Thirty years of shareholder activism:

A survey of empirical research

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Abstract

We summarize and synthesize the results from 67 studies that examine the consequences of shareholder activism for targeted firms, and draw two primary conclusions. First, activism that adopts some characteristics of corporate takeovers, especially significant stockholdings, is associated with improvements in share values and firm operations. Activism that is not associated with the formation of ownership blocks is associated with insignificant or very small changes in target firm value. Second, shareholder activism has become more value increasing over time. Research based on shareholder activism from the 1980s and 1990s generally finds few consequential effects, while activism in more recent years is more frequently associated with increased share values and operating performance. These results are consistent with Alchian and Demsetz' (1972) argument that managerial agency problems are controlled in part by dynamic changes in ownership, and with Alchian's (1950) observation that business practices adapt over time to mimic successful strategies.

1. Introduction

"But who will monitor the monitor?" This question, posed by Armen Alchian and Harold Demsetz in their seminal 1972 paper, is at the core of economists' efforts to understand the organization of economic activity that involves joint team production. Team production yields synergies that are undeniably beneficial, but it comes with a built-in cost. The team's output is not simply the sum of each team member's separable outputs, so it is difficult to match rewards to each person's contribution. This creates incentives to shirk.[1]

The shirking problem – now more popularly recast as the agency problem – is particularly acute in large-scale endeavors efficiently organized through the corporate form. Alchian (1950) first proposed that organizational characteristics are selected by, and adapt to, the competitive environment, an idea that Alchian and Demsetz (1972) developed into a broad theory of corporate governance. According to Alchian and Demsetz, scale economies, individual wealth constraints, and risk aversion combine to make the corporate form of organization efficient for some production processes, but "… modifications in the relationship among corporate inputs are required to cope with the shirking problem that arises with profit sharing among large numbers of corporate stockholders." These modifications include the delegation of decision authority to corporate boards and managers, the retention of control rights by shareholders, the free transfer of ownership rights, an external market for corporate control, a process to resolve internal disputes including proxy battles, and direct shareholder intervention in the firm's decision process.

Alchian and Demsetz' "modifications" describe the major branches of current corporate governance research.[2] In this paper, we examine the latter two modifications, proxy battles and shareholder intervention, now known as shareholder activism. We summarize and synthesize 67 empirical research papers that provide insight into both the promise and limitations of shareholder

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[1] Alchian and Demsetz' (1972) use of the term "shirking" predates Jensen and Meckling's (1976) characterization of the agency problem. Demsetz (1983) defines shirking as consumption on the job (broadly defined) in excess of that which would occur in a hypothetical world of zero monitoring costs. The cost of shirking is identical to Jensen and Meckling's residual loss, which (along with the costs of monitoring and bonding) is a component of the total agency cost.

[2] These branches include research on corporate boards, executive compensation, security design, the role of share liquidity in corporate governance, and the market for corporate control, as well as the literatures on proxy fights and shareholder intervention surveyed here.

activism in disciplining corporate managers and mitigating Alchian and Demsetz' shirking problem. The evidence indicates that Alchian's (1950) insights apply directly to this aspect of corporate governance: Shareholder activism has changed over time as the competitive process has adopted its more successful strategies and activists increasingly have adapted these strategies.

Figure 1 highlights one of the main results from this survey. Alchian and Demsetz (1972, p. 788) emphasize that "control is facilitated by the temporary congealing of share votes into voting blocks…," particularly through changes in share ownership. Activist efforts that do not require the formation of blockholdings include shareholder proposals initiated under Section 14a-8 of the Securities and Exchange Act of 1934, and direct negotiations with managers. As indicated in Figure 1, these types of shareholder activism are associated with small or negligible changes in target firm value. At the other extreme, corporate takeovers typically involve the formation of large blockholdings and create large changes in firm valuation that average 15%. Hedge fund activism and proxy fights lie between these two extremes in the "congealing of share votes," as they are associated with toehold investments by the activist that average 8.8% and 9.9%, and are associated with average valuation effects of 5.3% and 6.8%, respectively.[3]

This survey makes three contributions. First, despite a large amount of research into shareholder activism, there is little apparent consensus on the causes and consequences of such activism. We sort through prior research claims, focus on empirical results, and identify several findings about which there is widespread agreement in the literature. Shareholder activism continues to attract widespread attention from both researchers and policymakers (e.g., see Partnoy, 2015). The findings that emerge from research in this area can inform both future research and public policy.

Second, we highlight the importance of Alchian and Demsetz' (1972) argument that the

[3] We focus on shareholder activism in industrial corporations, but research into activism in other types of organizations is consistent with our main conclusions. For example, Bradley, Brav, Goldstein, and Jiang (2010) examine activism by shareholders who seek to open closed-end funds. Such activism is similar to hedge fund activism in our study; indeed, the activists frequently are hedge funds. Closed-end fund activists typically take large stakes in the target fund and prompt changes that include open-ending the fund, share repurchases, and dividend increases (see also Cherkes, Sagi, and Wang, 2014). Such activism is associated with an average decrease in the targeted closed-end fund's discount by 14.4%.

dynamic and sometimes temporary coalescing of ownership rights plays a crucial role in firms' corporate governance. In their words: "Temporarily, the structure of ownership is reformed, moving away from diffused ownership into decisive power blocs, and this is a transient resurgence of the classical firm with power again concentrated in those who have title to the residual" (p. 788). We conclude that shareholder activism in which the activist does not own a substantial block of shares is most often ineffectual, whereas activists that invest substantially in the target firm tend to have positive impacts on firm value and performance.

Our third contribution is to document how shareholder activism recently has become better associated with value improvements than in the 1980s and 1990s. Viewed broadly, the development of hedge fund activism is a manifestation of a continuous process by which entrepreneurial activists experiment with new ways of monitoring and engaging managers, with successful strategies surviving to be copied by others. Such developments are consistent with Alchian's (1950) characterization of the competitive process, and also Gillan and Starks' (2007), Ryngaert and Scholten's (2010), and Buchanan et al.'s (2012) analyses of the changing nature of shareholder monitoring and activism over time.

Our findings address a debate over whether it is fruitful to view effective corporate governance as reflecting the characteristics of a political democracy (e.g., see Gompers, Ishii, and Metrick, 2003), or as part of a broader contracting and enforcement problem as in Alchian (1984). We conclude that activism that mimics a political democracy – such as a shareholder proposal – is associated with minimal impact, whereas activism that is notably undemocratic in its explicit concentration of shareholdings is associated with significant improvements in value and performance. As an example, hedge fund activism blends the relatively effectual tactics of corporate takeover bidders with the relatively ineffectual tactics of gadfly activists, and tends to generate results that are a blend of the two types of tactics. This conclusion is consistent with prior empirical evidence (e.g., Karpoff and Rice, 1989) and theoretical arguments (e.g., Bainbridge, 2006) that Jeffersonian democracy is a poor model for effective corporate governance. Rather, value-increasing corporate change frequently requires the coalescence of power among principals who internalize a sufficiently large share of the benefits to offset their costs (e.g., see Shleifer and Vishny, 1986).

Our survey overlaps with and draws from excellent surveys of shareholder activism and hedge fund activism by Black (1998), Gillan and Starks (1998, 2007), and Brav, Jiang, and Kim (2009). Our emphasis, however, is different. We emphasize how dynamic changes in ownership structure is a crucial component of activism that is associated with value and performance improvements. We also emphasize that much disagreement in the literature reflects differences in how researchers frame their research questions, differences in the type of activism considered, and the metrics that are analyzed. These emphases allow us to identify several patterns from the seemingly mixed set of prior results and to interpret these patterns in light of the theory of the firm as articulated by Alchian and Demsetz (1972) and others.

The outline of this paper is as follows. Section 2 provides an overview of shareholder activism and the empirical findings of research in this area. Section 3 provides a detailed summary of research on the valuation effects of shareholder activism, and Section 4 summarizes research findings regarding firm earnings, operating performance, and governance features. Section 5 summarizes empirical findings on the characteristics of firms that attract activist efforts. Section 6 introduces two approaches to synthesize the major findings of these broad literature, and Section 7 concludes by identifying eight questions about shareholder activism that remain unanswered.

2. An overview of research on shareholder activism

The rise of shareholder activism in the mid-1980s coincided with an increase in institutional shareholdings, particularly among funds seeking to mimic stock index returns. Monks and Minow (1991) note that the risk of inadequate diversification prohibits many fund managers from selling shares in underperforming firms. Instead, many institutions engage in activist efforts to prod firms into better performance. The growth of shareholder activism also coincides with the widespread adoption of firm- and state-level antitakeover provisions beginning in the 1980s, after the U.S. Supreme Court's *Edgar v. MITE* decision invalidated 38 restrictive first-generation state antitakeover laws in 1982. Pound (1992) and Black (1992) argue that shareholder activism is the natural outgrowth of a restrictive external market for corporate control as investors seek alternate methods to monitor managers and encourage superior performance. Activism is now widespread. Renneboog and Szilagyi (2011) report that 2,436 shareholder proposals were made at 548 firms from 1996 through 2005, and Sullivan & Cromwell (2014) reports that 243 governance or compensation-related shareholder proposals were voted on during the 2014 proxy season. Although the number of proposals has been roughly steady in recent years, activists have increased the rate at which they target large firms. *The Wall Street Journal* reports that 24% of activist campaigns in 2012 targeted firms with market capitalizations in excess of $1 billion, up sharply from 11% in 2010 and 8% in 2009 (*The Wall Street Journal,* July 16, 2012 pg. B2). The fraction of governance-related proposals that receive a majority of shareholder votes also has increased over time, equaling 27% in 2013 and 23% in 2014 (Sullivan & Cromwell, 2014).

