.

Accounting for endogenous selections

We recognize that share purchases by non-entrenched country activists are not random. The purposeful purchases have to be taken into account. We address this endogeneity of treatment in two ways. First, we use propensity score matching (PSM), where matching firms are identified by the nearest neighbor method among the targets of entrenched activist block holders in the same year block buying announcement took place by non-entrenched country activists. Second, we apply a Heckman selection specification to account for endogenous treatment. While the propensity score method produces a control group that is as similar as possible to the treatment group based on observable firm characteristics, the Heckman method also takes into account potentially unobservable firm characteristics. The identification of the Heckman method, however, depends on either having exogenous determinants of firm selection or the distributional assumption on the error term of the selection equation. We view the two methods as providing complementary information for our inference.

Propensity scores are estimated by a probit regression where dependent variable is the probability of a firm being targeted by a non-entrenched country foreign activist and right-hand side variables (lagged by one year) including firm size, cash holdings, leverage, equity holdings, related-party transactions, cash flows, dividend payout ratio, firm value, internal ownership, and foreign ownership. Column 3 in Table 6 shows the result. Cash holdings, equity holdings, and firm value seem to matter. The likelihood of being a target increases with cash holdings or equity holdings. This is consistent with the notion that holding excess cash or having engaged in excessive acquisitions in the past is a sign of poor corporate governance. We also find that the likelihood of being a target drops with firm value. This may reflect foreign activists' belief that lower-than-average Tobin's *q* indicates suboptimal corporate governance that can be corrected by activism. We use the same set of right-hand variables when estimating the first-stage of Heckman's (1979) two-stage procedure. For details of this procedure, see Campa, Manuel, and Kedia (2002).

Columns 4-6 in Table 5 report our PSM results. Column 4 reports the result for the treatment group, Column 5 for the matched control group, and Column 6 for the combined sample of treated and non-treated matched firms.[8] From Column 5, one can see that the negative valuation effect of the control

[8] The results in Column 1 and Column 4 are slightly different because we use data in year t-1 to identify matched firms. If any variable in the first stage probit is missing in year t-1, this observation is dropped.

group disappeared. That is, there is a positive increase in firm value for the treatment group, but no changes in firm valuation for the control group. The coefficients on the interaction terms in Column 6 are weaker than those in Column 3. But they are all positive and marginally significant in year t+3. That is, the change in firm value during [-1, +3] is greater in firms purchased by non-entrenched country activists than those purchased by entrenched country activists.

The economic magnitude of the interaction effect is more sensible under the PSM method than under OLS. In the OLS regression reported in Column 3, Tobin's q increases more for activist investors from non-entrenched countries than those from entrenched ones by 34% in the year of purchase, followed by additional increases of 61%, 87%, and 93% in subsequent years. These seem to be too large. With propensity score matching, the interaction terms produce more modest results in economic terms. In particular, according to the interaction terms in Column 6 of Table 5, Tobin's q still increases more for activist investors from non-entrenched countries than for those from entrenched countries, but not significantly so in the year of purchase, by 25% in the year after the purchase (significant at the 10% level), 24% two years later (not significant), and 32% three years later (significant at the 10%). These estimates are plausible relative to related estimates in the literature. For example, in a study of the Lazard Korea Corporate Governance Fund's engagement with two Korean companies (Taekwang Industrial and Daehan Synthetic Fiber), Lee and Park (2009) find that the CAR responses over [-1 day, +5 days] are 53.5% and 80.3%, respectively. In a study of the 1999 corporate governance reform in Korea, Black, Jang, and Kim (2006) report that an improvement in the corporate governance score from the worst to the best scenario over a seven-month period leads to an increase in Tobin's q by 0.49.

In Column 7 of Table 5, with the Heckman selection specification, we again confirm that the positive valuation effect is mostly a feature for block purchases by non-entrenched country activist investors. The interaction terms are all positive and statistically significant.

To summarize, following the evolution of a firm's Tobin's *q* in the years after block purchases, we find that firm valuation is enhanced by non-entrenched country foreign activists. We also confirm that these results are unlikely to be driven by the endogenous choice of targets by foreign activists.

D. Corporate financial policies and governance practices

We now investigate whether target firms of non-entrenched country activists experience real changes in corporate financial policies or in governance practices in subsequent years that can justify the jump in

share price in our event studies and also the jump in firm value in subsequent years. Tables 7, 8, 9, 10, and 11 respectively report the results for (i) cash holdings, (ii) leverage, (iii) dividend payouts, (iv) stock repurchases, and (v) corporate governance. As for cash holdings, leverage, and corporate governance, we use the same regression specifications used in the previous subsection for firm value, except that we now replace our dependent variable to cash holdings, leverage, or corporate governance. In case of dividend payouts and stock repurchases, we modify the specification to capture how their responsiveness to earnings changed with the treatment.

In Tables 7 and 8, we investigate if the composition of target firm's balance sheets is influenced by activists from non-entrenched countries. We look into cash holdings in Table 7 and leverage in Table 8. From Columns 1 and 2 of Table 7, one can see that the cash holdings (cash plus cash equivalents scaled by total assets) of the firms in the treatment group fall in the year of block purchase (7.21% of total assets) and then fall further in subsequent years (23.67% of total assets during -1 and +3 years), whereas the cash holdings of the firms in the control group show no change in the year of block purchase nor in subsequent years. This finding suggests that the jump in share price in our events and the jump in firm value in subsequent years can be related, in part, to target firms reducing idle cash. Column 3 shows that the fall in cash holdings in treatment group firms relative to that in control group firms are statistically significant in the year of block purchase and also in all subsequent years. The results from both propensity score matching (Columns 4-6) and Heckman's two-stage procedure (Column 7) confirm that our finding is robust to endogeneity concerns.[9]

From Columns 1 and 2 of Table 8, we see that the leverage (debt/assets) of treatment group firms rises in the year of block purchase (11.81% of total assets) and then rises further in subsequent years (34.38% of total assets during -1 and +3 years), whereas the leverage of control group firms show no change in the year of block purchase nor in subsequent years. This finding suggests that the jump in share price in our event studies and the jump in firm value in subsequent years can be related, in part, to target firms increasing leverage, possibly by disciplining mangers from wasting free cash flows (Jensen, 1988). Column 3 shows that the rise in leverage in treatment group firms relative to that in control group firms are statistically significant in the year of block purchase and also on all subsequent years. The results from

[9] In unreported analysis, we run a similar set of regressions using a treatment group dummy, which takes a value of 1 if firm *i* is targeted by an activist (regardless of its source country), and 0 otherwise. The control group includes firms purchased by non-activist foreign block holders. We find similar but somewhat weaker results.

both propensity score matching (Columns 4-6) and Heckman's two-stage procedure (Column 7) confirm that our finding is robust to endogeneity concerns.[10]

In Tables 9 and 10, we investigate if target firms' dividend distribution policy is influenced by activists from non-entrenched countries. More precisely, we expect dividend payout to be linked to a firm's profitability in general, and we examine this linkage is strengthened following block purchases by activist foreign investors. We do so by augmenting the previous specification with some interaction terms. Specifically, we estimate Equation (3) below using Tobit, with the constraint that dividend payout ratio has to be non-negative.[11]

$$\begin{aligned} DIV_{it}^{*} = {} & \alpha + \alpha_0 T_{0it} + \alpha_1 T_{1it} + \alpha_2 T_{2it} + \alpha_3 T_{3it} + \beta D_i + \beta_0 T_{0it} D_i + \beta_1 T_{1it} D_i + \beta_2 T_{2it} D_i + \beta_3 T_{3it} D_i \\ & + \gamma E_{it} + \gamma_0 T_{0it} E_{it} + \gamma_1 T_{1it} E_{it} + \gamma_2 T_{2it} E_{it} + \gamma_3 T_{3it} E_{it} \\ & + \pi E_{it} D_i + \pi_0 T_{0it} E_{it} D_i + \pi_1 T_{1it} E_{it} D_i + \pi_2 T_{2it} E_{it} D_i + \pi_3 T_{3it} E_{it} D_i \\ & + \sum_{t=2004}^{2012} \lambda_t + \sum_{t=2004}^{2012} \lambda_t D_i + \sum_{j=1}^{n} \delta_j + \varepsilon_{it} \end{aligned} \tag{3}$$

$$\begin{aligned} DIV_{it} &= DIV_{it}^{*} \quad \text{for } DIV_{it}^{*} > 0 \\ DIV_{it} &= 0 \qquad \text{for } DIV_{it}^{*} \leq 0 \end{aligned} \tag{4}$$

DIV_{it}^{*} measures the dividend payout ratio (cash dividend/net income) of firm *i* in year *t*. For firms where cash dividend is greater than net income and for firms where net income is negative, but cash dividends are positive, we let their dividend payout ratio to have a value of 1. E_{it} measures EBITDA over total assets for firm *i* in year *t*. All other variables are same as in Equation (2). The coefficients of our interest are π_0, π_1, π_2, and π_3, which tell us whether the dividend payout's responsiveness to earnings in treatment group firms increase relative to that in control group firms in the year of block purchase and also in all subsequent years. We expect these coefficients to be positive and statistically significant.

