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A R T I C L E S

ACTIVIST HEDGE FUNDS: BEWARE THE NEW TITANS

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Deploying more than $65 billion in capital globally and with more than 900 campaigns in 2018, activist hedge funds represent "the activist" in the capital market and have a significant influence on corporate governance and strategy and even the ownership of companies. While finance scholars have focused on understanding what firms activist hedge funds target and the performance repercussions of their campaigns, management scholars have largely ignored this important constituent. Based on our extensive research on the context of hedge fund activism, we here provide a research agenda that articulates the opportunities for management scholars to conduct investigations into this important phenomenon. By shedding light on the dynamics of hedge fund activism, management scholars have the opportunity to provide greater clarity as to whether these activists are shareholder champions or if they undermine the long-term strategic health of companies.

> My opinion is that, philosophically, I'm doing the right thing in trying to shake up some of these managements. It's a problem in America today that we are not nearly as productive as we should be . . . It's like the fall of Rome, when half the population was on the dole.
> —Carl Icahn, founder of Icahn Enterprises, an activist hedge fund (Goodloe, 2014)

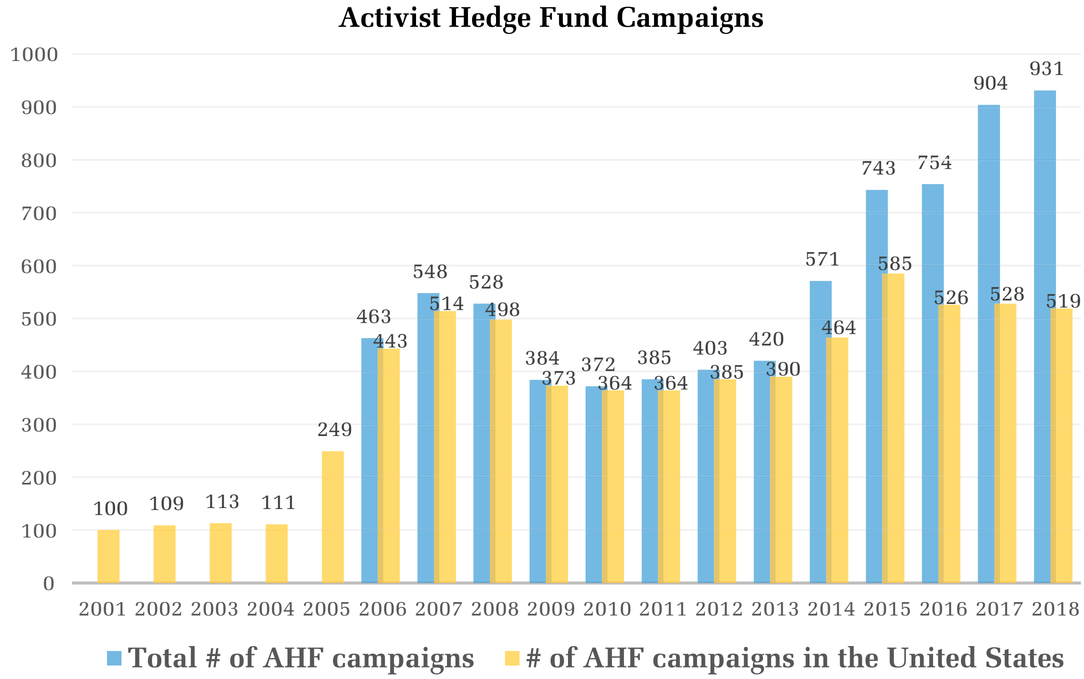
Icahn's quote underscores the sentiment of activism in today's capital market, and also accounts for why activist hedge funds are "the activist" in the capital market. Activist hedge funds are private investment vehicles that acquire stakes in public companies to influence change in the companies they target. While shareholder activism is not new (see Goranova & Ryan, 2014, for a review), legal and Securities and Exchange Commission (SEC) reforms during the late 1990s made it significantly easier and less costly for shareholders to utilize proxy fights to challenge management, which led to the emergence of hedge fund activism in the early 2000s (Briggs, 2007).

Once labeled as "corporate raiders" and "greenmailers," activist hedge funds have evolved to the forefront of activism due to their increased capital deployment, targeting public firms of all sizes, and the global scope of their activism. From less than $12 billion in assets under management in 2003, activist hedge funds now manage more than $121 billion in assets, with a record amount of $65 billion in capital deployed globally in 2018 (Lazard Shareholder Advisory Group, 2019). In addition, the number of campaigns initiated by activist hedge funds has grown. As shown in Figure 1, there were 931 total campaigns in 2018, 20% of which targeted companies with market capitalizations greater than $10 billion (Activist Insight, 2019).[1] While hedge fund activism was predominantly a U.S. phenomenon, activists have widened their geographic scope to include Europe, with $15.6 billion deployed in 148 campaigns there in 2018 (Activist Insight, 2019).

Flush with cash, activist hedge funds are rattling the leaders of the corporate world and represent the "new sheriffs of the boardroom" (Murray, 2005). They have created a renewed struggle between shareholders and managers ("Battling for Corporate America," 2006). Hedge fund activists have forced

[1] Examples of large-cap companies engaged by activists in 2018 include Dell Technologies, Inc., Campbell Soup Company, Sempra Energy, United Technologies Corporation, and Lowe's Companies, Inc.

FIGURE 1
Activist Hedge Fund Campaigns



Notes: AHF = activist hedge fund. Data sourced from FactSet's corporate activism database, SharkRepellent. Data on non-U.S. campaigns were not available prior to 2006.

companies to put themselves up for sale (e.g., Whole Foods acquired by Amazon as a result of activist Jana Partners), as well as spinning off or divesting their businesses (e.g., Kraft spun off their snack business into a separate public company, Mondelez). Activists have also had a major impact on the governance of firms, resulting in the dismissal of CEOs (e.g., Ellen Kullman at DuPont) and gaining board representation with 511 director appointments globally in 2018 (Activist Insight, 2019).

Despite the significant impact that activist hedge funds are having on publicly traded companies, management scholars have largely ignored this important and influential constituent that is driving corporate strategy and governance (McNulty, Zattoni, & Douglas, 2013; Tihanyi, Graffin, & George, 2014). Research on activism within management has traditionally focused on "social" activism by pension funds that, along with religious organizations, labor unions, and other groups, pressure companies to comply to various social, environmental, and governance initiatives (e.g., David, Bloom, & Hillman, 2007; Goranova & Ryan, 2014). However, social activism differs considerably from hedge fund activism, in that hedge fund activists target underperforming companies with demands to improve shareholder value and are able to exert considerable pressure through the tactics they use and their ability to gain support from other investors. Our lack of attention to hedge fund activism can also be attributed to our focus on internal mechanisms of governance and thus not adequately recognizing the importance of capital market constituents (Aguilera, Desender, Bednar, & Lee, 2015; Brauer & Wiersema, 2018). By failing to recognize the influence of activist hedge funds on board and executive decision-making, though, we run the risk of conducting research that is far removed from the reality of the capital market in which publicly traded companies operate.