In addition to shareholder proposals, we also survey research on three other common types of shareholder activism: private negotiations and non-proposal pressure, hedge fund activism, and proxy contests (also called contested proposals or proxy fights). Although these types of activism are distinct in many ways, they frequently are used in tandem. Hedge fund activists, for example, can engage in private negotiations with their target firms' managers and launch shareholder-initiated proposals. As another example, Venkiteshwaran, Iyer, and Rao (2010) report on the joint use of proposals and negotiations by activist investor Carl Ichan.

As Black (1998) discusses, different types of activism require different levels of investment by the activist. Shareholder proposals are submitted under SEC rule 14a-8, which allows the initiating shareholders to include a 500-word supporting argument that is included in the company's proxy materials at the expense of the target firm. The subject of these proposals is subject to SEC review and shareholder votes on these proposals are not binding. The cost to an activist of a shareholder proposal or initiating private negotiations with the target firm's managers can be very low. In contrast, proxy contests are funded by the activist and are less frequent than shareholder proposals. But unlike proposals, the outcome of a proxy contest is typically binding on the firm's managers (Buchanan et al., 2012).[4] Hedge fund activists also typically invest significantly in the target firm's stock, acquiring a median of 6.3% of shares (Brav, Jiang, and Kim, 2009). Brav, Jiang, Partnoy, and Thomas (2008) attribute the rise of hedge fund activism since the mid-2000s to hedge funds' flexibility and small number of investors compared to other institutional activists, as well as a tight connection between a hedge fund managers' pay and the fund's performance.

The Appendix lists the 67 empirical studies of shareholder activism included in this survey along with the sample period, data source, type of activism, and activist identity. The activist's identity can be important because different activists frequently seek different objectives. Prevost and Rao (2000) and Prevost, Rao, and Williams (2012) argue that union and government pension fund activists can have conflicting goals that range from improvements in firms' governance to political outcomes that favor the pension fund's members. Consistent with such political motives, Prevost and Rao (2000) find that public pension fund activism is associated with share price declines at the target companies. At the other extreme, Venkiteshwaran, Iyer, and Rao (2010) find that proposals initiated by activist investor Carl Icahn are associated with significantly positive valuation effects.

Data sources and sample periods also affect researchers' findings. The data sources frequently are related to the paper's research question and type of activism examined. Papers that examine hedge fund activism, for example, typically identify activist efforts through 13D filings in which the activist reports on its toehold investment and general intentions regarding its ownership stake. Studies that examine direct negotiations and non-proposal pressure frequently gather samples of firms that are identified as potential targets of such well-known activists as the California Public Employees Retirement System (CalPERS) (e.g., Wu, 2004; Barber, 2007) or the Council of Institutional Investors (e.g., Song and Szewczyk, 2003). We also note the sample periods in these studies because some results have changed over time. Karpoff, Malatesta, and

[4] Of the 3,793 proposals in the Buchanan et al. (2012) sample from 2000–2006, 521 (12%) were proxy fights.

Walkling (1996), for example, draw on data primarily in the late 1980s and find no evidence that shareholder proposals are associated with share value increases. Using a more recent sample of shareholder proposals from 1995 through 2007, in contrast, Renneboog and Szilagyi (2011) find that shareholder proposals are associated with small but statistically significant share price increases at the target firms. These results are consistent with an argument made by Gillan and Starks (2007) and Buchanan et al. (2012), who suggest that the effects of shareholder activism on target companies can change over time. As noted below, however, these results also could reflect the emergence of hedge fund activists, who sometimes also initiate shareholder proposals.

3. Shareholder activism's effects on target firms' values

3.a. Event study results

The fundamental question about shareholder activism is whether it creates value. Table 1 summarizes the results from 36 studies that examine share value changes around key announcements regarding activist attempts. The first column in Table 1 reports the results from 13 studies that examine short-run stock returns around key public releases of information regarding shareholder proposals. These include initial press announcements, the date on which proxy materials containing the shareholder proposal are mailed, and the date of the shareholder meeting at which the proposal is voted on. Stock returns are measured over a range of two-day to 31-day windows.

In most studies, the average abnormal stock return is negative but insignificantly different from zero. As an exception, Prevost and Rao (2000) report a statistically significant negative average stock return for a two-day window around the proxy mailing dates for 22 proposals made from 1988-1994 by public pension funds, and three studies report positive and statistically significant average returns. Thomas and Cotter (2007) report a positive average abnormal return that is significant at the 10% level for a three-day window around the shareholder meeting date for 1,454 shareholder proposals made from 2002 through 2004. Renneboog and Szilagyi (2011) find a significant positive announcement return of 0.36% during the four-day window around the earlier of the proxy mailing or first public announcement for 1,510 shareholder proposals submitted from 1996 through 2005. Using a regression discontinuity design, Cuñat, Gine, and Guadalupe (2012) report that shareholder proposals that pass earn an abnormal return of 1.30% compared to those that fail. So, while shareholder proposals historically have not been associated with share value increases, some more recent evidence suggests that proposals have had small positive valuation effects.

The second column of Table 1 summarizes the results of studies that examine announcements of negotiated settlements or non-proposal pressure by activist shareholders. Four of these studies report positive average share value effects. For example, Wahal (1996) finds an average seven-day abnormal stock return of 1.86% for 43 cases in which activist pension funds announced their intentions to negotiate changes in target companies without launching proxy resolutions. English, Smythe and McNeil (2004) examine 63 firms added to CalPERS' annual targeting list from 1992-1997 and find a significant two-day abnormal return of 0.98%. Similarly, Barber (2007) reports a significantly positive 0.23% reaction at announcement for 115 firms targeted by CalPERS.

Six other studies report negative or insignificant stock price reactions to direct negotiations or non-proposal pressure. For example, Caton, Goh, and Donaldson (2001) report a statistically significant mean five-day return of –0.91% for 108 firms that were listed on the Council of Institutional Investor's Focus List of potential target firms. Nonetheless, the evidence indicates that non-proposal pressure and negotiations are at least sometimes associated with share value increases.

In contrast to shareholder proposals and direct negotiations, the evidence regarding hedge fund activism and contested proposals is consistent and robust across studies. Column 3 in Table 1 reports the results from seven studies that examine the impact of hedge fund activism. Brav, Jiang, Partnoy, and Thomas (2008) report an average abnormal monthly return of 5.10% for 1,059 targetings of 882 unique firms by 236 different hedge fund activists, while Klein and Zur (2009) report a 5.7% abnormal return during a 36-day period surrounding the filing dates for 134 targeted firms. Using somewhat different samples, Greenwood and Schor (2009), Brav, Jiang, and Kim (2009), Boyson and Mooradian (2011), and Becht, Franks, Grant, and Wagner (2015) find average abnormal stock returns that range from 3.61%–8.68%. Krishnan, Partnoy, and Thomas (2015) also report positive stock returns around announcements of hedge fund activism, but they do not report test statistics for their overall sample. These results focus on U.S. firms, but they are similar to findings regarding hedge fund activism in the U.K. (Becht et al., 2010), Japan (Hamao, Kutsana, and Matos, 2011), and Germany (Bessler et al., 2015). Becht, Franks, Grant, and Wagner (2015) examine both U.S. and non-U.S. hedge fund activism and report fairly uniform results. In their sample, U.S. targets of hedge fund activism experience a mean abnormal stock return of 6.97%, while European targets' mean abnormal stock return is 6.4% and Asian targets' mean abnormal stock return is 4.8%. These results strongly indicate that firms targeted by hedge fund activists have increased values, on average.

The last column in Table 1 reports on empirical examinations of proxy fights. Five of the six studies find large positive effects on firm values. For example, Mulherin and Poulsen (1998) examine 270 proposals from 1979 to 1994 and report a 8.0% abnormal return from 20 days before through 5 days after the contest is initiated. The magnitudes of the measured stock price reactions have a wider range than for hedge fund activism, from a low of 0.95% (and statistically insignificant) in Renneboog and Szilagyi (2011) to a high of 11.9% (measured over a two-month period) in the seminal examination of 96 proxy contests for board seats from 1962–1978 by Dodd and Warner (1983). These results indicate that, like hedge fund activism, proxy fights for board seats also are associated with share value increases, although the range of estimates is wider than those for hedge fund activism.

Panel B of Table 1 reports on 17 studies that examine long-run returns following different forms of shareholder activism. Prevost and Rao (2000) report statistically insignificant three-year buy-and-hold returns for a sample of 17 firms that each were targeted once by public pension funds, and statistically significant negative average abnormal returns for nine firms targeted more than once. Smith (1996) reports a positive long-run stock return for 39 firms targeted by

CalPERS' shareholder proposals and Opler and Sokobin (1997) report positive long-run returns for firms on the Council of Institutional Investors' Focus List. Song and Szewczyk (2003), however, argue that these results reflect benchmarking error. Using an empirical procedure similar to that proposed by Barber and Lyon (1997), Song and Szewczyk (2003) find insignificant long-run returns for firms on the Council of Institutional Investors' Focus List. Of the studies that examine long-run returns to shareholder proposals and negotiations, only Del Guercio and Hawkins (1999), Prevost and Rao (2000) and Barber (2007) compute long-run abnormal returns using procedures similar to those in Barber and Lyon (1997). All three of these studies yield insignificant results. We believe the available evidence is most consistent with the conclusion that shareholder proposals and negotiations are not associated with significant long-run stock returns.