Table 9 reports our results. From Columns 1 and 2, one can see that the dividend payouts of treatment group firms become more responsive to earnings in the year of block purchase and then stay at a similar level in subsequent years, whereas the dividend payouts of control group firms show no change in the year of block purchase nor in subsequent years. This finding suggests that the jump in share price in our

[10] In unreported analysis, we run a similar set of regressions using a treatment group dummy, which takes a value of 1 if firm *i* is targeted by an activist (regardless of its source country), and 0 otherwise. The control group includes firms purchased by non-activist foreign block holders. We find similar but somewhat weaker results.

[11] We did not find any significant changes in the level of dividend payout *per se* after the treatment.

event studies and the jump in firm value in subsequent years can be related to target firms' increased responsiveness of dividend payouts to earnings. Column 3 shows that the increase in responsiveness in treatment group firms relative to that in control group firms are statistically significant in the year of block purchase and also in all subsequent years. The results from propensity score matching (Columns 4-6) confirm that our finding is robust to endogeneity concerns.[12]

We next look into the probability of stock repurchase and see if this becomes more responsive to earnings after the treatment. Specifically, we estimate the following probit regression.[13]

$$\begin{aligned} Z_{it} = {} & \alpha + \alpha_0 T_{0it} + \alpha_1 T_{1it} + \alpha_2 T_{2it} + \alpha_3 T_{3it} + \beta D_i + \beta_0 T_{0it} D_i + \beta_1 T_{1it} D_i + \beta_2 T_{2it} D_i + \beta_3 T_{3it} D_i \\ & + \gamma E_{it} + \gamma_0 T_{0it} E_{it} + \gamma_1 T_{1it} E_{it} + \gamma_2 T_{2it} E_{it} + \gamma_3 T_{3it} E_{it} \\ & + \pi E_{it} D_i + \pi_0 T_{0it} E_{it} D_i + \pi_1 T_{1it} E_{it} D_i + \pi_2 T_{2it} E_{it} D_i + \pi_3 T_{3it} E_{it} D_i \\ & + \sum_{t=2004}^{2012} \lambda_t + \sum_{t=2004}^{2012} \lambda_t D_i + \sum_{j=1}^{n} \delta_j + \varepsilon_{it} \end{aligned} \tag{5}$$

$$\begin{aligned} & P_{it} = F(Z_{it}) \\ & \text{Engage in stock repurchase if} \quad Z_{it} > Z_{it}^{*} \\ & \text{Do not engage in stock repurchase if} \quad Z_{it} \le Z_{it}^{*} \end{aligned} \tag{6}$$

Z_{it} is the latent index variable that determines the likelihood of engaging in stock repurchase and Z_{it}^{*} is the critical cutoff value, which translates the underlying index into a stock repurchase decision. All other variables are same as in Equation (3). The coefficients of our interest are π_0, π_1, π_2, and π_3, which tell us whether the stock repurchases' responsiveness to earnings in treatment group firms increase relative to that in control group firms in the year of block purchase and also in all subsequent years. We expect these coefficients to be positive and statistically significant.

Table 10 reports our results. Coefficients are for the latent index variable Z_{it}. From Columns 1 and 2, one can see that the stock repurchase of the treatment group firms becomes more responsive to earnings in the year of block purchase and then grows further in subsequent years, whereas the stock repurchase of control group firms show no significant change in the year of block purchase nor in subsequent years. This finding suggests that the jump in share price in our event studies and the jump in firm value in subsequent years can be related to target firms' increased responsiveness of stock repurchase to earnings.

[12] In unreported analysis, we run a similar set of regressions using a treatment group dummy, which takes a value of 1 if firm *i* is targeted by an activist (regardless of its source country), and 0 otherwise. The control group includes firms purchased by non-activist foreign block holders. We find similar but somewhat weaker results.

[13] We did not find any significant changes in the probability of stock repurchase *per se* after the treatment.

Column 3 shows that the increase in responsiveness in treatment group firms relative to that in control group firms are marginally significant over a four-year period [-1, +3]. The results from propensity score matching (Columns 4-6) confirm that our finding is robust to endogeneity concerns.[14]

In Table 11, we investigate if an overall measure of corporate governance in target firms is influenced by activists from non-entrenched countries. Here we restrict our sample to KOSPI firms, of which we have their corporate governance scores (CGS). These scores, from Korea Corporate Governance Service (CGS), takes a value from 0 to 100 and are composed of five sub-indices (each taking a value between 0 and 20), including shareholder rights, board, disclosure, audit, and distribution.

From Columns 1 and 2 of Table 11, one can see that the CGS (in natural logarithm) of treatment group firms and control group firms do not show significant changes in the year of block purchase and in subsequent years. But, Column 3 shows that the rise in CGS in treatment group firms relative to that in control group firms are marginally significant in the year of block purchase and statistically significant in all subsequent years. The coefficient of 0.9249 on the interaction term between the treatment group dummy (D_i) and the +3 treatment year dummy (T_{3it}) suggests that CGS of treatment group firms, relative to that of control group firms, increases by 92.49%. The results from propensity score matching (Columns 4-6), however, are weaker. The coefficient on the interaction terms is positive but not statistically significant. The results from Heckman's two-stage procedure (Column 7), on the other hand, confirm that our findings in Columns 1-3 are robust to endogeneity concerns.[15] These findings suggest that the jump in share price in our event studies and the jump in firm value in subsequent years can be related to target firms improving their corporate governance practices.

Recall that, in our survey of international funds that are members of the ACGA, many respondents perceive "increasing scrutiny of related party transactions," "improving board independence," and "linking CEO turnover more to performance," as some of the most important tools of engagement. We have checked for evidence of these but failed to find statistically significant results. This could be so because either these variables are not as well measured, these tools are used relatively less frequently in Korea than in other countries, or investor perception on this question is not on the mark. It will be an

[14] In unreported analysis, we run a similar set of regressions using a treatment group dummy, which takes a value of 1 if firm *i* is targeted by an activist (regardless of its source country), and 0 otherwise. The control group includes firms purchased by non-activist foreign block holders. We find similar results.

[15] In unreported analysis, we run a similar set of regressions using a treatment group dummy, which takes a value of 1 if firm *i* is targeted by an activist (regardless of its source country), and 0 otherwise. The control group includes firms purchased by non-activist foreign block holders. We do not find any difference between these two groups.

interesting topic for future research to ascertain the reasons for the discrepancy between investor perception and statistical tests on this question.

E. Robustness checks

We perform a number of additional robustness checks. First, instead of using the entire set of block buying announcements, we limit the sample to a subset of "first announcements." That is, for a given firm and a given block holder, we limit the sample to the first 5% block buying announcement and exclude all subsequent announcements. This is to allow for the possibility that the first announcement contains more news about investor activism than subsequent ones. In unreported analysis, we find that all of our results either are strengthened or remain intact. For example, the CAR over [-10, +10] is 8% for activists and 12% for non-entrenched country activists.

Second, following Kim, Kim, and Kwon (2009), we limit our sample to switching events, where passive block holders change the declared purpose of their block holdings from passive to active engagement without changing the number of shares they hold. This approach has the advantage of ruling out the effects of market pressure or stock picking skills. In unreported analysis, we find that the CAR over [-10, +10] is 6-7%. Unfortunately, given the small number of such events (only 8), CARs are not significantly different from zero.

Third, to rule out the possibility that our results may be driven by a 'country effect' that has nothing to do with activism or governance, we conduct a falsification test by comparing non-activists from non-entrenched countries and non-activists from entrenched countries. If stock prices also respond more strongly to the announcements filed by the former than the latter, one might wonder if our key results reported earlier are spurious. In unreported analysis, we find that none of the two exhibit CARs that are significantly greater than zero. Thus, our results about activist investors from non-entrenched countries are unlikely to reflect only a pure "country effect."

Fourth, engagement or activism policies may be set at the company-level by the headquarters and not at the individual fund level. A tougher test is to see whether fund location still matters even within the same company. Two investment management companies in our sample have funds located across two different types of source countries. In the case of Franklin Templeton (FT), we find one fund (Franklin Templeton Investments Corp.) located in Canada (a non-entrenched country) and four funds (Templeton Asset Management Ltd., Franklin Mutual Advisors, L.L.C., FTIF Templeton Asia Growth Fund, and FTIF Templeton Korea Fund) are located either in Singapore or in Hong Kong (entrenched countries). In

the case of Lionhart, two funds (Lionhart Asia Master Fund and Lionhart Investment Limited) are located in U.K. (a non-entrenched country) and one fund (Lionhart Hong Kong Limited) is located in Hong Kong (entrenched country). In unreported analysis, we find that the announcements filed by funds located in non-entrenched countries trigger a stronger positive stock price reaction than those filed by funds that are supervised by the same headquarters but located in entrenched countries. However, the small sample size yields relatively large standard errors; so we do not find statistical difference between the two stock price reactions.

Lastly, we conduct event studies around block buying announcements filed by proxy activists and non-proxy activists. The former include foreign activist block holders who initiate a proxy fight during our sample period.[16] In unreported analysis, we find that stock price reaction is stronger for announcements (n = 30) filed by proxy activists (6-7% CAR over [-10, +10]) than those (n = 103) by non-proxy activists (2-3% CAR over [-10, +10]). The difference is statistically different in narrow windows. Even if we limit the events to those filed by activists from non-entrenched countries, the difference between proxy activists and non-proxy activists exists. Given the small sample size, however, the difference loses statistical significance.