Therefore, our purpose in this paper is to draw attention to hedge fund activism in order to inspire management scholars to study this emerging phenomenon. Activist hedge funds represent a relatively new capital market constituent that is driving unprecedented change in firms' strategy and corporate governance. They have significantly altered capital market expectations and the relationship that companies have with not just "activist" shareholders, but also with their major institutional investors.[2] While some would argue that activists address performance and corporate governance shortcomings by aligning board and managerial interests with those of shareholders, others would argue that activists might further exacerbate management short-term focus at the expense of the long-term health of the company (Coffee & Palia, 2016). These are issues that deserve greater research attention. Yet we know little about the long-term consequences of activists on corporate strategy and governance and even less about the interactions activists have with companies' boards and management, how settlements are negotiated, and the various external constituents that influence these negotiations. As a result, our knowledge of the process by which these activist investors influence boards and management remains largely a "black box."

We call on management scholars to expand our knowledge into what transpires during activist campaigns and how outcomes are determined, as well as to provide greater clarity as to whether activists are shareholder champions, as some have argued, or whether they represent short-term investors that adversely affect the long-term health of companies. By identifying a rich avenue of research for management scholars, we hope to enhance our knowledge of this important actor in the capital market and to better understand the determination of organizational outcomes. Further research on hedge fund activists may also help challenge and extend our existing models of corporate governance. Since agency theory has been the predominant theoretical lens, governance scholars have largely focused on how to improve the board's internal monitoring role to align managerial self-interests with those of the firm's shareholders (Hambrick, Misangyi, & Park, 2015). Activists act not only as a disciplinary force in the capital market, but they have also "woken up" institutional investors, and, with increasing board representation, they have become an internal monitor as well. What are the implications for our theories of governance in light of these developments?

The purpose of this paper is to motivate scholars to advance our understanding of hedge fund activists and their influence on executive decision-making and the implications for corporate strategy and governance. We first define and describe hedge funds and how they differ from private equity and other institutional investors (see Table 1, below) as well as what led to the emergence of activism by hedge funds. Next, we provide an abbreviated summary of the finance research on hedge fund activism (see Table 2). Then, utilizing our extensive empirical and qualitative research on activists and the firms they target, we provide a contextual framework (Figure 2) for understanding hedge fund activism by identifying the various constituents involved in an activist hedge fund campaign. We then utilize this framework as the basis for providing a research agenda in which management scholars have the opportunity to shed light on the dynamics of hedge fund activism by utilizing various theoretical perspectives. Finally, we discuss the contributions we seek to make and the policy implications of hedge fund activism.

ACTIVIST HEDGE FUNDS

Hedge funds are considered to be an institutional investor but they differ significantly from pension funds, mutual funds, endowment funds, banks, and insurance companies. The SEC defines a "hedge fund" as a pooled, privately organized investment vehicle that is administered by professional investment managers who have significant investment in the fund (Brav, Jiang, Partnoy, & Thomas, 2008). As detailed in Table 1, hedge funds, like private equity, are not open to the public and can only be invested in by accredited investors (e.g., financially sophisticated investors such as high-net-worth individuals, mutual funds, pension funds, or insurance companies). Conversely, institutional investors such as pension funds largely have retail investors (e.g., consumers). While hedge funds must register with the SEC, they have minimal SEC oversight and reporting requirements compared to other institutional investors. Unlike other institutional investors, hedge funds, like private equity, can take large stakes in a company, since they are not required to hold a diversified portfolio. Like other investment vehicles, hedge funds collect a 1–2% fee based on assets under management, but also earn 20% of the gain in value of the investment portfolio. Given this compensation structure and since the principals of these funds have their own wealth invested, hedge funds have strong incentives to generate positive returns, which accounts for their aggressive behavior and investment strategies.

The hedge fund industry has been around since the 1960s, and has grown as an alternative investment vehicle for institutional investors, such as pension funds, principally because it has historically

[2] While shareholder activism is not new, the rise of activist hedge funds and their emergence as "the activist" in the capital market is relatively recent and has drastically changed investor scrutiny (Boyson & Mooradian, 2011).

TABLE 1
Private Equity, Hedge Funds, and Institutional Investors

Characteristics	Private equity[a]	Hedge funds[a]	Institutional investors[b]
SEC regulation	Limited disclosure	Minimal SEC regulation. 13F disclosure requirement for funds with AUM greater than $100 million	Must register and publicly disclose their investment portfolio with the SEC
Objectives	Acquire an equity stake or complete control in private companies. Sell the company or IPO	Maximize returns	Various risk or return investment objectives
Investment portfolio	No requirements to hold a diversified portfolio. Closed end.[c] Private companies. No securities. No short selling allowed	No requirements to hold a diversified portfolio. Can take large stakes in a company. Open end.[c] Tradeable securities (i.e., stocks, bonds, derivatives, options)	Must hold a diversified portfolio. Open end.[c] Tradeable securities. Invest in hedge funds and private equity
Investors	Accredited	Accredited	Non-accredited
Capital contribution	High (usually min. $250K)	High (usually min. $250K)	Low
Investment liquidity	Illiquid. Capital raising term of many years. Long set terms, usually 5 to 10 years	Somewhat liquid. Investors can redeem investment within 30–90 days after initial lock-up of up to 1 year	Liquid. Sell their investments readily
Risk level	High	High	Low to Moderate
Compensation	Management fee (usually 1–2%) and performance fee (usually 20% of gain)	Management fee (usually 1–2%) and performance fee (usually 20% of gain)	Management fee (usually 0–2%) or performance fee (usually 0–20% of gain)
Number of firms	2,296 funds	Greater than 10,000 funds	Greater than 25,000[d]
AUM	$3.41 trillion	$2.88 trillion	$20–30 trillion

Notes: AUM, assets under management; IPO, initial public offering; SEC, U.S. Securities and Exchange Commission.
[a] Pooled investment vehicle.
[b] Pension funds, mutual funds, endowment funds, insurance companies, commercial banks.
[c] A closed-end fund issues a fixed number of shares and has a fixed amount of capital. An open-end fund is open with regard to raising capital and issuing shares.
[d] There are no data on the actual number of institutional investors. This is an estimate based on 4,000 pension funds, 6,000 insurance companies, 9,400 mutual funds, and 5,000 commercial banks. Institutional investors also include endowment funds. Sources for data: Barclay Hedge (2019), Mcgrath (2017).

outperformed average equity funds as well as major market indices.[3] From as few as 300 funds in 1990 and $40 billion in assets under management, the hedge fund industry has grown significantly, with over 10,000 funds and $3.3 trillion in assets under management by 2018 (Hedge Fund Research, 2018).

Activist hedge funds represent only a small percentage of all hedge funds. The basis for discerning what makes a hedge fund an "activist" versus a "passive" investor is its Schedule 13D filing with the SEC. When an investor acquires 5% or more of a company's stock, the investor is required to file a Schedule 13D in which the individual must state their intention toward the company as to whether they will be an active or passive investor.

[3] They underperformed in 2017 with a return of 8.5% versus 21.8% for the S&P 500.