Ikenberry and Lakonishok (1993) find evidence of negative long-run returns following proxy fights, although this estimate also could reflect benchmarking problems. Mulherin and Poulsen (1998) also point out that long-run return studies following proxy contests are subject to a survivorship bias because surviving firms are those that are not acquired. Mulherin and Poulsen (1998) find that evidence of negative long run stock performance after proxy contests is concentrated among firms that are not taken over and do not remove their managers. Klein and Zur (2009) and Greenwood and Schor (2009) report significantly positive long-run stock returns to hedge fund activism. Brav, Jiang, Partnoy, and Thomas (2008) and Clifford (2008) also find positive long-run returns, but their results are statistically insignificant. We conclude that there is some evidence that hedge fund activism and proxy fights are associated with positive long run returns when they prompt changes in control or other significant operational changes, but support for this inference is not unanimous.

Several studies report that shareholder activism leads to statistically significant increases in share values for selected subsamples of firms. These results are subject to data-snooping criticisms, but they suggest that the share value effects of shareholder activism can depend on the specific issue raised and the sponsor's identity. These results are summarized in the Internet Appendix.

4. Effects on target firm earnings, operations, and governance features

Several studies have investigated whether activism prompts significant changes in target firms' earnings, operations, or governance features. Table 2 summarizes the results of these tests. Panel A examines earnings changes following shareholder proposals, negotiations, and hedge fund activism.[5] The definitions of the earnings variables group into three categories: return on assets (or operating return on assets), return on equity, and return on sales (or operating return on sales).

Most non-hedge fund researchers report insignificant changes in all three of the earnings variables. For example, Del Guercio, and Hawkins (1999) examine changes in operating return on assets and operating return on sales from one year before through one year after a firm first receives a shareholder proposal. They find that the changes are smaller than those for a set of control firms matched by size, industry, and prior earnings performance. In none of the comparisons is the difference statistically significant. Similar findings are reported by Carleton, Nelson, and Weisbach (1998), Karpoff, Malatesta, and Walkling (1996), Smith (1996), Strickland, Wiles, and Zenner (1996), and Wahal (1996). There are isolated exceptions to these results. Most significantly, Del Guercio, Seery, and Woidtke (2008) find increased adjusted operating return on assets relative to control firms matched by industry and performance during the three years following activism. Most evidence, however, indicates that shareholder proposals and direct negotiations are not associated with increases in the target firms' operating performance.

There is stronger evidence that firms targeted by hedge fund activists experience an increase in operating performance. Brav, Jiang, and Kim (2009) report that return on assets increases for hedge fund target firms relative to a control sample based on industry, size, and book-to-market during the two years following the targeting event. Boyson and Morradian (2011) report an increase in target firms' return on assets relative to control firms matched by industry and

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[5] Proxy fights tend to focus on board seats and are not included in Table 2. However, proxy fights frequently prompt important organizational changes. Dodd and Warner (1983) find that dissidents win board seats in 58.3% of contests. DeAngelo and DeAngelo (1989) report successful proxy fights in 61.7% of their sample. Ikenberry and Lakonishok (1993) observe that dissidents gain seats in 51.6% of proxy fights, while Mulherin and Poulsen (1998) find that 52% of activists obtain board seats. Buchanan et al. (2012) report that 48.6% of proxy contests are successful.

book-to-market during the year following activism. The year following activism, Clifford (2008) finds a higher average industry adjusted return on assets for hedge fund targets. There are some conflicting results, however. In an examination of hedge fund activism's effect on bondholders, Klein and Zur (2011) find no change in target firms' return on assets. Zhu (2013) examines the effect of the threat of hedge fund activism and reports an increase in return on assets, while Gantchev, Grendil, and Jotikasthira (2015) find no significant change. We infer that hedge fund activism frequently is associated with an increase in operating performance at the target firms, although the evidence is not unanimous.

Panel B of Table 2 summarizes the results of investigations into the effects of activism on several measures of firm operations, including capital expenditures, payouts, sales growth, and asset divestitures and restructuring. There is some evidence that shareholder activism is associated with changes, although the evidence is mixed. The most persuasive evidence again regards hedge fund activism. Following such activism, target firms tend to decrease their capital expenditures, increase their payouts, and increase their incidence of asset divestitures, restructurings, or employee layoffs. Using plant-level data, for example, Brav, Jiang, and Kim (2013) find that plants belonging to targeted firms are more likely to be sold after hedge fund intervention.

The greatest evidence of operational change following shareholder proposals also regards asset divestitures, restructurings, or employee layoffs. Del Guercio and Hawkins (1999) find that firms targeted by pension funds are more likely to experience such events during the three to four years following their initial targeting than a sample of control firms matched by industry, size, and performance. These findings provide some of the strongest evidence available that shareholder activism that does not involve hedge funds has facilitated some organizational change. Even here, however, it is difficult to attribute all such changes to shareholder pressure. As reported in Section 5, shareholders tend to target poorly performing firms. Such firms are prime candidates for organizational change even in the absence of shareholder activism. Gillan, Kensinger, and Martin (2000), for example, find evidence of significant organizational change at Sears, Roebuck & Co., after it was targeted by shareholder activists. However, it is difficult to separate the effects of institutional investors' advocacy for change from those of a contemporaneous bid for influence by a large shareholder, internal pressures for change arising from mounting financial losses, and the threat of an external bid for control.

Panel C of Table 2 reports on studies that investigate whether activism tends to prompt changes in the target firms' corporate governance. Once again, the evidence is mixed for shareholder proposals and direct negotiations. Del Guercio and Hawkins (1999), Karpoff, Malatesta, and Walkling (1996), and Smith (1996) each report that target firms do not subsequently replace their CEOs at unusually high rates. Wu (2004) and Del Guercio, Seery, and Woidtke (2008) find an increase in board and management turnover following direct negotiations. In contrast, Ertimur, Ferri, and Stubben (2011) report that director turnover is significantly less for firms that implement majority vote shareholder proposals that have the strongest shareholder support and for poorly performing firms.

Once again, the most significant changes are observed around hedge fund activism. Brav, Jiang, and Kim (2013) find an increase in the likelihood of CEO turnover in concentrated industries and Zhu (2013) similarly reports an increase for potential targets of hedge fund activism. Boyson and Mooradian (2011) indicate that hedge fund activists are successful in increasing target board size in 76% of the targets, obtaining board representation in 69% of the targets, and promoting mergers in 66% of the targets.

Six papers examine whether targeted firms adopt the specific governance changes sought by the activist. Most evidence indicates that activists achieve at least modest success in this regard. Wahal (1996) reports that 21% of the firms in his sample adopt the proposed measure or a substitute that is deemed acceptable by the activist. In Smith's (1996) smaller sample of CalPERS targets, this "success" rate is 53%. Such successes are observed for specific types of proposals as well. Bizjak and Marquette (1998) conclude that firms receiving shareholder proposals to change their poison pills are more likely to restructure their pills than a group of control firms that have poison pills but did not receive proposals. Thomas and Cotter (2007) find that poison pill proposals are more frequently supported by majority votes and implemented than they were before

2002. Carleton, Nelson, and Weisbach (1998) report that targets of TIAA-CREF's activist efforts frequently make changes that are satisfactory to TIAA-CREF. A majority of the firms that TIAA-CREF asked to name women or minority board members, for example, either subsequently did so or indicated that they were looking for such a director. Similar majorities of firms instituted confidential voting or imposed restrictions on the antitakeover uses of blank check preferred stock after they were contacted by TIAA-CREF. Contrary evidence is reported by Wahal, Wiles, and Zenner (1995), who find that firms' decisions to opt out of Pennsylvania's 1990 antitakeover law are unrelated to whether they were pressured to do so by CalPERS.

Again, hedge fund activism is associated with the highest rates of organizational change. Klein and Zur (2009) report that 60% of hedge fund activist campaigns are successful, and 65% of other entrepreneurial activist campaigns succeed. Boyson and Mooradian (2011) find that hedge fund activists prompt significant changes 70% of the time during the period 1994–2005, while Bratton (2007) reports a hedge fund success rate of 84% during 2002 through 2006. Brav, Jiang, Partnoy, and Thomas (2008) examine hedge fund activism during the period 2001–2006 and report a full or partial success rate of approximately 66%.