5. CONCLUSION

In this paper, we investigate the possibility that openness to foreign portfolio investors could be a mechanism for transmitting better corporate governance practices to host country firms, and thereby enhancing shareholder value. We first apply an event study approach to examine the announcements of block purchases by foreign institutional investors in Korea. We find that stock prices rise on average, but only when foreign institutional investors declare themselves as activists. This means pure portfolio investment does not generate significant enhancement of firm value in emerging market economies. It is foreign activist investors, or a subset of portfolio investors that are closest to foreign direct investors, that are regarded by the market as potentially enhancing firm value.

We find that source country identities also matter in an important way. The positive stock price reactions are especially pronounced when the activist investors are coming from source countries with a strong tradition of investor activism.

[16] We found 16 events during our sample period (eight foreign investors against 16 target companies). Eight investors include Lazard Asset Management (9 targets), Cavendish Square Holding B.V. (1 target), Consolidated Science Corp. (1 target), Deccan Value Advisors (1 target), Icahn Partners Master Fund (with Steel Partners II, 1 target), SC Asian Opportunity Fund (1 target), Sovereign Asset Management (with Crest Securities, 1 target), and Teton Capital Partners (1 target).

We also examine corporate financial policies and governance practices of target firms. We find that target firms are more likely to reduce cash holdings, raise leverage ratios, improve overall corporate governance, and improve dividend payout's (and stock repurchases') responsiveness to earnings if foreign activists are from countries with a strong tradition of investor activism. These findings are consistent with the interpretation that foreign activist investors from non-entrenched countries are regarded as enhancing value precisely because they engage firm management effectively to cause the latter to modify governance practices or financial policies.

The diffusion of corporate governance is one potential benefit to developing countries of capital account openness to cross border portfolio investment. Since this benefit is not usually featured in the discussions on the costs and benefits of capital account openness (see Kose et al., 2010, as an example), developing a deep understanding of this point is important. While both our econometric results and market participants agree on the value enhancing potential of shareholder activism by international investors of certain types, there is some divergence on the exact mechanisms that are most effective. We do not have definitive insight on the reasons for the divergence, and leave it for future research.

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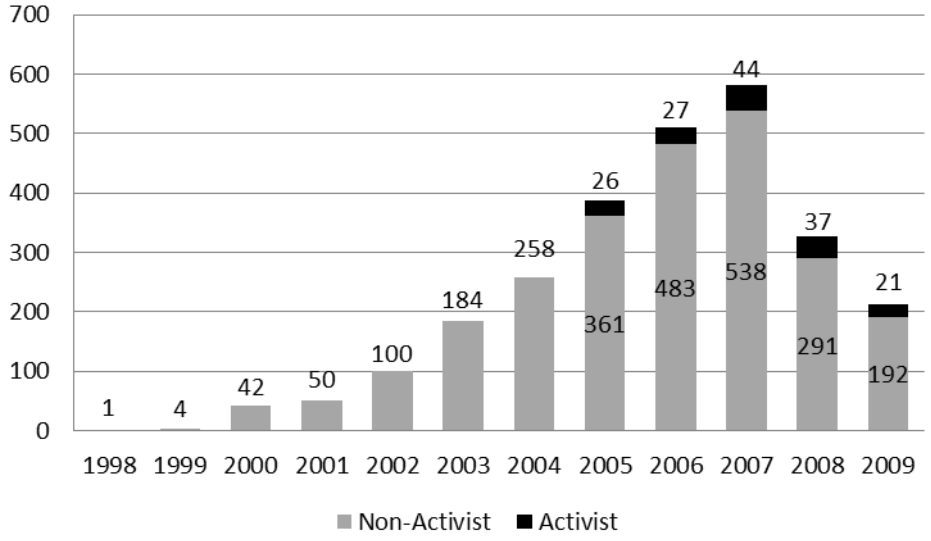
Figure 1: Distribution of foreign block buying announcements

Distribution of foreign block buying announcements (not limited first 5% block holding announcement) from 1998 to 2009 (12 years). Samples include block buying announcements of target firms listed either on the Korea Stock Exchange (KSE) or on KOSDAQ (listed on KRX after the two exchanges merged into KRX in 2005). As a way of capturing foreign portfolio investment, but not foreign direct investment, we exclude block buying announcements by non-financial institutions. We also exclude announcements where pre- or post-announcement block ownership is greater than 20%. Figure A covers all announcements (since 2005, each bar is split between activist vs. non-activist), while Figure B limits the sample to announcements made since 2005 by activists (each bar split between entrenched vs. non-entrenched home countries).

A. All announcements



B. Announcements by activists

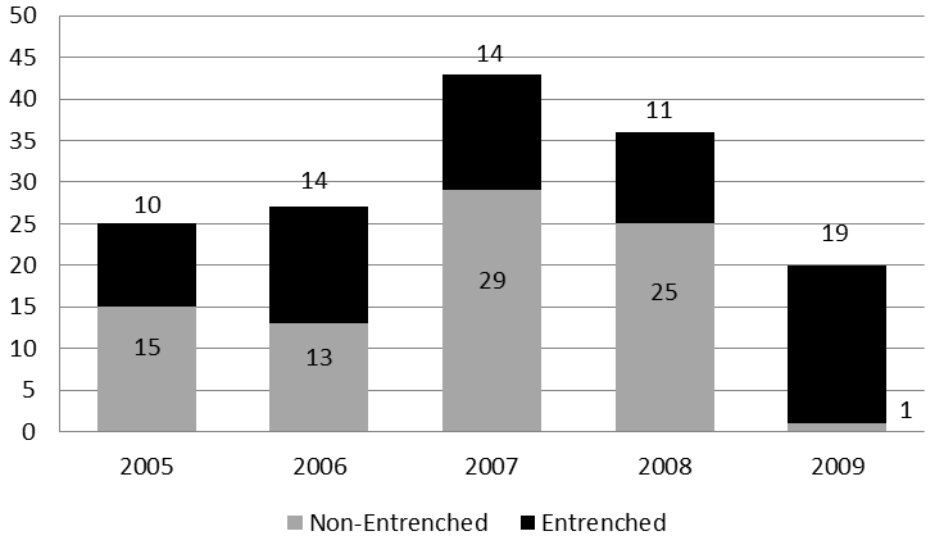
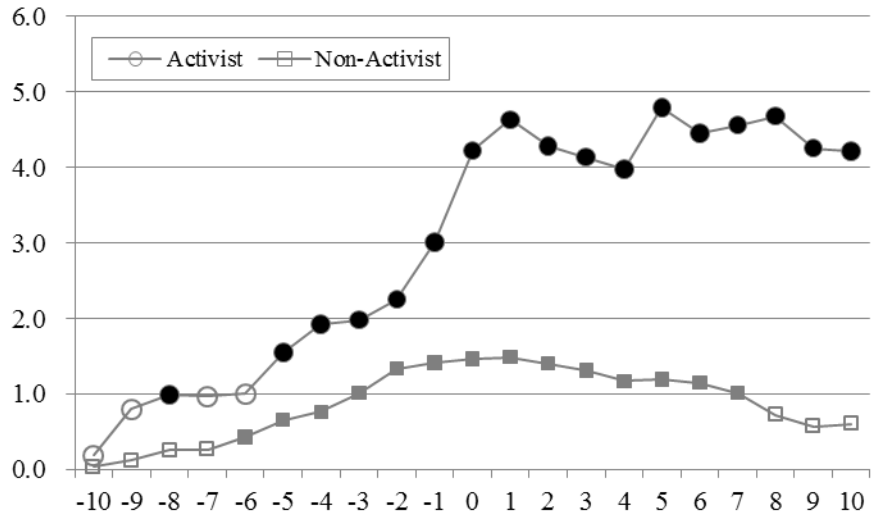


Figure 2: Cumulative abnormal returns (CAR) around block buying announcements by foreigners

Averages of CAR [-10, *x*] over *x*, where *x* = -10, …, 10. Returns are in percentage terms. Abnormal returns are estimated from market model using past 190 trading days from day –200 to –11. KOSPI return is used as the market return for stocks listed on the Korea Stock Exchange (KSE), while KODAQ composite return is used as the market return for stocks listed on the KOSDAQ market. From the sample in Figure 1, we exclude announcements that are either followed by or follows another foreign block holding announcement within 10 trading days. Figure A shows the averages of CAR for foreign activists and non-activists. Foreign activists are foreign block holders that declared their activist intent. Solid symbols (as opposed to empty symbols) indicate that average CAR is significantly different from 0 at the 10% level. No. of announcements by activists = 139, no. of announcement by non-activists = 1,696. Figure B shows the difference in market reactions. The dotted lines report the 90 percent confidence intervals.