Several factors that provided for greater shareholder rights led to the emergence of hedge fund activism, and have also enabled these activists to be more successful than prior activist investors. In the United States, "legal reforms and court decisions that have deregulated proxy contests and other shareholder insurgency activities have served to make hedge fund attacks easier and cheaper" (Briggs, 2007, p. 684). In the past, any shareholder engagement by an activist investor required filing a proxy statement and SEC review, which, upon approval, then required reaching shareholders through brokerage firms. A multitude of SEC reforms in 1999 removed prior obstacles to shareholder engagement by terminating SEC proxy censorship and thus enabled activists to communicate more freely to other shareholders. These changes allowed activist investors to provide letters

TABLE 2
Overview of Activist Hedge Fund Empirical Research in Finance

	Sample and Time Period	Dependent Variables	Findings
Consequences of Hedge Fund Activism on Target Firms			
Brav et al. (2008)	2001–2006 • 236 activist hedge funds • 882 target firms vs. matched peer firms	• Abnormal stock returns • Dividend • Firm performance (ROA) • CEO turnover	Filing of Schedule 13D results in large positive abnormal stock returns in the range of 7–8% during the (−20, +20) announcement window. The increase in price and trading volume begins about 10 days before Schedule 13D filing. Target firms experience increases in payout and operating performance. CEO turnover rate at target firms is 12.4% higher than that of industry peers
Clifford (2008)	1998–2005 • 197 activist hedge funds	• Firm performance (ROA)	Firms targeted by activists show 1.22% increase in operating efficiency (ROA) in the year following acquisition by the activist hedge fund
Greenwood and Schor (2009)	1993–2006 • 139 activist hedge funds • 811 target firms	• Abnormal stock returns	Activist hedge funds increase probability of target firm takeover by 11%. The majority of targeted firms are not acquired and the abnormal stock return for these firms are not statistically distinguishable from zero
Klein and Zur (2009)	2003–2005 • 101 activist hedge funds • 151 target firms vs. matched peer firms	• Abnormal stock returns	Filing of Schedule 13D results in a 10.2% abnormal stock return during period surrounding the filing and 11.4% in the subsequent year
Klein and Zur (2011)	1994–2006 • 635 activist hedge fund campaigns • 193 target firms	• Bond return • Credit rating	Activist hedge funds reduce bondholder wealth. Filing of Schedule 13D results in bond return of −3.9%. For the remainder of the year, the return is an additional −4.5%. In 29% of target firms' bonds, they have their credit rating lowered by a U.S. credit agency within one year of Schedule 13D filing
Boyson and Mooradian (2011)	1994–2005 • 111 activist hedge funds • 397 target firms vs. matched peer firms	• Abnormal stock returns • Firm performance (ROA, cash flow)	More experienced activist hedge funds outperform inexperienced activist hedge funds (27.2% vs. −5.5% in abnormal stock returns) as well as targeted firm operating performance (ROA and cash flow as a percentage of assets) in the year after the Schedule 13D filing
Brav et al. (2015a)	1994–2011 • 368 activist hedge fund campaigns	• Abnormal stock returns • Firm performance (ROA) • Plant total factor productivity	Schedule 13D filing results in positive abnormal stock returns, but the returns varied over time with highest CARs of 14% in 2001 and lowest CARs of 2% in 2007–2008. Three years after Schedule 13D filing, target firms showed improved plant productivity. Targeted firms more

TABLE 2
(Continued)

	Sample and Time Period	Dependent Variables	Findings
			frequently sold underperforming plants. Employees of target firms experience stagnation in work hours and wages despite an increase in labor productivity
Aslan and Kumar (2016)	1996–2008 • 130 activist hedge funds • 1,332 target firms	• Price-cost markups • Firm performance (ROA, cash flow, annual sales growth) • Total factor productivity	Industry rivals respond to activism in peers by improving efficiency and product differentiation. Activist hedge fund campaigns have significant product market spillover effects on industry rivals of target firms
Boyson, Gantchev, and Shivdasani (2017)	2000–2012 • 467 target firms	• Takeover bid dummy • Abnormal stock returns	Over one third of firms targeted by activist hedge funds are involved in a takeover bid before or within two years of activist involvement. Probability of a takeover from activism is 22%, about four times larger than when no activist is present
Chen and Jung (2016)	1999–2011 • quarterly guidance decisions	• Firm disclosure • Quarterly guidance	Target firms cease providing guidance or reduce information as a result of activist hedge fund campaigns
Becht et al. (2017)	2000–2010 • 330 activist hedge funds • 1,740 target firms	• Abnormal stock returns	Filing of Schedule 13D results in large positive average abnormal returns of 7% in U.S. campaign during (−20, +20) announcement window and 4.8% for Europe and 6.4% for Asia. The abnormal returns are higher in campaigns in which the activist is successful (7.9%) than for unsuccessful campaigns (4.7%)
Carrothers (2017)	1995–2007 • 223 activist hedge funds • 1,007 target firms	• Firm performance (ROA) • Market-to-book ratio • Cash flow ratio • CEO turnover	Market responds positively to the announcement of activist hedge fund campaigns. Target firm's leverage, executive compensation, pay for performance, and CEO turnover increases after hedge fund activism
Khurana, Li, and Wang (2018)	2001–2013 • 510 activist hedge fund campaigns	• Management forecast • Voluntary disclosure	Activist hedge fund campaigns result in a decrease in frequency of management earnings forecasts conveying bad news and an increase in the level of real earnings management
Whom Activist Hedge Funds Target			
Brav et al. (2008)	2001–2006 • 236 activist hedge funds • 882 target firms vs. matched peer firms	• CEO turnover • Abnormal stock returns	Activist hedge funds target firms that have lower market value. In comparison to their peers, target firms have lower market-to-book ratio, but profitable and sound operating cash flows and ROAs. Target firms have lower payouts, greater institutional investor stock

TABLE 2
(Continued)

	Sample and Time Period	Dependent Variables	Findings
			ownership, higher analyst coverage, and greater trading liquidity
Greenwood and Schor (2009)	1993–2006 • 139 activist hedge funds • 811 target firms	• Firm performance (CAR)	Activist hedge funds target firms that have lower market value. In comparison to their peers, target firms have low market-to-book ratios, little or no analyst coverage, and have underperformed in their industry over the previous 24 months
Klein and Zur (2009)	2003–2005 • 101 activist hedge funds • 151 target firms vs. matched peer firms	• Abnormal stock returns • Firm performance (ROA, cash flow)	Activist hedge funds target firms that have lower market value. In comparison to their peers, target firms are profitable and financially healthy (ROA, cash flows from operations)
Boyson and Mooradian (2011)	1994–2005 • 111 activist hedge funds • 397 target firms vs. matched peer firms	• Firm performance (CAR, ROA, cash flow)	Activist hedge funds target firms with lower market value. In comparison to their peers, activist hedge funds target firms with poor recent stock performance, low growth opportunities (large cash position, high book-to-market ratio, low Tobin's Q) and strong operating performance (high ROA and cash flows as a percentage of assets)
Brav et al. (2015a)	1994–2011 • 368 activist hedge fund campaigns	• Firm performance (ROA) • Plant total factor productivity	Activist hedge funds target firms with lower market value. In comparison to their peers, target firms are less profitable in terms of ROA. Target firms also have higher leverage, lower dividend payouts, less R&D spending, and higher institutional ownership
Aslan and Kumar (2016)	1996–2008 • 130 activist hedge funds • 1,332 target firms	• Firm performance (ROA, cash flow, annual sales growth) • Total factor productivity	Activist hedge funds target firms that are smaller in market capitalization, more profitable (ROA), less leveraged (ratio of EBIT to total assets) and have lower market-to-book ratios, sales growth, and dividend payouts
Becht et al. (2017)	2000–2010 • 330 activist hedge funds • 1,740 target firms	• Abnormal stock returns	Activist hedge funds target firms with high institutional ownership
Carrothers (2017)	1995–2007 • 223 activist hedge funds • 1,007 target firms	• Firm performance (ROA) • Market-to-book ratio • Cash flow	Activist hedge funds target undervalued or underperforming firms with high profitability and cash flows
Gantchev and Jotikasthira (2018)	2000–2007 • 130 activist hedge funds • 981 target firms	• Hedge fund purchase volume	Sales by institutional investors in the firm's stock raise a firm's probability of becoming an activist target. A 1% increase in daily institutional selling volume is associated with a 0.26% increase in hedge fund buying volume