Several recent studies on hedge fund activism are not directly characterized by the features in Table 2. Brav, Jiang, and Tian (2014) find that R&D expenditures drop significantly at firms targeted by hedge fund activists, but proxies for innovative activity increase, including patent counts and citations. Sunder, Sunder, and Wongsunwai (2014) focus on hedge fund intervention's effect on loan spreads. They find that the effect on spreads depends on the type of activism: spreads increase when activism is related to the market for corporate control or financial restructuring and spreads decrease when the activism is motivated by managerial entrenchment. Gantchev and Jotikasthira (2014) provide evidence about the effect of institutional investors on hedge fund activists. They show that selling by institutions increases the probability of becoming the target of a hedge fund and that hedge funds tend to buy shares when institutions sell them. Gantchev (2013) constructs a structural model of shareholder activism in which an activist trades off the expected benefit from a campaign against the target firm with its expected cost. He finds that the average campaign costs $10.71 million and that, while the average net return to activism is close to zero, those in the top quartile have an average return of 22.4% from a campaign.

Together, the results summarized in this section suggest that shareholder activism frequently prompts firms to adopt specific but limited changes in their governance rules, such as adopting confidential voting or changing the provisions of a poison pill. Activist efforts sometimes precede, and may contribute to, such organizational changes as restructurings and divestitures. The most persuasive evidence that shareholder activism corresponds to earnings increases or changes in the top leaders, or that it helps to facilitate broader control changes, comes from research that examines hedge fund activism.

5. Which firms get targeted?

Several papers examine target firms' characteristics. Table 3 summarizes these papers' findings and provides a profile of the typical firm that attracts shareholder activism.

First, target firms tend to be poor performers. A majority of studies in Panel A of Table 3 find that target firms' stock returns are significantly lower than contemporaneous market returns or the contemporaneous returns of control firms during the one to four year period before the targeting. Klein and Zur (2009) find that firms targeted by hedge fund activists have relatively strong stock price performance, but this finding is the exception.

Panel B reports mixed evidence on target firms' prior accounting performance. The majority of findings indicate that target firms have relatively low return to sales, sales growth, growth in operating income, and market-to-book ratios. But targets of hedge fund activism have high return on assets compared to industry or control firm benchmarks.

Panel C summarizes the results regarding several other firm characteristics and reveals some patterns. A majority of studies find that target firms have high leverage. Targets also tend to have low dividend yields, low R&D expenditures, a high proportion of outside directors, and many takeover defenses. Most non-hedge fund activism targets large firms. Hedge fund activism, in contrast, tends to target smaller firms, although this result is not unanimous (see Clifford, 2008).

Three studies conclude that hedge fund targets have relatively large cash flow from operations. The evidence is mixed, however, on whether target firms tend to have high or low inside ownership and institutional ownership.

Norli, Ostergaard, and Schindele (2015) find that the likelihood of activism is positively related to the target firm's share liquidity, presumably because liquidity facilitates the pre-activism accumulation of shares and allows the activist to capture more of the gain from activism. Edmans, Fang, and Zur (2013) agree on the overall effect of liquidity, but note that, given a large stake, higher liquidity discourages blockholders to engage in activist efforts because it lowers the cost of simply selling their shares. The positive effect of liquidity on activism occurs because liquidity facilitates the formation of large blockholdings in the first place.

The overall evidence suggests that firms attracting shareholder proposals or direct negotiations tend to be large and suffering from poor performance as indicated by prior stock returns, sales growth, return to sales, and market to book ratio. Such activism appears to be motivated by attempts to improve the performance of poorly performing firms. Other than the facilitating effect of share liquidity, however, the targets of hedge fund activism are not as easily characterized. The targets of much hedge fund activism are smaller firms. Many have poor prior stock returns, sales growth, and market to book ratios, but these firms also tend to have high return on assets. These findings suggest that hedge funds' targets are not simply firms that are performing poorly by all metrics. Rather, hedge funds' targets appear more likely to have specific operating characteristics that attract the attention of hedge funds. That is, shareholder proposals and direct negotiations appear to be more likely motivated by overall poor firm performance, whereas hedge fund activism targets more specific operating characteristics that create opportunities for value creation.

6. A synthesis of prior research results

The primary inference that emerges from Sections 3 and 4 is that hedge fund activism is associated with significantly positive changes in target firms' value and operating performance, whereas shareholder proposals generally are not. In this section, we present the evidence in two additional formats that illustrate additional insights from this research.

6.a. Types of activism and sample periods

Figure 2 illustrates how researchers' findings are related to the type of activism and sample period examined. Each row of the panel represents a different research study and the horizontal length of the bar represents the authors' sample period. Bars highlighted in green indicate that the authors find evidence that activism is associated with an increase in share values, yellow indicates no significant relation to share values, and red indicates a decrease in share values.

Panel A reports on activism via shareholder proposals. Most of the bars are in yellow, indicating no significant relation between proposals and share values. One paper – Prevost and Rao (2000) – finds a significantly negative average share price change around the proxy mailing date for proposals sponsored by public pension funds. The three studies that find evidence of positive (albeit small) share price reactions to shareholder proposals, by Thomas and Cotter (2007), Renneboog and Szilagyi (2011), and Cuñat, Gine, and Guadalupe (2012) all examine sample periods that are relatively recent. One more recent paper, by Cai and Walkling (2011), finds insignificant results, although this paper examines only say-on-pay shareholder proposals.

Panel B in Figure 2 reports on papers that examine direct negotiations and non-proposal shareholder pressure. Here the results are mixed, with an almost equal number of papers finding positive share price effects as those finding insignificant or negative effects. Most of these papers focus on the activism of a single institution, so these results do not generalize widely.[6] Panel C, however, reveals a clearer pattern. All seven papers represented in Panel C examine hedge fund activism. Since such activism is relatively new, these papers' sample periods are relatively recent. Also, all seven papers report results indicating that hedge fund activism is associated with share

[6] CalPERS-specific studies include Anson, White, and Ho (2003, 2004), English, Smythe, and McNeil (2004), Nelson (2005, 2006), and Barber (2007). Strickland, Wiles, and Zenner (1996) examine the activities of United Shareholders Association, and Carleton, Nelson, and Weisbach (1998) focus on activism by CREF. In addition, Gillan, Kensinger, and Martin (2000) focus on activism at a single firm, Sears, Roebuck & Co.

price increases at the target companies.

Figure 2 illustrates two important themes in the literature. The first is the observation made previously that, among the most common types of shareholder activism, evidence of positive valuation effects is strongest with hedge fund activism and weakest with shareholder proposals. The second theme is that there is stronger evidence of positive share value effects in recent samples of shareholder activism than in earlier samples. This certainly characterizes the relatively recent increase in the incidence of hedge fund activism. But it also characterizes the findings regarding shareholder proposals.

Buchanan et al. (2012) examine a relatively recent sample of 761 shareholder proposals at U.S. firms from 2000-2006. Although they do not examine short event windows or report formal tests, their results also suggest that shareholder proposals recently have become associated with value increases. Buchanan et al. (2012) argue that several developments make shareholder proposals more effective than in the 1980s and 1990s. These developments include activists' focus on such key internal governance features as classified boards, as well as such regulatory changes as a 2004 SEC requirement that mutual funds disclose their voting decisions and policies. We note, however, that an alternate hypothesis is that, since approximately 2000, some hedge fund activists have used shareholder proposals in their attempts to prompt organizational or operational changes at target companies. It is possible that the small positive share price reactions observed in the more recent samples of shareholder proposals are picking up some effects of hedge fund activism. The results in Renneboog and Szilagyi (2011, p. 176) provide some support for this alternate hypothesis, as they report that proposals sponsored by investment funds – which likely consist primarily of hedge funds – are associated with larger share value increases than for any other type of sponsor.

6.b. Alternate outcome measures for shareholder activism

In this survey we emphasize the relation between shareholder activism and the target firms' values and operations. Table 4 presents the research on shareholder activism in a way that offers insight into activism's other effects at target firms. We group studies based on six different types of outcomes examined by researchers: (1) increase in share values, (2) increase in accounting measures of performance, (3) change in operations or management, (4) actions sought by the activist are adopted by the target firm, (5) some actions are taken that are attributed to shareholder pressure, and (6) a shareholder proposal receives high vote support. We list these definitions in descending order of their probable association with the stated criteria for most corporate governance-related shareholder activism, which is to increase shareholder wealth.[7] Many authors provide evidence about more than one criterion for success. In Table 4, however, we associate each study with the criterion its authors emphasize in drawing their overall conclusions.

Table 4 also partitions the studies according to the form of shareholder activism from which the authors draw their primary conclusions: proposals, negotiations, or hedge fund activism. We omit proxy fights from the table. Wahal (1996), for example, examines both proposals and negotiations but draws conclusions primarily from his findings regarding shareholder proposals. The studies in Table 4 also are coded according to the general conclusion regarding shareholder activism that is presented in the paper's abstract, introduction, and conclusion. Studies that characterize activist efforts as positively associated with the outcome variable are tagged by plus (+) signs. Those characterizing such efforts as negatively or not significantly related to the outcome variable have minus (–) signs.

As noted previously, most of the studies listed in the two left-hand cells of Panel A conclude that shareholder proposals have little or negative impact on target firms' values or operating performance. However, there is some evidence that shareholder proposals are associated with less consequential changes at the target firm, as nine of the 12 studies listed in the four right-hand columns of Panel A conclude that activist efforts generally are successful at effecting some limited changes at the target firm. The results in Panel B indicate that negotiations frequently are

[7] Shareholder activists have long asserted that their motives are to increase firm performance and share prices. Speaking for TIAA-CREF, for example, Biggs (1995) claimed "... that modern and sound practices of corporate governance will make a difference in the future performance of companies." The California Public Employees' Retirement System (1998) has also been clear: "At CalPERS, corporate governance is about making money..."

associated with stock price increases or improved operating performance, and almost always are associated with other changes at the target firm. The studies in Panel C agree that hedge fund activism is associated with increases in share values. The majority also agree that hedge fund activism is associated with positive changes in the target firm's operations and performance.