A. Activist vs. non-activists



B. Difference in market reactions

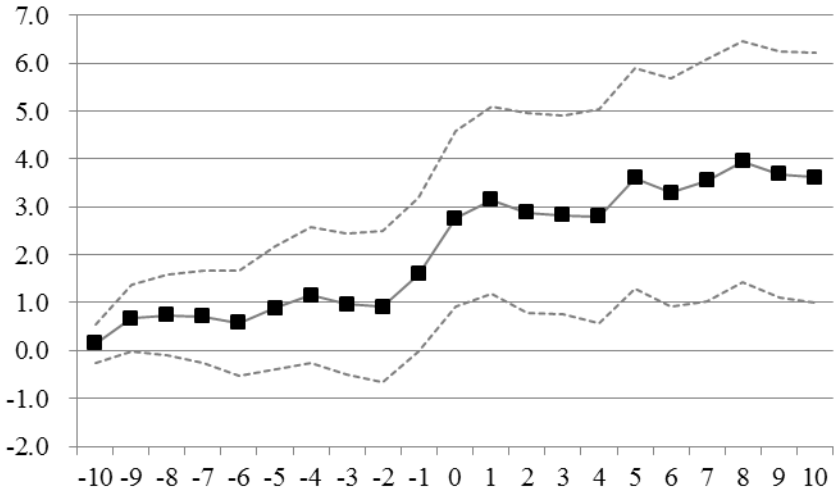
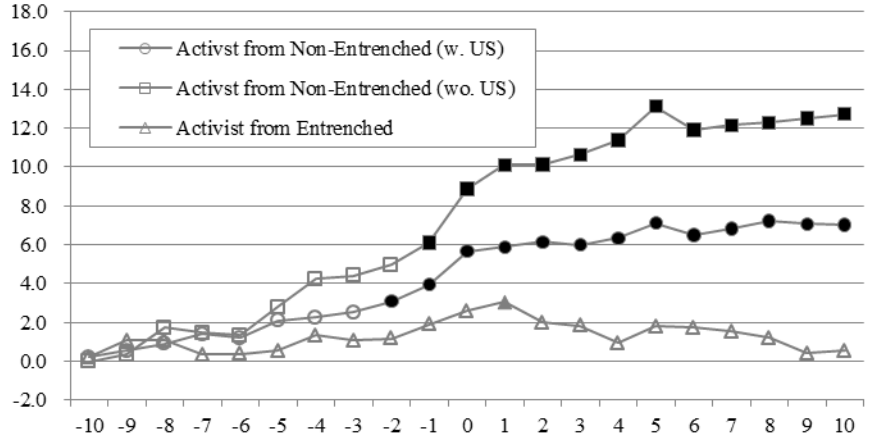


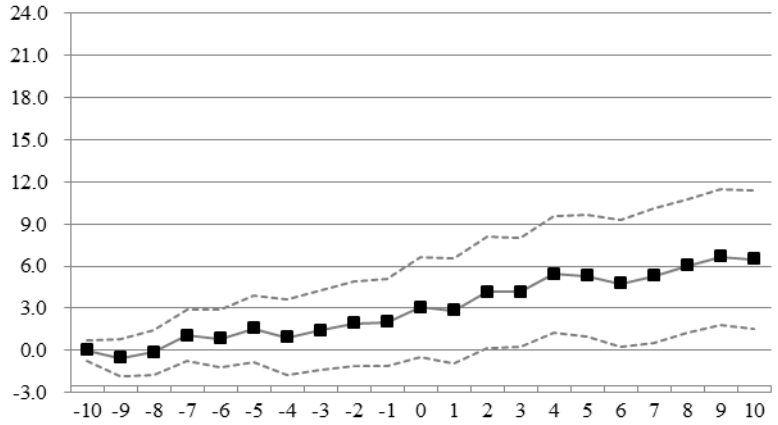
Figure 3: Cumulative abnormal returns (CARs) around foreign activists' block buying announcements

Market reactions on block buying announcements by foreign activists from non-entrenched vs. entrenched countries. Averages of CAR are calculated in the same manner as in Figure 2. Foreign activists from non-entrenched countries are foreign block holders that declared their activist intent and from countries with either a hostile takeover market, active mergers & acquisitions, or independent boards. Figure A compares targets of activists from non-entrenched countries (75 if including US activists and 24 if not) against those of activists from entrenched countries (60). Figure B and C report difference in market reactions. (Dark/solid dots indicate statically significant at the 10% level.)

A. Non-entrenched vs. Entrenched Activists



B. Difference in market reactions (includes US activists)



C. Difference in market reactions (excludes US activists)

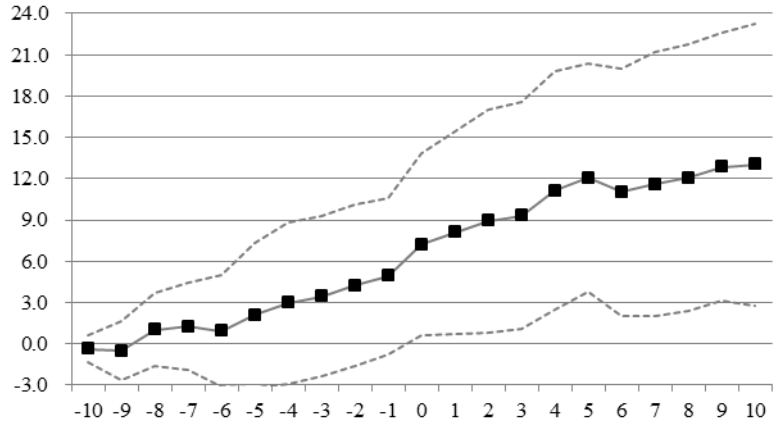


Table 1: Governance characteristics of foreign block Investors' home countries

This table lists the country origins (the domicile of the management company) of foreign block investors and three of their home country governance characteristics. **Hostile takeover** is the percentage of domestic firms that experienced hostile takeover attempts during 1990-1999 (Rossi and Volpin, 2004). **M&A volume** is the percentage of domestic firms that were targeted in completed deals during 1990-1999 (Rossi and Volpin, 2004). **Board independence** is the mean percentage of independent directors (number of independent directors divided by board size) (Dahya, Dimitrov, and McConnell, 2008). For each characteristic, we group countries into two: above and below the median values.

A country is labeled as "non-entrenched" if at least two governance characteristics are above the median. In the last two columns, we show the number of buying events by all block holders and by activist block holders, respectively, during 2005-2009. The last two rows show the total number of countries and buying events, respectively. Tax heaven activists are dropped because their domiciles of management companies are unknown.

	Hostile Takeover		M&A Volume		Board Independence		No. of Buy Events		
	% (>1.37)	High vs. Low	% (>34.09)	High vs. Low	% (>53.15)	High vs. Low	1998-2009	2005-2009	
							All	All	Activists
Australia (NE)	4.60	H	34.09	H	65.5	H	45	40	3
Bahamas	-	-	-	-	-	-	3	1	-
Bermuda	-	-	-	-	-	-	31	28	-
British Virgin Islands	-	-	-	-	-	-	36	27	1
Canada (NE)	2.73	H	30.05	L	66.9	H	29	23	1
Cayman Islands	-	-	-	-	-	-	137	119	2
China	-	-	-	-	-	-	1	1	-
Cyprus	-	-	-	-	-	-	17	15	-
Denmark (E)	0.81	L	24.03	L	44.2	L	1	-	-
France (NE)	1.68	H	56.40	H	57.4	H	2	2	-
Germany (NE)	0.30	L	35.51	H	57.5	H	91	57	1
Guernsey	-	-	-	-	-	-	1	1	-
Hong Kong (E)	0.41	L	33.91	L	38.1	L	368	286	18
Ireland (NE)	4.62	H	28.90	L	-	-	26	11	1
Italy (NE)	3.04	H	56.4	H	57.4	H	4	4	-
Japan (E)	0.00	L	6.43	L	38.0	L	8	8	1
Liberia	-	-	-	-	-	-	3	3	-
Luxembourg	-	-	-	-	-	-	148	135	-
Malaysia (E)	0.19	L	15.23	L	47.5	L	25	12	2
Mauritius	-	-	-	-	-	-	3	3	-
Netherlands (E)	1.32	L	26.49	L	48.9	L	50	33	8
New Zealand (NE)	0.70	L	49.82	H	-	-	-	-	1
Norway (NE)	5.86	H	61.24	H	-	-	34	29	-
Russia (E)	-	-	-	-	-	-	-	-	1
Singapore (E)	0.40	L	34.06	L	-	-	162	109	35
South Africa (E)	0.45	L	23.89	L	42.5	L	1	1	-
Sweden (NE)	3.74	H	62.06	H	47.3	L	3	3	-
Switzerland (NE)	1.43	H	38.48	H	-	-	59	53	-
Taiwan (E)	0.00	L	0.89	-	-	-	-	-	1
UK (NE)	4.39	H	53.65	H	58.2	H	219	195	19
US (NE)	6.44	H	65.63	H	75.0	H	1,018	816	57
No. of buy events							2,525	2,015	152
No. of countries	20		20		14				

Table 2: Summary statistics of firm characteristics

These tables report the summary statistics of the key variables used in our investigation of firm characteristics of target firms during 2004-2008. Panel A uses the full sample, while Panel B splits the sample into those with foreign block holders and those without. Panel C splits the targets of foreign block holders into those with activists and those without. Panel D splits the targets of activists into those with activists from non-entrenched countries and those without. The last columns in Panels B, C, and D report the difference-in-mean test results. ***, **, and * respectively indicate that the difference is statistically significant at 1%, 5%, and 10% levels. Assets are in million Korean won (approximately thousand U.S. dollars). Cash includes cash equivalents. RPT is the sum of related-party sales and related-party purchases. Dividend includes cash dividends to common and preferred stockholders. Tobin's q is measured by (market value of equity plus book value of debt) divided by book value of assets. Inside ownership is percentage of shares held by the company's controlling shareholder and its related-parties.