TABLE 2
(Continued)

	Sample and Time Period	Dependent Variables	Findings
Consequences for Activist Hedge Fund Returns			
Brav, Jiang, Partnoy, and Thomas (2008)	2001–2006 • 236 activist hedge funds • 882 target firms	• Alpha (capital asset pricing model and four-factor model)	Activist hedge funds perform better than self-reported hedge funds and the subset of equity-oriented hedge funds. From 2003 to 2006, activist hedge funds have outperformed equity-oriented hedge funds in addition to market indices
Clifford (2008)	1998–2005 • 197 activist hedge funds	• Alpha (Fama–French three- and four-factor models)	Average annual return to activist holdings is 8–21% larger than the returns to passive holdings
Boyson and Mooradian (2011)	1994–2005 • 111 activist hedge funds • 397 target firms vs. matched peer firms	• Alpha (Carhart four-factor model, Fung and Hsieh seven-factor model)	Returns to activist hedge funds outperform non-activist firms by 7.2%
Gantchev (2013)	2000–2007 • 171 activist hedge funds • 1,023 target firms	• Abnormal activist returns (value weighted CRSP portfolio returns, DGTW returns)	Returns of the top quartile of activist hedge fund campaigns exceed the returns on non-activist holdings even though the average hedge fund activist performs worse in activist targets than in other portfolio companies

Notes: CRSP, Center for Research in Security Prices; CAR, cumulative abnormal return; DGTW, Daniel, Grinblatt, Titman, and Wermers; EBIT, earnings before interest and taxes; ROA, return on assets.

and presentations of their objectives and analyses to the investors of target firms and gain support for their demands. Changes to Schedule 13D filing rules permitted investors such as hedge funds to file abbreviated disclosure statements (Schedule 13G), allowing for surprise attacks (Briggs, 2007). Meanwhile, the courts, according to Briggs (2007, p. 691), "contributed to streamlining the rules for hedge fund activism" and have been reluctant to rule that multiple activists cannot form a group, enabling hedge funds to engage in "wolf pack" tactics, whereby multiple activists go after the same target firm. Finally, proxy advisory firms such as Institutional Shareholders Services (ISS) have "become enormously influential and have also helped weaken corporate defenses" (Briggs, 2007, p. 692). ISS strongly supports shareholder activism, opposing takeover defenses such as poison pills and staggered boards, which has resulted in most public companies complying with their guidelines (Coffee & Palia, 2016). As a result, companies can face the prospect that their entire board could be removed in a proxy fight.

Similarly, in Europe, the adoption of shareholder rights by the European Union has enabled shareholders to have greater influence. With the advent of U.S. activists going after European listed firms, European investors are becoming accustomed to U.S.-style shareholder activism. The pressure for increasing shareholder value and general increased acceptance of activism as agents for positive corporate reform (Activist Insight, 2018) have led to an environment that is more supportive of activism in Europe. This is happening despite the concentrated ownership structure of many European companies, which may serve as an obstacle for activist investors.

As a result of the rise of shareholder rights, activists now have the ability to better communicate with and gain the support of other investors in their campaign. Companies are less able to defend themselves, due to the removal of anti-takeover provisions and staggered boards. These factors, along with the significant investment of capital that has flowed to hedge funds as an asset class, have led to the emergence and success of hedge fund activists.

Within management, scholars have predominantly focused on investor activism by institutional investors such as mutual funds, pension funds, religious organizations, and labor unions, that pressure companies to comply to various social, environmental, and governance initiatives (Goranova & Ryan, 2014). What differentiates hedge fund activism from "social activism" is the nature of their goals, the stakes involved, their tactics, and their success. Social activism involves issues that not all of the firm's shareholders may agree to. For example, environmental goals will not necessarily gain the support of all shareholders because of the ramifications for shareholder value. Since pension funds and groups that promote social causes are unable to take large stakes in one particular firm, they are also limited in their ability to pressure firms. As a result, they resort to boycotts to draw negative publicity to get their demands met (Eesley, Decelles, & Lennox, 2016). Given the nature of their goals and their limited ability to influence the firms they target, social activism by pension funds and others has not resulted in substantial corporate governance reform or improvements in shareholder value (e.g., Gillan & Starks, 2007). Even governance initiatives such as "say on pay" voting,[4] which may have broader shareholder support, have not been widely adopted by firms (ProxyPulse, 2018). Lastly, it can take a long time for activism by institutional investors to have an effect on company practices (Briscoe, Gupta, & Anner, 2015).

Thus, hedge fund activism is a distinct phenomenon that differs from social activism in terms of its ownership stakes in the target firm, and its objectives, tactics, and effectiveness at getting its demands met. Like prior financial activism, hedge fund activists' objective is to influence management and the board to adopt changes that lead to greater shareholder wealth. Given the regulatory and governance changes that have enabled investors to better communicate and articulate their demands to firms' shareholders and the amount of capital these funds have attracted, activist hedge funds are "the activist" in the capital market and are by far the "most potent form of activism" (Goranova & Ryan, 2014, p. 1241).

Given the growing importance of activist hedge funds, scholars in finance, accounting, and law have understandably devoted considerable research attention to this phenomenon. We next provide an abbreviated summary of the published empirical research within the finance field,[5] since it provides a foundation for understanding hedge fund activism.

As shown in Table 2, the majority of research on hedge fund activism is focused on the performance consequences for the firms they target. The filing of the Schedule 13D, which announces that an activist hedge fund has taken a stake in a company, results in an immediate positive impact on the stock price of the target company in the range of 7–16.5%[6] (Boyson & Mooradian, 2011; Brav, Jiang, & Kim, 2009; Klein & Zur, 2009). In comparing Schedule 13D filings of passive versus activist hedge funds investors, Clifford (2008) found that abnormal returns are significantly higher for activist announcements. Becht, Franks, Grant, and Wagner (2017) found that Schedule 13D filings resulted in positive abnormal returns in U.S. (7%), European (4.8%), and Asian (6.4%) campaigns, and that abnormal returns were higher when the activist was successful in its campaign (7.9%) than when the campaign was unsuccessful (4.7%). The highest abnormal returns occur when the hedge fund states that it intends to seek the sale of the target company (Brav et al., 2009). Boyson and Mooradian (2011) found that the stock market response to the Schedule 13D filing varies depending on the experience of the activist hedge fund, with more experienced activists significantly outperforming inexperienced activists on both the short-term stock market response (27.2% vs. −5.5%) as well as the target firm's long-run operating performance. The evidence that activist hedge funds improve a target firm's operating performance is not quite as strong. Clifford (2008) found that activists improve operational efficiency in the subsequent year by 1.22%, while Brav, Jiang, and Kim (2015a) found that, in three years after the Schedule 13D filing, target firms improved their plant operational efficiency and that employees of the firm experienced stagnation in work hours and wages despite an increase in labor productivity.

Research has also examined the consequences of hedge fund activism on corporate strategy and governance and found that over one third of target firms are involved in a takeover bid before or within

[4] In the 2018 proxy season, for example, 287 "say on pay" proxy proposals failed to receive the support of at least 70% of the shares voted, and 93 failed to receive majority support (ProxyPulse, 2018).