A casual reading of many papers in this literature suggests that there exists substantial disagreement among researchers about whether shareholder activism is effective. We propose that much of the apparent disagreement reflects differences in the definition of "effective," and different emphases on outcome metrics. Using share value or operating performance changes to measure impact and focusing on shareholder proposals (i.e., the left-hand cells in Panel A of Table 4), most researchers conclude there is little effect on target firms. Focusing on limited changes in the target firm's governance structure (the right-hand columns in all panels), one is more likely to conclude that activism has impact. These conclusions parallel the empirical generalizations emphasized in this survey: shareholder proposals usually are not associated with significant changes in firm values or with earnings improvements, whereas hedge fund activism usually is. Shareholder proposals, private negotiations, and hedge fund activism, however, all are frequently associated with some types of organizational changes, although in many cases the changes are small.

7. Conclusions and further research questions

This paper emphasizes two primary findings that emerge from the extensive literature on shareholder activism. First, activism that adopts some of the investment-intensive aspects of corporate takeovers, such as hedge fund activism, is associated with improvements in target firms' values and operations. This result is consistent with Alchian and Demsetz' (1972) argument that agency problems in modern corporations are controlled in part by a dynamic and sometimes transient coalescence of ownership and share votes to discipline managers and change corporate policy. Second, studies of shareholder activism that draw from recent samples reveal more evidence of improvements in target firms' values and operations than earlier studies that are based on activism from the 1980s and 1990s. This suggests that activists have learned and adapted their strategies, particularly through the development of hedge fund activism. Such developments are described by Gillan and Starks (2007) and Buchanan et al. (2012), and illustrate the economic process of natural selection presented by Alchian (1950).

Despite the large number of studies about shareholder activism, many issues remain unresolved. We conclude this survey with a list of eight questions for future research.

1. Why shareholder activism? Alchian and Demsetz (1972) describe several governance mechanisms that limit agency problems and enable the corporate form of organization to survive. These so-called "modifications" include share liquidity and the external takeover market. Presumably, shareholder activism survives as a popular strategy because it yields sufficiently large expected net benefits in some situations (e.g., see Gantchev, 2013). For example, Norli et al. (2015) argue that activism is facilitated by share liquidity, and Kahn and Winton (1998) argue that activism will not occur when the activist believes that the target firm's shares are overvalued. Activism is less costly than a takeover attempt, so we conjecture that activism is useful for relatively small changes and performance improvements. We also conjecture that institutions will engage in activism instead of selling their shares when holding the firm's stock is important for tracking a benchmark index. The results surveyed in Table 3, which identifies the characteristics of activism targets, can help guide the development of a more comprehensive understanding of why and when shareholders will initiate activist tactics instead of selling their shares or launching a control contest. Regulatory reforms, such as the SEC's 1992 reforms that made it easier for shareholders to communicate during proxy fights, also can help to identify tests of the causes of shareholder activism (e.g., see Choi, 2000).

2. Have shareholder proposals really become value-enhancing in recent years? The results in Renneboog and Szilagyi (2011) and Cuñat, Gine, and Guadalupe (2012) suggest that recent samples of shareholder proposals are associated with share value increases, unlike most research based on earlier samples. Such time-varying results could reflect an improvement in targeting practices by proposal sponsors, as argued by Buchanan et al. (2012). An alternative explanation

that is suggested by some of the subsample results in Renneboog and Szilagyi (2011), however, is that the results from later samples include shareholder proposals that are affiliated with hedge fund activism. If so, the value-improving developments over time do not reflect better targeting by proposal sponsors, but rather, the development of hedge funds' activist strategies.

3. Does it matter if shareholder proposals receive majority support? Shareholder proposals are advisory only and are not binding on the target firms' managers even if they receive majority support. Strickland, Wiles, and Zenner (1996) argue that proposals receiving majority support carry more weight than proposals that do not, and Sullivan & Cromwell (2014) report that the fraction of proposals receiving majority support has grown over time to 27% in 2013 and 23% in 2014. Cuñat, Gine, and Guadalupe (2012) show that proposals receiving majority support are more likely to prompt organizational changes. A counterview, however, is that even well considered proposals that do not receive 50% of the votes also can prompt organizational changes. Overall, little is known about the level of support that is required to prompt organization change, or whether value and operational changes are related monotonically to vote support levels.

4. Has hedge fund activism's effectiveness changed over time? Brav et al. (2008) find that the positive effects of hedge fund activism on target firms declined during their sample period from 2001-2006. Krishnan, Partnoy, and Thomas (2015), in contrast, argue that hedge fund activism generated increasing effects on target companies from 2008-2014. Theory suggests that the success of early hedge fund activists would prompt supply and demand adjustments that eliminate any surplus from such innovations in activism. On the supply side, the early success of many hedge fund activists should have attracted additional funds and investment money into hedge fund activism, decreasing the marginal gain from activism. On the demand side, potential target firms may have adapted their management practices to limit the potential gains from activism and decrease their exposure to activists' threats.

5. What specific changes are associated with successful activism? Bebchuk, Coates, and Subramanian (2002), Bates, Becher, and Lemmon (2008), and others argue that the existence of a classified board is the single most important takeover defense a firm can have, implying that

activist efforts aimed at removing classified boards are more substantive than activism that seeks other governance-related changes. Reflecting this hypothesis, the Harvard Shareholder Rights Project helped institutional investors to target 80 firms during the 2012 proxy season to seek repeal of these firms' classified boards.[8] The view that classified boards are a uniquely important governance feature implies that activism that focuses on the removal of classified boards has relatively large potential to effect meaningful change.

6. What is cause and effect in shareholder activism? Activists target some firms and not others, raising the question of whether any changes associated with the activism reflect the selection process and would have occurred anyway. Even event studies suffer from an interpretation challenge because news of an activist effort reveals not only that the firm has been targeted by activists, but also that prior efforts to effect change were ineffective. Researchers have long been aware of these issues and attempt to address them by using control samples (e.g., Brav et al., 2008), non-public sources of private communications involving activists and their targets (Carleton, Nelson, and Weisbach, 1998), or alternate identification strategies (Cuñat, Gine, and Guadalupe, 2012). Nonetheless, test identification remains a challenge in research on shareholder activism.

7. How important are spillover effects? To the extent that shareholder activism disciplines current managers, the threat of activism could encourage better performance among non-target companies as well. However, Alchian and Demsetz (1972) propose that diffuse stock ownership affects stockholders' behavior in complex ways. Building upon this argument, Hansen and Lott (1996) note that some actions that increase a target firm's value can impose external costs on other firms. They suggest that diversified investors apply pressure to companies to increase the values of the investors' total portfolios, not just the share price of that particular firm. This argument implies that, to evaluate the impact of shareholder activism, it is important to consider spillover effects on other firms.

8. Do proxy access shareholder proposals matter? Proxy access proposals typically seek to

[8] See http://dealbook.nytimes.com/2012/04/19/giving-shareholders-a-voice.

establish a company bylaw that would enable shareholders who meet certain criteria to nominate candidates for the board of directors and to have these nominees and their supporting statements included in the company's proxy materials. The most common proxy access proposals would require a shareholder, or a coordinating group of shareholders, to hold at least 3% of the firm's outstanding shares for a minimum of three years. The SEC first permitted proxy access proposals in 2012. Since then, Sullivan & Cromwell (2014) reports that a substantial number of such proposals have received majority support from shareholders. The empirical findings regarding proxy access proposals is mixed, with Larcker et al. (2011) and Akyol et al. (2012) finding negative effects on firm value and Becker et al. (2013) finding positive effects. Matsusaka and Ozbas (2015) show analytically that shareholder access to the proxy can either help or hurt shareholder value depending on the extent of the agency problems in the firm and whether managers distort their investment policies to accommodate the activist investors.

We began this survey with Alchian and Demsetz' (1972) rhetorical question, "But who will monitor the monitor?" Along with share transferability, market monitoring, board oversight, compensation contracts, and the market for corporate control, Alchian and Demsetz (1972) conclude that monitoring and the control of managerial agency problems can be facilitated by direct shareholder intervention. The past thirty years of shareholder activism have seen numerous innovations that improve monitoring and lower agency costs. Our main conclusion, however, is that such activism is particularly effective when it is accompanied by significant share ownership.

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Appendix: Time periods, data sources, types of activism and sponsor examined by 67 different studies

This table lists 67 different studies examined in this survey. The time period of events covered, data source, type of activism and sponsor (if applicable) are detailed below. The type of activism is abbreviated by: shareholder proposal (SP), direct negotiations or non-proposal pressure (NP), proxy contexts (proxy) and hedge fund activism (HFA).