Panel A: Full Sample

	No. of Obs.	Mean	S.D.	Min.	Median	Max.
ln(assets)	9,460	11.39	1.61	3.89	11.09	19.20
Cash/Assets	9,538	0.13	0.13	0.00	0.09	0.69
Debt/Assets	9,460	0.36	0.18	0.00	0.36	2.80
Book equity/Assets	9,538	0.10	0.19	0.00	0.02	1.00
RPT/(sales + costs)	9,416	0.07	0.10	0.00	0.03	0.69
EBITDA/Assets	9,460	0.04	0.13	-0.47	0.05	0.34
Dividend/Assets	9,479	0.01	0.05	0.00	0.00	1.00
ln(Tobin's q)	8,159	0.08	0.51	-1.67	0.01	3.66
Inside ownership	8,236	38.25	17.63	0.00	37.38	100.00
Foreign ownership	9,538	9.72	21.00	0.00	0.65	100.00

Panel B: Targets with foreign block holders vs. targets without foreign block holders

	With Foreign Block holders						Without Foreign Block holders						diff-in-mean t-test
	No. of Obs.	Mean	S.D.	Min.	Median	Max.	No. of Obs.	Mean	S.D.	Min.	Median	Max.	
ln(assets)	1,043	12.22	1.77	8.62	11.85	19.09	8,417	11.29	1.56	3.89	11.01	19.20	***
Cash/Assets	1,060	0.14	0.13	0.00	0.10	0.69	8,478	0.13	0.13	0.00	0.09	0.69	
Debt/Assets	1,043	0.35	0.15	0.00	0.36	0.86	8,417	0.36	0.18	0.00	0.36	2.80	***
Book equity/Assets	1,060	0.12	0.21	0.00	0.03	1.00	8,478	0.10	0.18	0.00	0.02	1.00	***
RPT/(sales + costs)	1,043	0.08	0.10	0.00	0.04	0.56	8,373	0.07	0.10	0.00	0.02	0.69	***
EBITDA/Assets	1,043	0.06	0.11	-0.47	0.06	0.34	8,417	0.04	0.13	-0.47	0.05	0.34	***
Dividend/Assets	1,043	0.01	0.01	0.00	0.01	0.13	8,436	0.01	0.05	0.00	0.00	1.00	***
ln(Tobin's q)	1,043	0.24	0.51	-0.97	0.14	2.89	7,116	0.06	0.50	-1.67	-0.01	3.66	***
Inside ownership	1,060	34.10	15.07	3.21	33.64	78.07	7,176	38.87	17.90	0.00	38.15	100.00	***
Foreign ownership	1,060	17.31	17.55	0.00	12.68	92.97	8,478	8.77	21.20	0.00	0.46	100.00	***

Panel C: Targets with foreign activists vs. targets without foreign activists

	With Foreign Activists						Without Foreign Activists						diff-in-mean t-test
	No. of Obs.	Mean	S.D.	Min.	Median	Max.	No. of Obs.	Mean	S.D.	Min.	Median	Max.	
ln(assets)	90	12.23	1.59	9.64	12.18	16.93	953	12.21	1.78	8.62	11.82	19.09	
Cash/Assets	91	0.16	0.13	0.00	0.14	0.69	969	0.14	0.13	0.00	0.10	0.69	
Debt/Assets	90	0.33	0.17	0.03	0.35	0.64	953	0.35	0.15	0.00	0.36	0.86	
Book equity/Assets	91	0.11	0.17	0.00	0.05	1.00	969	0.13	0.21	0.00	0.03	1.00	
RPT/(sales + costs)	90	0.08	0.13	0.00	0.03	0.53	953	0.08	0.10	0.00	0.05	0.56	
EBITDA/Assets	90	0.08	0.09	-0.22	0.08	0.34	953	0.05	0.11	-0.47	0.06	0.34	***
Dividend/Assets	90	0.01	0.02	0.00	0.01	0.09	953	0.01	0.01	0.00	0.01	0.13	*
ln(Tobin's q)	90	0.15	0.45	-0.87	0.02	1.65	953	0.24	0.52	-0.97	0.14	2.89	*
Inside ownership	91	32.53	14.05	5.85	31.96	65.74	969	34.25	15.16	3.21	34.00	78.07	
Foreign ownership	91	21.52	18.39	0.00	19.93	65.23	969	16.92	17.43	0.00	12.09	92.97	**

Panel D: Targets with activists from non-entrenched countries vs. targets without activists from non-entrenched countries

	With foreign activists from non-entrenched countries						Without foreign activists from non-entrenched countries						diff-in-mean t-test
	No. of Obs.	Mean	S.D.	Min.	Median	Max.	No. of Obs.	Mean	S.D.	Min.	Median	Max.	
ln(assets)	56	12.37	1.41	9.98	12.74	16.51	34	12.00	1.86	9.64	11.67	16.93	
Cash/Assets	56	0.14	0.11	0.00	0.12	0.45	35	0.20	0.16	0.01	0.19	0.69	**
Debt/Assets	56	0.36	0.16	0.03	0.39	0.61	34	0.29	0.17	0.03	0.22	0.64	*
Book equity/Assets	56	0.12	0.17	0.00	0.06	0.65	35	0.08	0.17	0.00	0.02	1.00	
RPT/(sales + costs)	56	0.08	0.11	0.00	0.02	0.37	34	0.10	0.15	0.00	0.03	0.53	
EBITDA/Assets	56	0.06	0.07	-0.22	0.06	0.21	34	0.11	0.10	-0.13	0.10	0.34	**
Dividend/Assets	56	0.01	0.01	0.00	0.01	0.06	34	0.02	0.03	0.00	0.01	0.09	***
ln(Tobin's q)	56	0.00	0.33	-0.87	-0.06	0.73	34	0.40	0.53	-0.32	0.27	1.65	***
Inside ownership	56	32.07	14.09	5.85	31.58	65.74	35	33.28	14.15	6.45	32.36	56.98	
Foreign ownership	56	20.72	18.96	0.00	16.10	65.23	35	22.79	17.62	0.00	22.59	59.91	

Table 3: Foreign block investor ownership and corporate governance

Dependent variable	*ln*(corporate governance score)				Δ*ln*(corporate governance score)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Foreign ownership	0.02				-0.05			
	(0.54)				(-1.44)			
Foreign block ownership		0.03				0.02		
		(1.05)				(0.34)		
Foreign activist ownership			0.01				0.01	
			(0.54)				(0.18)	
Foreign non-activist ownership				0.05				0.02
				(0.86)				(0.39)
ln(assets)	**0.03****	**0.03****	**0.03****	**0.03****	0.01	0.01	0.01	0.01
	(2.23)	(2.24)	(2.24)	(2.22)	(0.71)	(0.67)	(0.67)	(0.67)
Sales growth	**0.01****	**0.01****	**0.01****	**0.01****	0.01*	0.01*	0.01*	0.01*
	(2.48)	(2.49)	(2.47)	(2.49)	(1.93)	(1.96)	(1.95)	(1.96)
Leverage	**-0.10****	**-0.10****	**-0.10****	**-0.10****	-0.07*	-0.07*	-0.07*	-0.07*
	(-2.51)	(-2.54)	(-2.54)	(-2.53)	(-1.78)	(-1.73)	(-1.73)	(-1.74)
Cash/Assets	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03
	(0.48)	(0.48)	(0.48)	(0.49)	(0.59)	(0.62)	(0.62)	(0.62)
CAPEX/Assets	0.06	0.07	0.06	0.07	0.04	0.04	0.04	0.04
	(1.33)	(1.35)	(1.34)	(1.36)	(1.13)	(1.17)	(1.16)	(1.17)
Market-to-Book	0.003	0.003	0.003	0.003	0.002	0.002	0.002	0.002
	(0.97)	(0.96)	(0.96)	(0.96)	(0.63)	(0.61)	(0.61)	(0.61)
ROA	0.03	0.03	0.03	0.03	0.02	0.02	0.02	0.02
	(1.39)	(1.40)	(1.40)	(1.39)	(0.97)	(0.91)	(0.92)	(0.91)
PP&E/Assets	-0.004	-0.004	-0.004	-0.004	**-0.03*****	**-0.03*****	**-0.03*****	**-0.03*****
	(-0.41)	(-0.39)	(-0.39)	(-0.39)	(-2.69)	(-2.68)	(-2.68)	(-2.67)
Exports/Sales	0.07	0.07	0.07	0.07	0.05	0.05	0.05	0.05
	(1.62)	(1.63)	(1.63)	(1.62)	(1.45)	(1.40)	(1.41)	(1.41)
Inside ownership	0.02	0.02	0.02	0.02	0.07	0.08	0.08	0.08
	(0.51)	(0.48)	(0.49)	(0.48)	(1.51)	(1.64)	(1.64)	(1.64)
Analyst coverage	**0.004****	**0.004****	**0.004****	**0.004****	0.003*	0.002*	0.002*	0.002*
	(2.52)	(2.54)	(2.53)	(2.53)	(1.75)	(1.72)	(1.72)	(1.72)
Constant	Y	Y	Y	Y	Y	Y	Y	Y
Industry dummies (4-digit)	Y	Y	Y	Y	Y	Y	Y	Y
Year dummies	Y	Y	Y	Y	Y	Y	Y	Y
No. of observations	4,040	4,040	4,040	4,040	3,400	3,390	3,390	3,390

No. of firms	645	645	645	645				
Within R squared	0.22	0.22	0.22	0.22				
Adjusted R squared					0.09	0.09	0.09	0.09

This table is meant to replicate some of the results in Aggarwal et al. (2011). Corporate governance scores are from Korea Corporate Governance Service. Foreign block ownership data are from Korea Exchange. Foreign ownership variables are lagged by one year. Sample periods are 2006-2012 (first four columns) and 2007-2012 (last four columns). Since level 2 or 3 ADR dummy is fixed over time, it drops out when running firm fixed effects regressions ((1)-(4)) and first-difference regressions ((5)-(8)). Standard errors are clustered at the firm level. *, **, and *** indicate significance at 10%, 5%, and 1%. Significant results (at 5% level or better) are in **boldface**.