[5] We limited our review to articles that appeared in a select group of journals or articles especially pertinent to contributing to the research conversation. For example, although there is substantial research on hedge funds by Na Dai and Douglas Cumming, these papers are not included since they do not examine activist hedge funds.

[6] The impact on the target firm's stock price is measured by the CARs associated with the Schedule 13D filing, which announces the activist hedge fund's purchase of the firm's stock and its intention to be an activist investor.

two years of activist involvement, with a significant probability (22%) of being taken over (Boyson et al., 2017). Target firms also experienced CEO turnover levels that are higher (12.4%) than their industry peers (Brav et al., 2009) and changes to CEO compensation to better align it with the firm's stock performance (Carrothers, 2017). Activist hedge funds also had an impact on earnings guidance, with target firms providing fewer earnings forecasts (Chen & Jung, 2016; Khurana et al., 2018). Finally, scholars have also found that the impact of activist hedge funds extends beyond the target firm, in that industry rivals responded by improving their own efficiency (Aslan & Kumar, 2016).

Research has also focused on identifying the characteristics of the companies that activist hedge funds target. Companies that are targets of activist hedge funds are significantly different from non-target companies, in that they are smaller, in terms of market capitalization (Boyson & Mooradian, 2011; Clifford, 2008; Greenwood & Schor, 2009; Klein & Zur, 2009); have higher institutional investor stock ownership (Becht et al., 2017; Brav et al., 2009); significantly underperform, compared to their industry peers (Boyson & Mooradian, 2011; Carrothers, 2017; Greenwood & Schor, 2009); and have good operating cash flows and are financially healthy (Boyson & Mooradian, 2011; Brav et al., 2009; Carrothers, 2017; Klein & Zur, 2009).

Finally, Clifford (2008) examined the returns to activist hedge funds, and found that activist hedge funds outperformed non-activist hedge funds by 7.2% during the 1994–2005 time period.

In summary, academic knowledge to date on hedge fund activism is based predominantly on empirical work in finance. From this stream of research, we know that companies that are targeted significantly underperform in comparison to their industry peers and that news of an activist campaign has a positive impact on the target firm's stock return. However, we know little about what actually occurs during a campaign and in particular what leads to the settlement outcome by the target firm.

THE CONTEXT OF HEDGE FUND ACTIVISM

To provide a framework for understanding activist hedge funds and their impact on the firms they target, it is important to fully understand the contextual factors that play a role in their campaigns. As described in Appendix A, we conducted 12 in-depth case studies as well as empirical analysis on 424 activist campaigns during the 2008–2014 time period to gain a better understanding of the nature of their demands, the tactics used, and the settlements reached in their campaigns. Furthermore, we conducted qualitative research wherein we interviewed board directors and CEOs of target firms and principals of activist hedge funds to gain further insight into what transpires in an activist campaign.

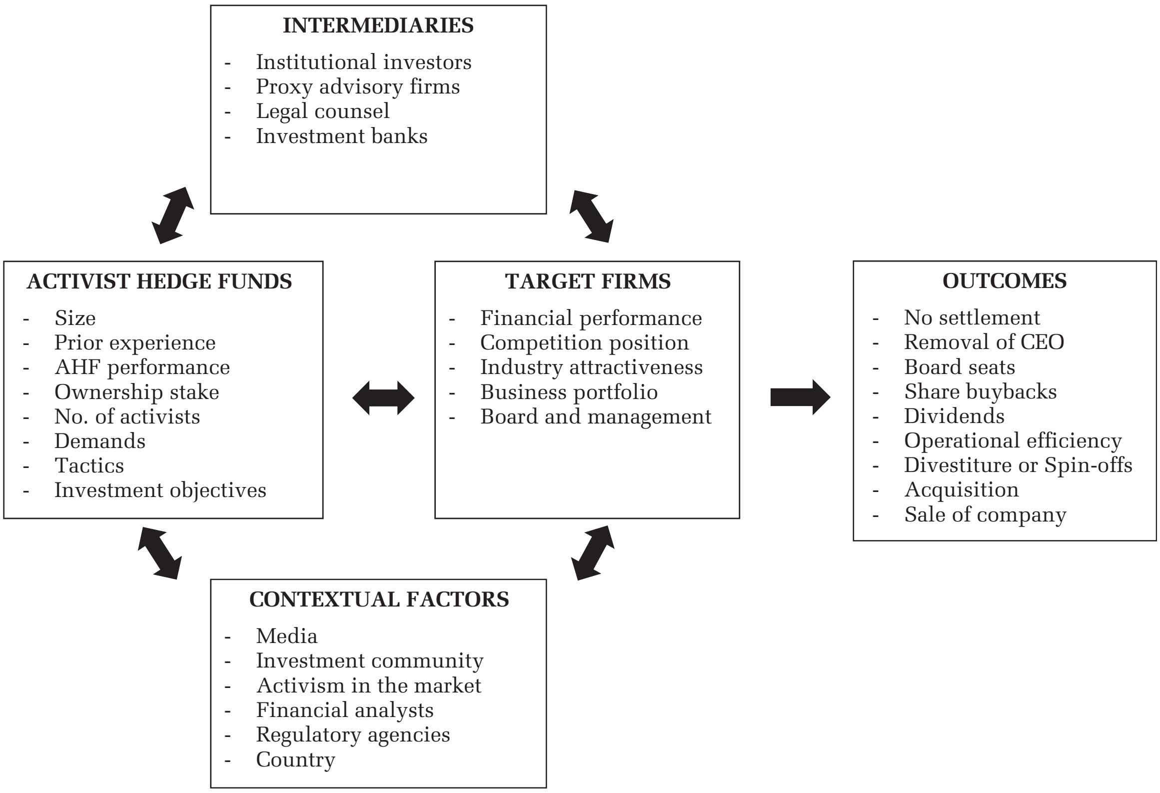
Based on this research, we developed a framework for understanding the context of hedge fund activism. As shown in Figure 2, an activist campaign involves multiple parties that extend beyond the activist hedge fund and target firm and includes intermediaries and contextual factors. In what follows, we briefly describe important aspects of the activist and the target firm and discuss how intermediaries and contextual factors are likely to play a role in the campaign.

Activist Hedge Funds

Activist hedge funds vary considerably in size in terms of the assets under management, the number of campaigns they are involved with, and their performance. Some activists are far more active than others, in that they conduct multiple campaigns in a given year. Elliott Management, for example, has been the most active hedge fund for the past three years, conducting 22 campaigns in Europe and the United States in 2018, which represented almost 10% of all campaigns launched that year. On the other hand, there are many new activist hedge funds that are just getting started with far less capital at their disposal. In 2018, there were 40 campaigns launched by "first-timers" (Lazard Shareholder Advisory Group, 2019). Activist hedge funds also differ as to the size of their investment in the target firm, with greater ownership yielding greater influence.