Author(s)	Time period of events covered	Data source(s)	Type(s) of activism	Sponsor(s)
Alexander, Chen, Seppi, and Spatt (2010)	1992-2005	DEFC14A, ISS	Proxy	
Anson, White, and Ho (2003a)	1992-2001	CalPERS Focus List	NS	CalPERS
Anson, White, and Ho (2004b)	1992-2002	CalPERS Focus List	NS	CalPERS
Barber (2007)	1992-2005	CalPERS Focus List	SP, NS	CalPERS
Bebchuk, Brav, and Jiang (2015)	1994-2007	13D filings	HFA	
Becht, Franks, Grant, and Wagner (2015)	2000-2010	13D Monitor	HFA	
Bizjak and Marquette (1998)	1986-1993	IRRC	SP	Pension funds (including CalPERS and CREF), USA, Unions, Individuals
Boyson and Mooradian (2011)	1994-2005	13D filings	HFA	
Bratton (2007)	2002-2006	13D filings, Factiva, Lexis/Nexis	HFA	
Brav, Jiang, and Kim (2009a)	2001-2007	13D filings	HFA	
Brav, Jiang, and Kim (2013b)	1994-2007	13D filings, U.S. Census Bureau	HFA	
Brav, Jiang, Partnoy, and Thomas (2008)	2001-2006	13D filings, Schedule 14A, Factiva	HFA	
Brav, Jiang, and Tian (2014)	1994-2007	13D filings, NBER Patent Database	HFA	
Buchanan, Netter, Poulsen, and Yang (2012)	2000-2006	IRRC, DEFC and DEFN filings (US); ISS, Factiva (UK)	SP, Proxy	
Cai and Walkling (2011)	2006-2008	ISS, IRRC	SP	
Carleton, Nelson, and Weisbach (1998)	1992-1996	Internal data from CREF, IRRC, CDA/Spectrum	NS	CREF
Caton, Goh, and Donaldson (2001)	1991-1995	CII Focus List	NS	CII
Choi (2000)	1991-1995	Georgeson & Company of New York, New York	SP	Shareholder activist organization, Public pension, Private pension, Union and Religious organization
Clifford (2008)	1998-2005	Dow Jones Newswires, 13D and 13G filings	HFA	
Cronqvist and Fahlenbrach (2009)	1996-2001	IRRC, Compact Disclosure, 13D filings	NS	Activists, Pension funds
Crutchley, Hudson, and Jensen (1998)	1992-1997	CalPERS Focus List	NS	CalPERS
Cuñat, Gine, and Guadalupe (2012)	1997-2007	RiskMetrics	SP	
DeAngelo and DeAngelo (1989)	1978-1985	Weekly Bulletins of NYSE and AMEX	Proxy	
Del Guercio and Hawkins (1999)	1987-1993	IRRC, 13F filings	SP	Pension funds (including CalPERS and CREF)
Del Guercio, Seery, and Woidtke (2008)	1990-2003	IRRC, ISS, Lexis/Nexis, Factiva	NS	

Appendix (Continued)

Author(s)	Time period of events covered	Data source(s)	Type(s) of activism	Sponsor(s)
Dodd and Warner (1983)	1962-1978	Logbooks from NYSE and Georgeson and Company	Proxy	
English, Smythe, and McNeil (2004)	1992-1997	CalPERS Focus List	NS	CalPERS
Ertimur, Ferri, and Muslu (2011)	1997-2007	RiskMetrics, Factiva, Lexis/Nexis	SP, NS	Union pension funds, Individuals, Religious organizations, Public pensions, and Other
Ertimur, Ferri, and Stubben (2010)	1997-2004	RiskMetrics	SP	Individual, Labor unions, Public pensions, Religious organizations, and Other
Gantchev (2013)	2000-2007	13D, PREC14A, PREN14A, DFAN14A, and DEFN14A filings, SharkRepellent.net	HFA	
Gantchev, Gredil, and Jotikasthira (2015)	2000-2011	13D, PREC14A, PREN14A, DFAN14A and DEFN14A filings, SharkRepellent.net	HFA	
Gantchev and Jotikasthira (2014)	2000-2007	13D, PREC14A, PREN14A, DFAN14A, and DEFN14A filings, SharkRepellent.net	HFA	
Gillan, Kensinger, and Martin (2000)	1981-1994	Sears' press releases, Wall Street Journal	NS	CalPERS
Gillan and Starks (2000)	1987-1994	IRRC	SP	Pension funds, including CalPERS, CREF, NY city and unions, USA, Individuals, and Religious organizations
Greenwood and Schor (2009)	1993-2006	13D and DFAN14A fildings	HFA	
Hadani, Goranova, and Khan (2011)	2001-2004	The Corporate Library	SP	
Hall and Trombley (2012)	1995-2007	13D filings	HFA	
Helwege, Intintoli, and Zhang (2012)	1982-2006	Forbes executive compensation surveys, Wall Street Journal, Thomson Financial (13F filings), SDC (13D filings), Lexis/Nexis	Proxy, SP, NS	
Ikenberry and Lakonishok (1993)	1968-1988	Weekly Bulletins of NYSE and AMEX, DEF14A	Proxy	
John and Klein (1995)	1991-1992	Request to firms, Lexis-Nexis	SP	Individuals, Religious organizations, Pension funds, USA, Unions
Johnson, Porter, and Shackell (1997)	1992-1993	IRRC, Laser Disclosure and SEC (for compensation data)	SP	
Johnson and Shackell (1997)	1992-1995	IRRC, ExecuComp	SP	Public institutions, Private institutions, Individuals, Mixed
Karpoff, Malatesta, and Walkling (1996)	1986-1990	IRRC, Q Data Corp. (1986-1987 proposals), Lexis/Nexis (1988-1990 proposals)	SP	Public institutions, Private institutions, Individuals, Mixed
Klein and Zur (2009a)	2003-2005	13D filings, Factiva	HFA	
Klein and Zur (2011b)	1994-2006	13D filings, Factiva	HFA	
Mulherin and Poulsen (1998)	1979-1994	14B filings (1979-1989), SDC's Proxy Fight Database (1990-1994)	Proxy	
Nelson (2005a)	1992-2004	CalPERS Focus List, Wall Street Journal	NS	CalPERS

Appendix (Continued)

Author(s)	Time period of events covered	Data source(s)	Type(s) of activism	Sponsor(s)
Nelson (2006b)	1990-2003	CalPERS Focus List, Wall Street Journal	NS	CalPERS
Nesbitt (1994)	1992-1993	CalPERS	SP	CalPERS
Norli, Ostergaard, and Schindele (2015)	1994-2007	PREC14A, PREN14A, PRRN14A, DEFC14A, DEFN14A, DFRN14A, DFAN14 and DEF14C filings	HFA	
Opler and Sokobin (1997)	1991-1993	CII Focus List	NS	CII
Pound (1992)	1981-1985	IRRC, SEC filings	Proxy	
Prevost and Rao (2000)	1988-1994	IRRC	SP	Public pension funds, including CalPERS and CREF
Prevost, Rao, and Williams (2012)	1988-2002	IRRC	SP	Labor union funds
Renneboog and Szilagyi (2011)	1996-2005	RiskMetrics, Georgeson Shareholder Communications, proxy statements	SP	Union pension funds, Public pension funds, Investment funds, Coordinated investors, Socially responsible/religious, Non-financial firms, Individuals
Smith (1996)	1987-1993	CalPERS internal documents, proxy statements, Dow Jones News Retrieval System	NS, SP	CalPERS
Song and Szewczyk (2003)	1991-1996	CII Focus List	NS	CII
Strickland, Wiles, and Zenner (1996)	1990-1993	14A-8 filings, USA Target List, proxy statements, Wall Street Journal	SP, NS	USA
Sunder, Sunder, and Wongsunwai (2014)	1995-2009	13D filings, DealScan	HFA	
Thomas and Cotter (2007)	2002-2004	IRRC	SP	Individuals, Private institution, Public institution, Religious groups, Social activist, Unions/Union workers
Thomas and Martin (1998)	1994	IRRC	SP	Public institution (including CalPERs), Private institution, Labor union, Individual
Venkiteshwaran, Iyer, and Rao (2010)	1995-2007	13D filings	SP, NS	Carl Ichan
Wahal (1996)	1987-1993	ISS, Request to funds, Wall Street Journal, Lexis/Nexis, Dow Jones News Retrieval Service	SP, NS	Public pension funds (including CalPERS) and CREF
Wahal, Wiles, and Zenner (1995)	1989-1991	Proxy statements, Wall Street Journal, Pennsylvania Chamber of Business and Industry	NS	
Woidtke (2002)	1989-1993	IRRC, 13F filings	SP	Public pension funds (including CalPERS)
Wu (2004)	1988-1995	CalPERS Focus List, proxy statements	NS	CalPERS
Zhu (2013)	1994-2007	13D filings	HFA	