Table 4: Cumulative abnormal returns around foreign activists' block buying announcements

Panel A: High vs. Low Hostile Takeover Incidents

	All Source Countries			Excluding U.S.	
	(1)	(2)	(3)	(4)	(5)
	Hostile	Non-Hostile	(1) – (2)	Hostile	(4) - (2)
CAR [-1, +1]	**0.028*** **	**0.017*** **	0.012	**0.048*** **	0.031*
	(0.008)	(0.007)	(0.011)	(0.019)	(0.016)
Observations	80	62		25	
CAR [-5, +5]	**0.056*** **	0.008	**0.049** **	**0.111*** **	**0.103*** **
	(0.018)	(0.014)	(0.024)	(0.037)	(0.015)
Observations	76	61		25	
CAR [-10, +10]	**0.069*** **	-0.002	**0.071** **	**0.127** **	**0.129*** **
	(0.024)	(0.018)	(0.032)	(0.063)	(0.046)
Observations	73	56		23	

Panel B: High vs. Low M&A Volume

	All Source Countries			Excluding U.S.	
	(1)	(2)	(3)	(4)	(5)
	High M&A	Low M&A	(1) – (2)	High M&A	(4) - (2)
CAR [-1, +1]	**0.029*** **	**0.016*** **	0.013	**0.053*** **	**0.037** **
	(0.008)	(0.006)	(0.011)	(0.021)	(0.016)
Observations	78	64		23	
CAR [-5, +5]	**0.058*** **	0.008	**0.050** **	**0.121*** **	**0.112*** **
	(0.018)	(0.013)	(0.024)	(0.039)	(0.015)
Observations	74	63		23	
CAR [-10, +10]	**0.071*** **	0.028	**0.064** **	0.125*	**0.122*** **
	(0.025)	(0.018)	(0.032)	(0.069)	(0.050)
Observations	71	58		21	

Panel C: Independent vs. Dependent Boards

	All Source Countries			Excluding U.S.	
	(1)	(2)	(3)	(4)	(5)
	Independent	Dependent	(1) – (2)	Independent	(4) - (2)
CAR [-1, +1]	**0.029*** **	**0.028*** **	0.000	**0.050*** **	0.022
	(0.009)	(0.011)	(0.016)	(0.020)	(0.021)
Observations	79	28		24	
CAR [-5, +5]	**0.058*** **	-0.014	**0.071** **	**0.118*** **	**0.131*** **
	(0.018)	(0.023)	(0.033)	(0.038)	(0.043)
Observations	75	27		24	
CAR [-10, +10]	**0.068*** **	-0.029	**0.097** **	0.124*	**0.153** **
	(0.025)	(0.031)	(0.046)	(0.065)	(0.070)
Observations	72	25		24	

Panel D: Non-entrenched vs. Entrenched

	All Source Countries			Excluding U.S.	
	(1)	(2)	(3)	(4)	(5)
	Non-entrenched	Entrenched	(1) – (2)	Non-entrenched	(4) - (2)
CAR [-1, +1]	**0.028*** **	**0.014** **	0.014	**0.048** **	**0.034** **
	(0.008)	(0.007)	(0.011)	(0.019)	(0.016)
Observations	80	63		25	
CAR [-5, +5]	**0.056*** **	0.009	**0.048** **	**0.111*** **	**0.102*** **
	(0.018)	(0.012)	(0.024)	(0.037)	(0.032)
Observations	76	62		25	
CAR [-10, +10]	**0.069*** **	-0.003	**0.072** **	**0.127*** **	**0.130*** **
	(0.024)	(0.017)	(0.032)	(0.065)	(0.048)
Observations	73	57		23	

This table reports averages of CARs around foreign activists' block buying announcements for various subgroups classified according to investors' home country characteristics. Columns (4)-(5) exclude US from the set of non-entrenched countries. *, **, and *** indicate significance at 10%, 5%, and 1% levels, respectively.

Table 5: Post-announcement firm value

Regression	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Models	OLS			PSM			Heckman
Sample	Non-entrenched country activist	Entrenched country activist	Combined sample	Non-entrenched country activist	Matching sample	Combined sample	Combined sample
Constant	-0.47*	0.31	0.67***	-0.17	-0.78***	-0.02	1.03***
	(-1.78)	(1.20)	(3.65)	(-1.43)	(-5.13)	(-0.04)	(5.11)
Non-entrenched			-0.39**			-0.30	-1.06***
			(-2.59)			(-1.16)	(-5.65)
Announce + 0	0.15**	-0.20**	-0.20**	0.16**	0.06	0.06	-0.17***
	(2.05)	(-2.44)	(-2.64)	(2.09)	(1.04)	(0.97)	(-2.75)
x Non-entrenched			0.34***			0.09	0.34***
			(3.34)			(0.94)	(3.85)
Announce +1	0.24*	-0.38***	-0.38***	0.24*	-0.02	-0.02	-0.31***
	(2.00)	(-3.85)	(-4.19)	(1.98)	(-0.18)	(-0.22)	(-3.54)
x Non-entrenched			0.62***			0.25*	0.58***
			(4.29)			(1.66)	(4.25)
Announce +2	0.30*	-0.60***	-0.59***	0.29*	0.04	0.04	-0.46***
	(2.00)	(-4.75)	(-5.03)	(1.91)	(0.50)	(0.49)	(-3.72)
x Non-entrenched			0.87***			0.24	0.81***
			(4.87)			(1.47)	(4.36)
Announce +3	0.34*	-0.63***	-0.62***	0.34*	0.01	-0.01	-0.48***
	(1.90)	(-5.66)	(-6.23)	(1.83)	(0.14)	(-0.02)	(-3.45)
x Non-entrenched			0.93***			0.32*	0.87***
			(4.95)			(1.72)	(3.97)
Year dummies	y	y	y	y	y	y	y
Industry dummies	y	y	y	y	y	y	y
Year x NE country	y	y	y	y	y	y	y
No. of unique firms	41	23	64	40	45	85	64
Observations	197	103	300	192	198	390	300
Adj. R-squared	0.18	0.55	0.32	0.17	0.11	0.17	0.43

Columns (1)-(2) report *OLS* regressions of *ln*(Tobin's *q*) on treatment year dummies (-1, 0, +1, +2, and +3 years from the year of first block buying announcement), calendar year dummies, and industry dummies (2-digit Korea SIC code) using data from 2004 to 2012. Column (3) reports pooled *OLS* regression, where we interact treatment group dummy (1 if purchased by non-entrenched country activist) with engagement year dummies and with calendar year dummies. Columns (4)-(6) report the results from propensity score matching (PSM) method and Column (7) reports the results from Heckman's two-stage procedure. Standard errors are in the parentheses and clustered at the firm level. *, **, and *** indicate significance at 10%, 5%, and 1%.

Table 6: Which Firms Become A Target?

	(1)	(2)	(3)
Dependent Var.	*Pr*(engaged by foreign activists from a non-entrenched country)	*Pr*(engaged by foreign activists from a non-entrenched country)	*Pr*(engaged by foreign activists from a non-entrenched country)
Sample	full sample	firm-years with buying announcements by foreign block holders	firm-years with buying announcements by foreign activists
Firm size (t-1)	0.01	-0.09	0.09
	(0.31)	(-1.31)	(0.63)
Cash holdings/assets (t-1)	0.72**	1.37**	3.00*
	(1.98)	(2.26)	(1.86)
Leverage (t-1)	0.50***	1.42**	1.14
	(3.67)	(2.51)	(1.04)
Equity holdings/assets (t-1)	0.61**	0.95**	7.05***
	(2.12)	(2.19)	(3.39)
RPT/sales (t-1)	-0.46	-0.59	-3.84
	(-0.98)	(-0.75)	(-1.58)
Cash flows/assets (t-1)	1.26**	1.38*	1.50
	(2.38)	(1.68)	(0.57)
Dividend payout ratio (t-1)	-2.23	-4.37	-28.05
	(-1.29)	(-1.14)	(-1.25)
ln(Tobin's *q*) (t-1)	-0.55***	-1.19***	-2.53***
	(-4.07)	(-5.74)	(-4.01)
Internal ownership (t-1)	-0.01***	-0.01	-0.01
	(-2.66)	(-1.00)	(-0.74)
Foreign ownership (t-1)	0.02***	0.01**	0.004
	(4.70)	(2.15)	(0.27)
Constant	Y	Y	Y
Year effects	Y	Y	Y
Observations	8,931	1,043	90
Pseudo R-squared	0.13	0.12	0.39

This table reports probit regression results where dependent variable is the probability of a firm being engaged (buying announcement exists) by a foreign activist from a non-entrenched country. Coefficients are marginal effects on the latent variable. Column (1) uses the full sample (all firm-years). Column (2) uses firm-years with buying announcements by foreign block holders. Column (3) uses firm-years with buying announcements by foreign activists. Regressors are lagged by one year and a subset of them (except for firm size, outside director ratio, block holding size, internal ownership, and foreign ownership) are industry (4-digit) demeaned. Standard errors are clustered at the firm level. *, **, and *** indicate significance at 10%, 5%, and 1%.