Activist hedge funds vary too in their goals and objectives, which is likely to influence the companies they target and the demands and tactics they use in their campaigns. Activists' intentions vary from demanding governance changes and financial restructuring, to portfolio restructuring, and even the sale of the company. Corporate governance demands include board representation, or the removal of the CEO or directors. Requesting a board seat is the most frequent demand, and has resulted in activists obtaining more than 1,200 board directorships since 2014 (Activist Insight, 2019). Activists can also demand the removal of the CEO, as in the case of ThyssenKrupp's CEO, who resigned in July 2018 due to pressure from Elliott Management. Financial restructuring includes demands for dividend payouts or repurchasing of shares. Portfolio restructuring demands are intended to unlock value in a company by selling off businesses as in Elliott Management's demand in 2019 that eBay

FIGURE 2
Contextual Framework of an Activist Hedge Fund Campaign



Note: AHF = activist hedge fund.

spin-off its StubHub e-ticket business. The most significant demand is the forced sale of a company, as when activist Pershing Square Capital Management partnered with Valeant to have Allergan acquired in 2015. Activists can also oppose restructuring or financial actions that a company proposes, such as Icahn Enterprises' opposition to Dell's reverse merger plan in 2018.

Based on our interviews and from researching numerous activist hedge fund campaigns in detail, we found that activists have a variety of tools at their disposal, ranging from conciliatory to hostile in nature. The tactics used by activists include private communication with the board and management, communicating directly with the firm's shareholders, threatening to launch a proxy fight, launching a proxy fight, suing the company, or making a takeover bid for the target firm.

While the majority of campaigns involve one activist hedge fund, there are also campaigns where multiple activists, referred to as a "wolf pack," take stakes in the target firm. From talking to board directors of a company targeted by multiple activists, we found that the activists do not necessarily agree with regard to their demands or objectives. Our interviews also revealed that some activists are very conversational and "love to talk" while others barely communicate with the board and management.

In summary, there are many aspects of an activist hedge fund that can influence the nature of the campaign, including the activist's size and ownership stake as well as whether other activists are involved in the campaign. In addition, the activist's investment objectives are likely to influence which companies they target. Finally, activists vary as to the nature of their demands and the tactics used in their campaigns.

Target Firms

The other principal party in an activist campaign is the "target firm." Research in finance has shown that target firms are significantly different from non-target firms (see Table 2). Target firms tend to be more profitable and have sound operating cash flows, but have lower market value than their industry peers (e.g., Boyson & Mooradian, 2011; Brav et al., 2008). How the target firm's board and management will respond to an activist's demands is likely to depend on the characteristics of the firm. Since activists are principally interested in enhancing shareholder value, the target firm's stock price and operating performance are likely to play a significant role in the negotiations between the activist and target firm. The target firm's competitive and strategic position, in terms of the attractiveness of the business or industries in which it competes, and its business portfolio are all factors that are likely to influence the nature of the demands by the activist and the eventual outcome of the campaign.

In addition, the corporate governance of the target firm is also an important factor, since it is the board along with management that must determine how to respond to an activist's demands. The composition of the board and who serves as chair may be factors that influence both the nature of the activist's demands and the eventual outcome of the campaign. Similarly, management, and in particular the CEO of the firm, are important players in determining the outcome of the campaign.

In summary, the characteristics of the target firm are the reasons why the firms are targeted in the first place—since activists target firms that are underperformers. The financial and competitive position of the target firm as well as the firm's leadership and corporate governance are attributes that are likely to influence what transpires in the campaign. The governance and the competitive and strategic attributes of the target firm are not only likely to influence the demands and tactics of the activist, but will also influence perceptions by the firm's shareholders, the broader investment community, the advisory firms, and the media's portrayal of the campaign.

Intermediaries

As indicated in Figure 2, an activist campaign involves more than just the target firm and the activist. "Intermediaries" are those parties that become directly involved in a campaign and thus can influence the negotiation and eventual outcome of an activist campaign. They include institutional investors with stock ownership in the target firm and proxy advisory firms that provide advice to these investors. In addition, legal counsel and investment banks may be called upon to provide advice to both the activist and target firm.

The firm's institutional investors are perhaps the most significant constituent, since both the activist and the target firm will try to gain their support. Among shareholders, institutional investors—who hold, on average, 83% of the equity of the S&P 500 (McGrath, 2017)—are a particularly important stakeholder, since the outcome of a potential proxy fight depends heavily on how these investors will vote. It is not unusual for an activist to communicate with the firm's institutional investors to assess whether they will be supportive of their campaign. The CEO or board chair will also directly apprise and engage with the firm's institutional investors to maintain their support and provide a counter perspective to that of the activist.

Proxy advisory firms, such as ISS and Glass Lewis, represent another important constituent, as they provide institutional investors with research, data, and recommendations on management and shareholder proxy proposals that are voted on at a company's annual meeting.[7] The effect of ISS's recommendations on shifting shareholder votes has been estimated at 14–21% for management proposals (Bethel & Gillan, 2002), and between 13% and 30% for director elections (Choi, Fisch, & Kahan, 2009). Since institutional investors tend to vote according to the recommendations put forth by proxy advisory firms (Belinfanti, 2009), they represent an important constituent that can influence an activist campaign.

Legal counsel is another important constituent as they are usually involved in the negotiation process between the activist and target firm. If either the target firm or activist has legal representation, the other party will similarly need to be represented. Activists may use legal counsel presence to ensure that the board is protecting the rights of shareholders. Olshan Frome Wolosky LLP, considered one of the top legal advisors to activist investors, has a division that specializes in representing activist investors in contested director elections. The law firm provides legal counsel on a variety of issues, from proxy contests, consent solicitations, and hostile takeovers to letter-writing campaigns and behind-the-scenes discussions with management and boards of directors. Legal counsel is also likely to be utilized by the target firm to assist in its negotiations and response to the activist. Latham & Watkins LLP and Wilson Sonsini Goodrich & Rosati, for example, regularly advise companies on defense preparedness, including

[7] Institutional investors pay proxy advisory firms to provide them with research and recommendations on the companies they invest in. Proxy advisory firms also advise institutional investors regarding shareholder votes and oftentimes directly vote their shares as a service.

structural defenses, financial and strategic alternatives, and traditional takeover defense strategies such as poison pills, contested bids, and shareholder proxy rights. Since they provide management with a "playbook" on how to respond and negotiate with activist demands, their recommendations can influence the eventual outcome of a campaign. According to one director whom we interviewed, legal firms "play a key role" in how to negotiate and respond to activists. This is particularly relevant for companies that do not have any prior experience dealing with activists. Based on our interviews, the presence of a legal firm is important because it ensures that every stage of the negotiation process is documented. In some cases, if the board is not receptive during the negotiation process, the activist turns to a legal firm to provide documentation that the board has not been cooperative in order to further strengthen its position against the firm's board and management.

In addition to the role that legal counsel may play in the negotiation between the activist and target firm, investment banks can also be involved in a campaign. While activists typically conduct a lot of research on the firms that they intend to target, in order to understand how to maximize the value of their investment, the firm's board typically lacks the same level of knowledge and expertise. Thus, it is not uncommon for management and the board to hire an investment bank to conduct their own analysis to defend the firm against an activist. Investment banks typically have a separate division devoted to investor activism that can provide management and the board with investor presentations, fight letters, and other materials for use in defending the firm. They can advise the target firm on annual meeting procedures, such as proxy contests, and corporate vulnerability to activism, such as structural vulnerabilities in a company's charter and bylaws. Since, in some campaigns, the activist seeks to either acquire the target firm or have the firm sold, an investment bank may help the firm defend itself against a takeover or to find a more favorable offer. Clearly, investment banks play a significant role in hedge fund activism as they are often called upon to assist in the target firm's defense.

Contextual Factors

Contextual factors also play a role in the eventual outcome of an activist campaign. We identify five factors that are likely to influence the nature of the campaign: the media, the investment community, activism in the market, financial analysts, and regulatory agencies.