Table 1: Effects of shareholder activism on target firm value

This table summarizes the central empirical results from 36 studies that investigate the share valuation effects of four types of shareholder activism. The results are for the overall sample investigated in each study. Authors' name abbreviations are: ACSS - Alexander, Chen, Seppi and Spatt (2010); AWH-a, AWH-b - Anson, White, and Ho (2003, 2004); BBJ - Bebchuk, Brav, and Jiang (2015), BFGW - Becht, Franks, Grant, and Wagner (2015); BM - Bizjak and Marquette (1998); BoM - Boyson and Mooradian (2011); BJK-a, BJK-b - Brav, Jiang, and Kim (2009, 2013); BJPT - Brav, Jiang, Partnoy, and Thomas (2008); CW - Cai and Walkling (2011); CNW - Carleton, Nelson, and Weisbach (1998); CGD - Caton, Goh, and Donaldson (2001); CF - Cronqvist and Fahlenbrach (2009); CHJ - Crutchley, Hudson, and Jensen (1998); CGG - Cuñat, Gine, and Guadalupe (2012); DD - DeAngelo and DeAngelo (1989); DH - Del Guercio and Hawkins (1999); DSW- Del Guercio, Seery, and Woidtke (2008); DW - Dodd and Warner (1983); ESM - English, Smythe, and McNeil (2004); EFM - Ertimur, Ferri, and Muslu (2011); EFS - Ertimur, Ferri and Stubben (2010); GGJ - Gantchev, Gredil, and Jotikasthira (2015); GJ – Gantchev and Jotikasthira (2014); GKM - Gillan, Kensinger, and Martin (2000); GS - Gillan and Starks (2000); GrS - Greenwood and Schor (2009); HGK - Hadani, Goranov, and Khan (2011); HT - Hall and Trombley (2012); HIZ - Helwege, Intintoli, and Zhang (2012); IL - Ikenberry and Lakonishok (1993); JK - John and Klein (1995); JPS - Johnson, Porter, and Shackell (1997); JS - Johnson and Shackell (1997); KMW - Karpoff, Malatesta, and Walkling (1996); KZ-a, KZ-b - Klein and Zur (2009, 2011); MP - Mulherin and Poulsen (1998); Norli, Ostergaard, and Schindele (2015); OS - Opler and Sokobin (1997); PR - Prevost and Rao (2000); PRW - Prevost, Rao, and Williams (2012); RS - Renneboog and Szilagyi (2011); SS - Song and Szewczyk (2003); SWZ - Strickland, Wiles, and Zenner (1996); TC - Thomas and Cotter (2007); TM - Thomas and Martin (1998), VIR - Venkiteshwaran, Iyer, and Rao (2010); WWZ - Wahal, Wiles, and Zenner (1995). The studies in each column are ordered by the year of publication. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

(1)		(2)		(3)		(4)	
Shareholder proposal		Negotiated settlements or non-proposal pressure		Hedge fund activism		Contested proposals	
Study	Abnormal return (%)	Study	Abnormal return (%)	Study	Abnormal return (%)	Study	Abnormal return (%)
Panel A: Short-term valuation effects							
Initial press announcements:		SWZ	0.92**	BJPT	5.10**	DW	11.9***
KMW	-0.22	Wahal	1.86**	Clifford	1.75**	DD	4.85***
Smith	-0.08	CNW	-0.04	GrS	3.61***	IL	4.69***
Wahal	0.30	DH	0.11	KZ-a	5.7***	MP	8.04***
DSW	0.31	CGD	-0.91***	BJK-a	5.04***	ACSS	10.48***
Proxy mailing date:		AWH-a	0.26	BoM	8.68***	RS	0.95
KMW	-0.12	ESM	0.98***	BFGW	6.97***		
SWZ	0.13	Nelson-a	-0.67				
Wahal	-0.30	Nelson-b	-0.19				
DH	-0.00	Barber	0.23**				
GS	-0.19						
PR	-1.10**						
CW	-0.12						
RS	0.36***						
PRW	0.89						
Shareholder meeting date:							
KMW	-0.06						
SWZ	-0.13						
DH	0.07						
TC	0.16*						
CGG	1.30***						
Panel B: Long-run returns							
Smith	2.84***	OS	11.59**	BJPT	0.5	IL	-18.31**
Wahal	-0.1	DH	-3.52	Clifford	4.68	MP	-3.43**
PR	19.9	SS	18.4	GrS	10.26***		
PRW	4.44	ESM	-16.88	KZ-a	11.4***		
		Nelson-b	-4.28	BBJ	7.24		
		Barber	4.1				

Table 2: Effects of shareholder activism on target firm earnings, operations, and governance features

Summary of empirical results from 33 studies that investigate the effects of three types of shareholder activism on target firms' earnings, operations, and governance features. Inferences drawn are related to the statistical significance reported by the study. The studies in each column are ordered by the year of publication. Author abbreviations are described in Table 1.

	Shareholder proposals		Direct negotiations or non-proposal pressure		Hedge fund activism	
	Study	Inference	Study	Inference	Study	Inference
Panel A: Earnings variables						
Return on assets or operating return on assets	KMW	No change	CNW	No change	Clifford	Increase
	Smith	No change	SWZ	No change	BJPT	Increase
	SWZ	No change	OS	Increase	GrS	No change
	Wahal	No change	DSW	Increase	KZ-a	No change
	DH	No change			BJK-a	Increase
	PR	Decrease			BoM	Increase
					KZ-b	No change
					Zhu	Increase
					GGJ	No change
					BBJ	Increase
Return on equity	KMW	No change	CNW	No change		
	Smith	No change	SWZ	No change		
	SWZ	No change				
	DH	No change				
	PR	No change				
Return on sales or operating return on sales	KMW	No change	CNW	No change	BJPT	Increase
	Smith	No change				
	DH	No change				
	PR	No change				
Panel B: Operations variables						
Capital expenditures	Smith	No change			GrS	Decrease
	CGG	Decrease			KZ-a	No change
					GGJ	Decrease
					BJK-b	Decrease
Payout of earnings or cash flows	Smith	No change			GrS	No change
	DH	No change			KZ-a	Increase
					BJK-a	Increase
					KZ-b	Increase
					Zhu	Increase
					GGJ	Increase
					BJK-b	Increase
Growth in sales	KMW	Decrease				
	DH	No change				
Asset divestiture, restructuring, or employee layoffs	Smith	No change	CNW	No change	Clifford	Increase
	DH	Increase	OS	Increase	KZ-b	Increase
					BJK-b	Increase
Panel C: Governance features						
CEO turnover	KMW	No change	OS	Decrease	BJK-b	Increase
	Smith	No change	Wu	Increase	Zhu	Increase
	DH	No change	DSW	Increase		
	EFS	Decrease	HIZ	No change		
Board composition	PRW	Increase			BoM	Increase size
Control change attempted or succeeded	DH	Increase			BoM	Increase
Actual control change	DH	No change				
CEO compensation	JS	No change	CF	Increase		
	JPS	No change				
	EFM	Decrease				
Governance changes acceptable to activist	Wahal	21% "successes"			Bratton	84% "successes"
	Smith	53% "successes"			BJPT	66% "successes"
					KZ-a	60% "successes"
					BoM	70% "successes"
Other governance features	BM	Increase	WWZ	No change		
(e.g., poison pills, board diversity)	TC	Increase	CNW	Increase		

Table 3: Characteristics of firms attracting activist shareholder efforts

Summary of central empirical results from 29 studies that investigate the characteristics of firms attracting shareholder proposals and other types of shareholder activism compared to a control group. The results are for the overall sample investigated in each study. High indicates that the measure is relatively high for target firms, Same denotes that the measure is not significantly different relative to other firms, and Low signifies that the measure is relatively low for target firms. The studies in each column are ordered by the year of publication. Author abbreviations are described in Table 1.

	Shareholder proposal		Direct negotiations or non-proposal pressure		Hedge fund activism	
	Study	Measure for Targets	Study	Measure for Targets	Study	Measure for Targets
Panel A: Stock price performance						
Prior market-adjusted stock returns	Smith	Same	SWZ	Low	BJPT	Low
	SWZ	Low	OS	Low	Clifford	Low
	Wahal	Low	CNW	Same	KZ-a	High
	BM	Same	CGD	Low	BBJ	Low
	TC	Low	DSW	Low		
Prior control-firm adjusted stock returns	KMW	Same	OS	Low	BoM	Low
	Barber	Low	SS	Low		
	EFS	Low				
	EFM	Low				
	RS	Low				
Prior industry-adjusted stock returns	SWZ	Same	SWZ	Same	GrS	Low
	Wahal	Same				
Panel B: Accounting measures of performance						
Return to sales	KMW	Low				
Sales growth	JS	Low	SS	Same	BJPT	Low
	KMW	Low			BJK-a	Low
					BoM	Low
					Zhu	Low
Growth in operating income	BM	Low				
Market-to-book ratio	JS	Same	SWZ	Same	BJPT	Low
	KMW	Low			Clifford	Low
	Smith	Same			GrS	Low
	SWZ	Same			KZ-a	Same
	BM	Low			BoM	Low
					KZ-b	Low
Return on assets	SWZ	Same	SWZ	Same	BJPT	High
	Wahal	Low	OS	Low	Clifford	High
	TC	High	SS	High	BJK-a	High
	EFM	Low	DSW	Low	KZ-a	High
					BoM	High
					KZ-b	High
Return on equity	SWZ	Same	SWZ	Same	Clifford	High
Panel C: Other firm characteristics						
Leverage	JK	High	SWZ	Same	BJPT	High
	KMW	High	SS	Same	BJK-a	High
	SWZ	Same			KZ-a	Same
	EFS	High			BoM	Low
	RS	High			KZ-b	High
					Zhu	High
Insider ownership	KMW	Same	CNW	Low		
	Smith	Same				
	BM	Low				
	TC	Low				
	EFS	Low				

(Table 3 continued on next page)

Table 3 (Continued)