Table 7: Post-announcement cash holdings

Regression	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Models	OLS			PSM			Heckman
Sample	Non-entrenched country activist	Entrenched country activist	Combined sample	Non-entrenched country activist	Matching sample	Combined sample	Combined sample
Constant	0.33**	0.32**	-0.03	0.002	0.25***	0.30***	0.25*
	(2.40)	(2.27)	(-0.15)	(0.06)	(3.16)	(3.39)	(1.77)
Non-entrenched			0.38*			0.07	-0.31***
			(1.73)			(0.51)	(-3.19)
Announce + 0	-0.07***	0.06	0.06	-0.07***	-0.04*	-0.03*	0.01
	(-3.62)	(0.90)	(0.98)	(-3.47)	(-1.99)	(-1.81)	(0.40)
x Non-entrenched			-0.13**			-0.03	-0.09**
			(-2.18)			(-1.24)	(-2.15)
Announce +1	-0.13***	0.07	0.07	-0.12***	-0.06**	-0.06**	-0.001
	(-2.94)	(0.62)	(0.68)	(-2.80)	(-2.22)	(-2.02)	(-0.02)
x Non-entrenched			-0.20*			-0.07	-0.13*
			(-1.89)			(-1.33)	(-1.78)
Announce +2	-0.17**	0.10	0.11	-0.17**	-0.03	-0.02	0.002
	(-2.37)	(0.59)	(0.66)	(-2.24)	(-0.79)	(-0.67)	(0.02)
x Non-entrenched			-0.29			-0.14*	-0.17
			(-1.67)			(-1.84)	(-1.57)
Announce +3	-0.24**	0.14	0.15	-0.23**	-0.03	-0.02	0.02
	(-2.67)	(0.64)	(0.76)	(-2.55)	(-0.61)	(-0.44)	(0.15)
x Non-entrenched			-0.40*			-0.21**	-0.25*
			(-1.89)			(-2.23)	(-1.89)
Year dummies	y	y	y	y	y	y	y
Industry dummies	y	y	y	y	y	y	y
Year x Non-entrenched	y	y	y	y	y	y	y
No. of unique firms	41	23	64	40	45	85	64
Observations	197	107	304	192	198	390	300
Adj. R-squared	0.10	0.01	0.12	0.08	0.07	0.05	0.19

Columns (1)-(2) report *OLS* regressions of cash holdings (cash plus cash equivalents scaled by total assets) on treatment year dummies (-1, 0, +1, +2, and +3 years from the year of first block buying announcement), calendar year dummies, and industry dummies (2-digit Korea SIC code) using data from 2004 to 2012. Column (3) reports pooled *OLS* regression, where we interact treatment group dummy (1 if purchased by non-entrenched country activist) with engagement year dummies and with calendar year dummies. Columns (4)-(6) report the results from propensity score matching (PSM) method and Column (7) reports the results from Heckman's two-stage procedure. Standard errors are in the parentheses and clustered at the firm level. *, **, and *** indicate significance at 10%, 5%, and 1%.

Table 8: Post-announcement leverage

Regression	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Models	OLS			PSM			Heckman
Sample	Non-entrenched country activist	Entrenched country activist	Combined sample	Non-entrenched country activist	Matching sample	Combined sample	Combined sample
Constant	0.08	0.29*	0.38***	0.66***	-0.17	0.04	0.07
	(0.38)	(1.80)	(2.83)	(8.79)	(-1.51)	(0.41)	(0.30)
Non-entrenched			0.13*			-0.07	0.67***
			(1.99)			(-0.37)	(4.86)
Announce + 0	0.12***	-0.04	-0.04	0.11***	0.01	0.01	-0.06
	(3.60)	(-1.01)	(-1.09)	(3.41)	(0.60)	(0.47)	(-1.59)
x Non-entrenched			0.16***			0.09**	0.16***
			(3.32)			(2.50)	(3.98)
Announce +1	0.22***	-0.07	-0.07	0.21***	0.04	0.03	-0.11*
	(3.07)	(-1.04)	(-1.16)	(2.88)	(0.98)	(0.87)	(-1.74)
x Non-entrenched			0.29***			0.15**	0.31***
			(3.23)			(2.10)	(3.83)
Announce +2	0.32***	-0.12	-0.11	0.30***	0.04	0.02	-0.21***
	(3.19)	(-1.32)	(-1.47)	(3.01)	(0.80)	(0.60)	(-2.72)
x Non-entrenched			0.43***			0.25**	0.48***
			(3.57)			(2.45)	(4.61)
Announce +3	0.34**	-0.11	-0.11	0.32**	0.07	0.05	-0.21*
	(2.51)	(-1.01)	(-1.14)	(2.34)	(1.36)	(1.04)	(-1.95)
x Non-entrenched			0.45***			0.23	0.51***
			(2.77)			(1.64)	(3.57)
Year dummies	y	y	y	y	y	y	y
Industry dummies	y	y	y	y	y	y	y
Year x Non-entrenched	y	y	y	y	y	y	y
No. of unique firms	41	23	64	40	45	85	64
Observations	197	103	300	192	198	390	300
Adj. R-squared	0.13	0.46	0.27	0.12	0.15	0.12	0.45

Columns (1)-(2) report *OLS* regressions of leverage (debt/total assets) on treatment year dummies (-1, 0, +1, +2, and +3 years from the year of first block buying announcement), calendar year dummies, and industry dummies (2-digit Korea SIC code) using data from 2004 to 2012. Column (3) reports pooled *OLS* regression, where we interact treatment group dummy (1 if purchased by non-entrenched country activist) with engagement year dummies and with calendar year dummies. Columns (4)-(6) report the results from propensity score matching (PSM) method and Column (7) reports the results from Heckman's two-stage procedure. Standard errors are in the parentheses and clustered at the firm level. *, **, and *** indicate significance at 10%, 5%, and 1%.

Table 9: Post-announcement links between dividend payouts and firm profits

Regression	(1)	(2)	(3)	(4)	(5)	(6)
Models	OLS			PSM		
Sample	Non-entrenched country activist	Entrenched country activist	Combined sample	Non-entrenched country activist	Matching sample	Combined sample
Constant	-0.85***	0.36	0.54***	-0.83***	1.95***	0.30***
	(-63.42)	(1.24)	(39.21)	(-51.04)	(3.68)	(19.44)
EBITDA/Assets	0.03	0.72	0.65***	-0.002	1.47**	1.13***
	(0.36)	(1.07)	(8.58)	(-0.02)	(2.27)	(10.30)
Non-entrenched			-1.53***			-1.41***
			(-91.50)			(-80.10)
EBITDA/Assets x Non-entrenched			-0.68***			-1.10***
			(-6.49)			(-8.39)
Announce + 0	-0.17***	-0.21	-0.23***	-0.16***	-0.03	-0.03
	(-12.50)	(-1.54)	(-13.41)	(-10.52)	(-0.35)	(-1.55)
x EBITDA/Assets	1.60***	1.13	1.12***	1.58***	0.002	0.16
	(11.83)	(1.47)	(10.27)	(11.70)	(0.00)	(1.20)
x Non-entrenched			0.07***			-0.12***
			(3.32)			(-5.89)
x EBITDA/Assets x Non-entrenched			0.48***			1.43***
			(2.99)			(8.07)
Announce +1	-0.37***	-0.10	-0.14***	-0.36***	-0.20*	-0.18***
	(-30.49)	(-0.72)	(-8.96)	(-25.74)	(-1.82)	(-11.43)
x EBITDA/Assets	1.82***	1.27**	1.31***	1.78***	1.26*	1.30***
	(14.65)	(2.43)	(12.45)	(13.43)	(1.67)	(8.95)
x Non-entrenched			-0.21***			-0.17***
			(-11.16)			(-8.77)
x EBITDA/Assets x Non-entrenched			0.58***			0.69***
			(3.80)			(3.81)
Announce +2	-0.56***	-0.13	-0.20***	-0.54***	-0.29*	-0.24***
	(-43.22)	(-0.75)	(-14.33)	(-38.23)	(-1.85)	(-16.41)
x EBITDA/Assets	2.21***	0.31	0.42***	2.18***	2.72**	2.41***
	(17.91)	(0.44)	(3.64)	(16.53)	(2.21)	(14.26)
x Non-entrenched			-0.33***			-0.30***
			(-18.22)			(-16.02)
x EBITDA/Assets x Non-entrenched			1.95***			0.05
			(12.26)			(0.23)
Announce +3	-0.68***	-0.03	-0.11***	-0.66***	-0.41**	-0.20***
	(-49.26)	(-0.14)	(-7.29)	(-43.43)	(-2.13)	(-13.81)
x EBITDA/Assets	1.50***	-0.57	-0.76***	1.47***	4.61***	1.82***
	(14.99)	(-0.46)	(-6.45)	(13.91)	(3.04)	(12.39)
x Non-entrenched			-0.52***			-0.44***
			(-25.81)			(-21.26)
x EBITDA/Assets x Non-entrenched			2.36***			-0.25
			(16.76)			(-1.46)
Year dummies	y	y	y	Y	y	y
Industry dummies	y	y	y	Y	y	y
Year x Non-entrenched	y	y	y	Y	y	y
No. of unique firms	41	23	64	40	45	85
Observations	197	103	300	192	198	390
Adj. or Pseudo R-squared	0.43	0.48	0.42	0.43	0.32	0.34

This table reports the result of Tobit regressions for the responsiveness of dividend payouts (cash dividend/net income) to firm EBITA/assets. Columns (4)-(6) employ a propensity score matching (PSM) method. Standard errors are in the parentheses and clustered at the firm level. *, **, and *** indicate significance at 10%, 5%, and 1%.