The media draws attention to and helps frame the context within which the various parties (e.g., activist and the target firm) view the campaign. The media can also be used by the target firm and activist to relay their perspective on the campaign to the firm's investors.

The pervasiveness of hedge fund activism and how investors and financial analysts respond to activists' campaigns are also important contextual factors. As more and more firms are targeted by activists, perceptions regarding hedge fund activism have changed. For example, in our discussion of activism with board directors in Europe in 2016, most treated it as a U.S. phenomenon, not likely to take hold in Europe. As more European companies became the targets of activists, however, directors began to take notice and started taking preventative measures to prevent their firms from becoming targets. The pervasiveness of activism also influences investor perceptions. As activist campaigns have led to greater shareholder value for the firms they target, investors became more willing to side with activists versus management.

Financial analysts may also influence a campaign since they fulfill an important information brokerage and monitoring function for investors by providing coverage on firms. In their quarterly earnings calls conferences, analysts also have the opportunity to question management regarding their performance and strategy and to raise questions when they are in the midst of an activist campaign.

Regulation and corporate governance codes, which vary by country, are also a factor in an activist campaign. In the United States, the SEC regulates investors and thus determines the filing and disclosure requirements of activist hedge funds. In both the United States and Europe, there are governance restrictions that can influence the ability of activists to exert their influence on companies. Many European companies have bylaws, including voting right caps, loyalty schemes, and other legal mechanisms that protect management. For example, the Netherlands is strengthening legal defenses for companies facing activist investors, following Elliott Management's campaign at Dutch chemicals giant AkzoNobel. Under the proposals, Dutch listed companies would benefit from a cooling-off period of up to 250 days after they receive a request for a "fundamental change of strategy," which may include takeover bids and activist demands. In addition, the ownership reporting threshold for shareholders in companies with market capitalizations of $750 million and up could be lowered to 1%, from 3% currently (Activist Insight, 2018).

Outcomes

The conclusion of a hedge fund campaign is the settlement that is reached between the target firm and the activist. Studies show that activists are successful in achieving their demands roughly 67% of the time (e.g., Brav et al., 2008; Klein & Zur, 2009). Similarly, our investigative research showed that, in our sample of 424 campaigns, the average success rate was 69% (see Appendix A).

The most common outcome of an activist campaign is that the target company settles with the activist by providing it or its representatives with one or more board seats.[8] In 2018, activists successfully gained 511 board seats on publicly traded companies, including Campbell Soup Company, Sempra Energy, Newell Brands, and Lowe's Companies, Inc. (Activist Insight, 2019). Governance changes can also include the removal of board directors and the dismissal of the firm's CEO. The next most common outcome of an activist campaign is the sale of the target firm. In 2017, Jana Partners succeeded in getting Whole Foods acquired by Amazon, netting Jana a profit of roughly $300 million from its investment in Whole Foods. Other outcomes include the spin-off or divestiture of lines of business, such as Kraft spinning off Mondelez in 2012. In seeking to enhance shareholder value, many activists are also demanding that the firm improves its operational efficiency. Lastly, another common outcome of an activist campaign is change to the capital structure of the target firm. Activists have been quite successful in pressuring target firms to issue dividends or to repurchase shares, as exemplified by Icahn Enterprises' success at getting Apple to buy back its shares in 2014.

In summary, the contextual framework in Figure 2 depicts the various constituents in a hedge fund campaign and the potential outcomes reached in a settlement between the activist and target firm. This contextual framework helps set the stage for a research agenda on hedge fund activism.

FUTURE RESEARCH DIRECTIONS

Management scholars can contribute to our knowledge of hedge fund activism by focusing on the relationships between the various constituents depicted in Figure 2. How do activists interact with the board and management of the firms they target and how does the nature of these negotiations vary? How do the other constituents involved in a campaign (e.g., institutional investors, proxy advisory firms, the media, etc.) influence these negotiations? These represent important questions that have a bearing on the outcome of a campaign. However, despite extensive research in finance on hedge fund activism, we know very little about the interaction between the activist and the board and management of the target firm and the influence that various constituents may have in a campaign. We also lack knowledge as to what leads to the eventual settlement between the two parties and the resulting implications for corporate governance and strategy. Management and strategy scholars have the opportunity to address this gap and to greatly advance our understanding of the dynamics of hedge fund activism.

Activist Hedge Funds and Target Firms

The interactions between activists and the boards and management of target firms call for greater research attention. The nature of these negotiations, the ways in which each party communicates and responds to each other, and the eventual outcomes of activist campaigns could be studied using a variety of theoretical perspectives. From observing more than 400 campaigns, we know that activists can vary significantly in their approach and tactics, which in turn influences responses by target firms. Trian Fund Management, for example, in its campaign against Procter and Gamble (P&G) used the media and issued detailed white papers[9] criticizing the performance of P&G's CEO, David Taylor, to support the election of its director nominee, Nelson Peltz. P&G responded by engaging in a media blitz against the activist. Both sides were quite aggressive in the campaign, resulting in a proxy fight contest estimated to cost $100 million (Herbst-Bayliss & Sharma, 2017) that eventually resulted in a board seat for Nelson Peltz. In contrast, Cevian Capital, the largest European

[8] Activist investors can attain board seats by a proxy fight whereby they propose their own slate of directors and shareholders have to vote to support either management's slate or the directors proposed by the activist hedge fund. They can also attain board seats through a settlement with the target firm. In most cases, board seats result as part of their settlement with the target firm.

[9] A "white paper" is an informational document that includes detailed analyses of the target firm's management, operations, capital structure, and strategy. Its purpose is to show that the changes proposed by the activist hedge fund would result in increasing shareholder value. These white papers may also contain aggressive critiques of past and current decisions made by the management of the firm.

activist, pursues a completely different approach by conducting private negotiations with management and the board, without issuing letters or public statements about its campaigns. What motivates and determines the nature of an activist's campaign and the resulting impact on the various parties are questions that deserve to be explored in order to better understand the impact of hedge fund activism.

The interactions and negotiations between the two parties and the eventual outcome provide the opportunity for a rich avenue of research. How do the activist and the target firm's board and management perceive each other and how do these perceptions influence their interactions? And what about the influence of the firm's institutional investors—how do the activist and the target firm influence this important constituent to the party? Agency theory is the lens that finance scholars use to interpret hedge fund activism. They perceive the demands of hedge fund activists to improve shareholder value as motivated by an agency problem. Managers may pursue their own self-interests at the expense of the firm's shareholders, while the firm's board, an internal monitor of management, may be delinquent in its fiduciary duty to provide oversight. Thus, activists target firms with an agency problem and seek to improve value by improving the governance of the firm or taking strategic actions to enhance shareholder value. An activist campaign, however, is far more complex than just an agency problem. As depicted in Figure 2, an activist campaign occurs within a social context that involves multiple actors and interactions between these actors. According to Westphal and Zajac (2013), the "socially situated" context can help define and shape the perceptions and interactions of the various actors. Thus, the dynamics of an activist campaign lends itself to the application of various theories and constructs that help shed light on the perception and interactions between the various constituents in a campaign. Social influence tactics, such as impression management theory, ingratiation, and favor rendering, are likely to be highly relevant and applicable in a context where each party is trying to influence the other. Similarly, constructs like reputation, status, and legitimacy are also likely to play an important role in determining the perception that each party makes of the other and the actions they take in a campaign.