	Shareholder proposal		Direct negotiations or non-proposal pressure		Hedge fund activism	
	Study	Measure for Targets	Study	Measure for Targets	Study	Measure for Targets
Panel C: Other firm characteristics (Continued)						
Firm size (e.g., book value of assets,	JK	High	SWZ	High	Clifford	High
market value of equity)	JS	High	SS	High	BJK-a	Low
	KMW	High			KZ-a	Low
	Smith	High			BoM	Low
	SWZ	High			KZ-b	Low
	BM	High				
	TC	High				
	EFS	High				
	CW	High				
	EFM	High				
	RS	High				
Institutional ownership	JK	High	CNW	High	BJPT	High
	JS	Low			BJK-a	High
	KMW	High				
	Smith	High				
	BM	High				
	TC	High				
	EFM	Low				
	RS	Low				
Dividend yield					BJPT	Low
					BJK-a	Low
					KZ-a	Same
					Zhu	Low
R&D expenditures	SWZ	Low	SWZ	Low	BJPT	Low
					BJK-a	Same
					KZ-a	Same
					BoM	Low
Proportion of outside directors	BM	High				
	EFS	High				
	EFM	High				
	RS	High				
Takeover defenses	EFS	High			BJPT	High
	RS	High			BJK-a	High
Cash flow					BJPT	High
					Clifford	High
Liquidity					GJ	High
					NOS	High

Table 4: Authors' different definitions of shareholder activism and success

Summary of 52 studies of the effects of shareholder activism on target companies. A plus sign (+) indicates that the authors interpret their findings as indicating that shareholder activism has substantial impact on target companies. A minus (–) sign indicates that the authors interpret their findings as indicating that shareholder activism has negligible or negative impact on target companies. The studies in each column are ordered by the year of publication. Author abbreviations are described in Table 1.

	Criteria emphasized as measures of shareholder activism success:					
	Increase in share values	Increase in accounting measures of performance	Change in target firm's operations or management	Specific actions sought by activist adopted by target firm	Some actions by target firm attributed to activism	Percent of votes cast in favor of shareholder proposal
Panel A: Authors drawing conclusions primarily from empirical findings regarding shareholder proposals	+ Nesbitt (1994) – KMW (1996) – Wahal (1996) – GS (2000) – PR (2000) – TC (2007) + VIR (2010) – CW (2011) + RS (2011) + CGG (2012) – PRW (2012)	– KMW (1996) – Wahal (1996) – PR (2000) – Woidtke (2002) – VIR (2010) + HGK (2011)	– KMW (1996) + DH (1999)	+ BM (1998) + DH (1999) + EFS (2010) – EFM (2011) + HIZ (2012)	+ DH (1999) + PRW (2012)	+ TM (1998) – GS (2000) + TC (2007) + EFS (2010) – CW (2011) + CGG (2012)
Panel B: Authors drawing conclusions primarily from empirical findings regarding negotiated settlements and non-proposal	+ Smith (1996) + SWZ (1996) + OS (1997) + CHJ (1998) + GKM (2000) – CGD (2001) + AWH-a (2003) – SS (2003) + AWH-b (2004) – ESM (2004) – Nelson-a (2005) – Nelson-b (2006) + Barber (2007) – DSW (2008)	+ OS (1997) – SS (2003) + DSW (2008)	+ DSW (2008)	– WWZ (1995) + Smith (1996) + EFM (2011)	+ Smith (1996) + CNW (1998) + GKM (2000) + Wu (2000) + CF (2009)	+ SWZ (1996)
Panel C: Authors drawing conclusions primarily from empirical findings regarding hedge fund activism	+ BJPT (2008) + Clifford (2008) + BJK-a (2009) + GrS (2009) + KZ-a (2009) + BoM (2011) + Gantchev (2013) + BBJ (2015) + BFGW (2015)	+ Clifford (2008) + BJK-a (2009) – GrS (2009) – KZ-a (2009) + BoM (2011) + Zhu (2013) + GGJ (2014)	+ BoM (2011) + BJK-b (2013) + Zhu (2013) + BJT (2014) + GGJ (2014)	+ Bratton (2007) + BJPT (2008) + KZ-a (2009)	+ HT (2012)	

Figure 1: Valuation effects of different types of shareholder activism

This figure presents the findings from 33 studies that examine the short-window share price reaction at firms targeted by four types of shareholder activism, plus the results from two surveys of research on corporate takeovers by Andrade, Mitchell, and Stafford (2001) and Betton, Eckbo, and Thorburn (2008). The types of activism are shareholder proposals, direct negotiations with managers, hedge fund activism, and proxy fights. For a given type of shareholder activism, each point in the figure corresponds to the main point estimate of the impact on share values, in percent, from each of the 33 studies that are summarized in Table 1. The types of activism are ordered by the activists' average shareholdings in the target company. For shareholder proposals and negotiations, such shareholdings typically are not reported by the researcher and appear to be close to zero, on average. Hedge fund activists' shareholdings in their target companies average 8.8% (Boyson and Mooradian (2011), and activists who initiate proxy fights hold 9.9% (Buchanan et al., 2012) of their target companies' shares, on average.

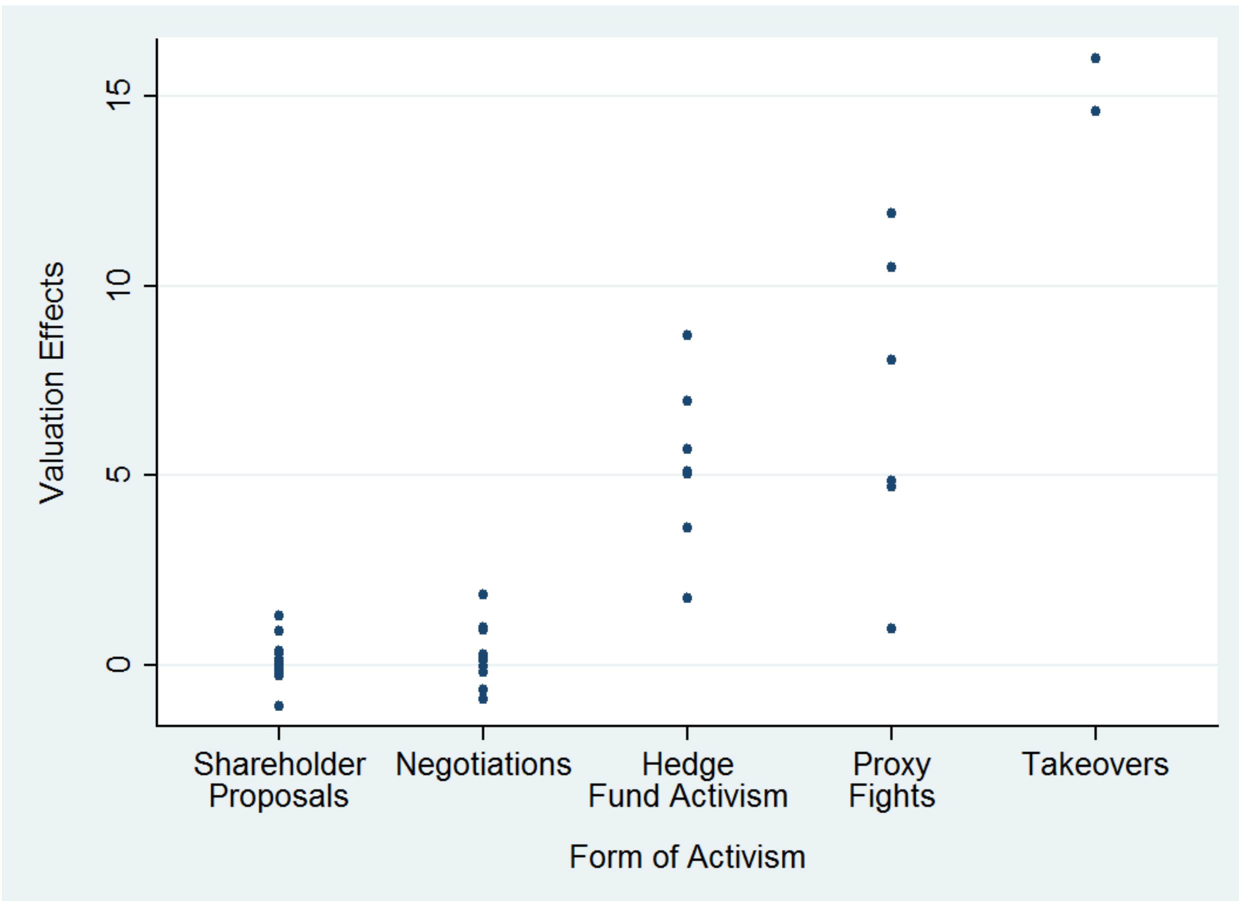

Figure 2: Results of the share price effects by type of shareholder activism and sample period examined

This figure presents the overall findings from 27 studies that examine the short-window share price reaction at firms targeted by three types of shareholder activism. For each study, the years of the sample period are represented by the colored bar. Green indicates that the study finds that the impact on target share values is positive. Yellow indicates that the share price effects are not significantly different from zero, and red indicates that the share price effect is negative. Details on the sample in each paper are provided in the Appendix and Table 1. The Cai and Walkling (2011) study focuses on say-on-pay shareholder proposals.