Table 10: Post-announcement stock repurchase (probit regressions for stock purchase)

	(1)	(2)	(3)	(4)	(5)	(6)
Models	OLS			PSM		
Sample	Non-entrenched activists	Entrenched country activist	Combined sample	Non-entrenched activists	Matching sample	Combined sample
Constant	0.47	-1.77	-2.36**	1.06	-0.43	-1.28**
	(0.50)	(-1.53)	(-2.31)	(0.97)	(-0.69)	(-2.07)
EBITDA/Assets	-5.89**	0.10	-1.11	-6.02**	3.06	3.70
	(-1.98)	(0.03)	(-0.34)	(-1.99)	(1.15)	(1.33)
Non-entrenched			2.44*			2.19**
			(1.86)			(1.96)
EBITDA/Assets x Non-entrenched			-4.87			-9.85**
			(-1.09)			(-2.37)
Announce + 0	-0.70	-0.62	-0.05	-0.68	0.44	0.44
	(-1.58)	(-1.39)	(-0.11)	(-1.53)	(1.16)	(1.20)
x EBITDA/Assets	9.08**	2.64	-0.44	9.13**	-7.35*	-7.29*
	(2.19)	(0.63)	(-0.09)	(2.24)	(-1.83)	(-1.83)
x Non-entrenched			-0.62			-1.08*
			(-0.97)			(-1.87)
x EBITDA/Assets x Non-entrenched			9.39			16.47***
			(1.44)			(2.90)
Announce +1	-0.26	-0.32	0.61	-0.24	0.01	0.08
	(-0.58)	(-0.43)	(0.96)	(-0.53)	(0.04)	(0.21)
x EBITDA/Assets	13.15***	9.34**	6.79*	13.16***	-4.19	-4.50
	(3.33)	(2.35)	(1.76)	(3.20)	(-1.10)	(-1.18)
x Non-entrenched			-0.85			-0.29
			(-1.09)			(-0.48)
x EBITDA/Assets x Non-entrenched			6.63			18.04***
			(1.16)			(3.23)
Announce +2	-0.17	0.30	1.13*	-0.14	-0.21	-0.12
	(-0.30)	(0.44)	(1.81)	(-0.24)	(-0.64)	(-0.38)
x EBITDA/Assets	11.99***	2.57	3.16	11.94***	-0.82	-1.26
	(3.47)	(0.77)	(0.69)	(3.36)	(-0.32)	(-0.47)
x Non-entrenched			-1.27			-0.01
			(-1.53)			(-0.02)
x EBITDA/Assets x Non-entrenched			9.05			13.80***
			(1.57)			(3.09)
Announce +3	-0.85	0.52	1.22	-0.83	0.40	0.66
	(-1.18)	(0.62)	(1.50)	(-1.14)	(0.81)	(1.62)
x EBITDA/Assets	16.26***	4.33	4.79	16.35***	-0.14	-3.09
	(3.75)	(1.16)	(1.00)	(3.74)	(-0.02)	(-1.00)
x Non-entrenched			-2.01*			-1.45*
			(-1.85)			(-1.75)
x EBITDA/Assets x Non-entrenched			11.32*			20.01***
			(1.76)			(3.63)
Mean Interaction Effect						
Announce + 0 x EBITDA/Assets	2.55*	0.71		2.61*	-1.99*	
	(1.92)	(0.53)		(1.96)	(1.64)	
Announce + 1 x EBITDA/Assets	3.67***	2.52		3.72***	-1.12	
	(2.57)	(1.52)		(2.62)	(0.99)	
Announce + 2 x EBITDA/Assets	3.42***	0.77		3.45***	-0.33	
	(2.35)	(0.57)		(2.39)	(0.33)	
Announce + 3 x EBITDA/Assets	4.34***	1.20		4.44***	0.14	
	(2.77)	(0.84)		(2.86)	(0.14)	
Year dummies	y	y	y	y	y	y
Industry dummies	y	y	y	y	y	y
Year x Non-entrenched	y	y	y	y	y	y
No. of unique firms	41	23	64	40	45	85
Observations	196	128	299	191	191	382
Adj. or Pseudo R-squared	0.19	0.19	0.19	0.18	0.17	0.17

Columns (4)-(6) employs a propensity score matching (PSM) method. Marginal effects based on Ai and Norton (2003) are reported by (1), (2), (4) and (5). Standard errors are in parentheses and clustered at the firm level. *, **, and *** indicate significance at 10%, 5%, and 1%.

Table 11: Post-announcement corporate governance

Columns (1)-(2) report *OLS* regressions of corporate governance score (CGS) on treatment year dummies (-1, 0, +1, +2, and +3 years from the year of first block buying announcement), calendar year dummies, and industry dummies (2-digit Korea SIC code) using data from 2004 to 2012. Column (3) reports pooled *OLS* regression, where we interact treatment group dummy (1 if purchased by non-entrenched country activist) with engagement year dummies and with calendar year dummies. Columns (4)-(6) report the results from propensity score matching (PSM) method and Column (7) reports the results from Heckman's two-stage procedure. Standard errors are in the parentheses and clustered at the firm level. *, **, and *** indicate significance at 10%, 5%, and 1%.

Regression	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Models	OLS			PSM			Heckman
Sample	Non-entrenched country activist	Entrenched country activist	Combined sample	Non-entrenched country activist	Matching sample	Combined sample	Combined sample
Constant	4.50***	4.72***	4.74***	4.93***	5.01***	4.97***	4.92***
	(16.11)	(36.96)	(41.53)	(13.23)	(52.42)	(27.61)	(24.34)
Non-entrenched			-0.12			0.13	-0.33
			(-0.57)			(1.28)	(-1.25)
Announce + 0	0.01	-0.18	-0.21**	0.01	-0.003	-0.01	-0.22**
	(0.16)	(-1.30)	(-2.16)	(0.16)	(-0.08)	(-0.15)	(-2.34)
x Non-entrenched			0.23*			0.03	0.23*
			(1.85)			(0.35)	(1.95)
Announce +1	0.05	-0.33	-0.39***	0.05	-0.01	-0.01	-0.38***
	(0.35)	(-1.73)	(-2.84)	(0.35)	(-0.20)	(-0.27)	(-2.93)
x Non-entrenched			0.45**			0.09	0.42**
			(2.32)			(0.59)	(2.26)
Announce +2	0.03	-0.60	-0.67**	0.03	-0.03	-0.04	-0.66**
	(0.18)	(-1.72)	(-2.45)	(0.18)	(-0.49)	(-0.56)	(-2.40)
x Non-entrenched			0.73**			0.11	0.68**
			(2.23)			(0.57)	(2.05)
Announce +3	0.09	-0.66	-0.79***	0.09	-0.10	-0.11	-0.76***
	(0.43)	(-1.82)	(-3.04)	(0.43)	(-1.04)	(-1.42)	(-2.79)
x Non-entrenched			0.92**			0.26	0.85**
			(2.66)			(1.16)	(2.34)
Year dummies	y	y	y	y	y	y	y
Industry dummies	y	y	y	y	y	y	y
Year x Non-entrenched	y	y	y	y	y	y	y
No. of unique firms	23	10	33	23	23	46	33
Observations	105	46	151	105	99	204	151
Adj. R-squared	0.11	0.17	0.15	0.11	0.49	0.28	0.16

Appendix: Questionnaire on Foreign Institutional Investor's Shareholder Engagement

Dear ACGA Members:

Thank you very much in advance for taking a few minutes to respond to this short survey. The questions listed below ask you to assess the ways in which foreign institutional investors can add value to host country firms through shareholder engagement or activism. It will take less than 10 minutes to complete this survey.

---

1. Do you agree that foreign institutional investors can add value by shareholder engagement or activism?

____ a) Strongly agree
____ b) Basically agree
____ c) Basically disagree
____ d) Strongly disagree
____ e) Don't know enough to express a view

2. In your view, what are the most important objectives of engagement (choose up to four)?

____ a) Reduce idle cash
____ b) Sell idle assets
____ c) Increase leverage
____ d) Link dividend payouts more to earnings
____ e) Link stock buybacks more to earnings
____ f) Increase scrutiny on related-party transactions
____ g) Improve board independence
____ h) Link CEO turnover more to performance
____ i) Others – please specify _____

3. Do you agree that investors from countries with stronger investor/shareholder rights are more likely to demand actions from the management to enhance value?

____ a) Strongly agree
____ b) Basically agree
____ c) Basically disagree
____ d) Strongly disagree
____ e) Don't know enough to express a view

4. In which country is your company based?

Location of global headquarter: _____
Location of the respondent's office: _____

- ✓ These may be different from your country of incorporation

5. Does your company currently have exposure to emerging market equities?

____ a) Yes
____ b) No

6. Has your company ever engaged in shareholder activism in an emerging market?

____ a) Yes
____ b) No

7. What is your company's legal type?

____ a) Pension fund (including asset managers spun off from it)
____ b) Insurance company
____ c) Mutual fund
____ d) Hedge fund
____ e) Sovereign wealth fund
____ f) Endowment fund
____ g) Others – please specify _____

---------- End of Survey ----------

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