For example, impression management theory would suggest that communication—including statements and letters as well as oral communication—is likely to influence the impressions that others make (Elsbach, 2006). Impression management can be particularly relevant for firms that desire to positively influence how they are perceived by other parties (Graffin, Haleblian, & Kiley, 2016). Prior research has shown that impression management tactics are utilized by management in order influence the firm's various stakeholders, including financial analysts (Westphal & Graebner, 2010), journalists (Westphal, Park, McDonald, & Hayward, 2012), and the board (Zajac & Westphal, 1995), as well as the firm's investors (Fiss & Zajac, 2006). The actual content or specific information that is released in management's communication constitutes the impression management tactics that can influence the perception made by the targeted party. However, impression management tactics are not limited to just the content but can also consist of language attributes conveyed in the communication (Tausczik & Pennebaker, 2010). The attributes of the language used in communicating with the firm's investors has been shown to influence their perceptions (Pan, McNamara, Lee, Haleblian, & Devers, 2018). Thus, impression management theory may by highly relevant in understanding the behaviors of the activist and the board and management of the target firm and thus allow us to better understand what transpires in an activist campaign.

In addition to impression management tactics, perceptions can also be influenced by ingratiation and favor rendering. Research has shown that leaders of public companies socially engage with a variety of constituents to earn their support in the form of ingratiation and favor rendering (Westphal & Bednar, 2008; Westphal & Clement, 2008). Based on the literature on ingratiation in social psychology, three distinct kinds of ingratiation are flattery, opinion conformity, and favor rendering (Ellis, West, Ryan, & DeShon, 2002; Tedeschi & Melburg, 1984). These actions and behaviors by the individual are attributed to enhancing positive affect and feelings of indebtedness of other individuals toward them. Hence, ingratiatory actions reduce the likelihood that others will take actions that harm the interests or preferences of the "ingratiator" and also increases the likelihood that the "ingratiator" receives support (e.g., Gordon, 1996; Higgins, Judge, & Ferris, 2003; Westphal & Stern, 2006). Social influence tactics such as ingratiation and favor rendering are likely to play a role in determining how each party perceives the other.

Reputation and status may also play a role in influencing the perceptions that the activist and target firm form of each other. Given the ambiguity associated with an activist campaign, research would suggest that observable attributes might serve as signals that convey information (Spence, 1973). For example, within the context of initial public offerings (IPOs), the status of the directors on the company's board and the CEO (e.g., Higgins & Gulati, 2006) serve as signals by which investors determine the quality of the IPO. Similarly, the status or reputation of the activist hedge fund or the firm's management and board may influence perceptions that determine how these parties interact in the campaign, as well as how the firm's institutional investors perceive the parties to the campaign.

The outcome of an activist campaign is also likely to be influenced by the perceived legitimacy of the demands that the activist makes. If the activist's demands are not viewed as legitimate, the activist is less likely to be listened to by the target firm's board and management and the activist will have difficulty gaining the support of the firm's institutional investors. According to our interviews with activists, before an activist launches a campaign, it spends a great deal of time—ranging from three months to three years—conducting research on the target company. This research is conducted to acquire an understanding of the firm's businesses and industries, with the objective to better understand how to improve the firm's performance. In its communication with the board and management of the target firm, the activist utilizes its in-depth research to build credibility by showing that it is highly knowledgeable about the company's financial and competitive position. To quote one principal of an activist hedge fund, the goal is to "educate and gain legitimacy." Thus, gaining legitimacy is an important way in which an activist seeks to influence its negotiations with the firm.

Given that the media can be a propagator of legitimacy (Aguilera et al., 2015), we should expect that the media will influence the formation of perceptions that are likely to influence the nature of the negotiations. Our research indicates that many of the large, aggressive activist hedge funds have utilized the media to draw attention to the legitimacy of their concerns and to tarnish the reputation of the board and CEO of the firms they target. It has been noted that the media can influence stakeholder perceptions of an event by "disseminating information and framing issues" (Zavyalova, Pfarrer, Reger, & Shapiro, 2012). Media attention increases scrutiny of a company's performance or conduct, frames it in a positive or negative light, and amplifies or downplays its importance (Weber & Wiersema, 2017). In highly contentious campaigns, it is not uncommon for both the activist hedge fund and the target firm to utilize the media (through paid advertisements as well as communication with the press) to raise awareness and legitimacy of their respective point of views. The utilization of the media appears to be more common in campaigns targeting large market capitalization firms that have large bases of retail investors.[10] For example, in Trian Fund Management's campaign against P&G in 2017, it created its own public website on which they posted multiple videos and white papers detailing its analysis of the company's financial and competitive performance. It also took out paid ads in financial newspapers.[11] Thus, the media may play an important role in influencing the legitimacy of the demands of the activist and consequently the perceptions of the campaign to the various parties.

Intermediaries

Management scholars also have the opportunity to investigate the other constituents involved in a campaign, and how these parties may influence the negotiations and outcome of the campaign. Despite their importance, we know little about how the target firm and the activist engage with the firm's institutional investors. Here again, agency theory may be limited in drawing insight into the behavior of institutional investors. Despite their objective of maximizing shareholder wealth, activists are not always successful in garnering the support of institutional investors. From our research, we found that, in many campaigns, the activist will meet with the firm's institutional investors to communicate its concerns about the company and to gain their support. It is "common for investors to share views" to build a stronger relationship with the other investors of the firm. We also discovered, from our research, that, due to activism, boards and management now more regularly meet with their institutional investors in order to keep them apprised of any developments and to gain their support should an activist target the firm. As one director commented, "Today, at every board meeting, we examine who our investors are and track shifts in the institutional investors and why some investors sold shares."

Research on social influence tactics such as impression management may prove insightful in

[10] A retail investor, also known as an individual investor, is a non-professional investor who buys and sells securities, mutual funds or exchange traded funds through traditional or online brokerage firms or savings accounts.

[11] The activist hedge fund campaign between Trian Fund Management and P&G is estimated to have cost over $100 million dollars, which includes advertising fees and costs associated with communicating with the firm's shareholders. Trian's website for its campaign against P&G was www.RevitalizePG.com.

understanding how activists as well as the boards and management of target firms interact with institutional investors. To gain credibility with the investment community, activists may provide detailed presentations and white papers in which they convey their concerns and state their suggestions for improving shareholder value. Similarly, target firms may convey their case to the investment community through presentations and communications to institutional investors. Social influence tactics such as impression management are likely to play a role in how each party perceives and relates to the various constituents involved in the campaign. Social engagement between both the activist and the target firm's management and board with institutional investors may shed light on whom institutional investors decide to support. To more fully understand the dynamics of an activist hedge fund campaign, scholars may want to examine which factors determine the perceptions of this important constituent. Given that they play a pivotal role in the outcome of a campaign, how the activist and the board and management of the target firm influence the firm's institutional investors is an area to which management scholars could contribute.

Outcomes

The increasing influence of activist hedge funds on public companies may also lead us to re-examine or challenge our existing models of corporate governance. Governance research has sought to address the agency conflict inherent in public companies wherein the managers of the firm may pursue their own self-interests at the expense of the firm's shareholders. From this perspective, the board is seen as the internal monitor that can help align managerial interests with those of the firm's shareholders, while the firm's institutional investors are viewed as external monitors of management. Activist hedge funds, however, can influence the governance relationships in multiple ways. First, they have "woken up" institutional investors through their activism. By reaching out to institutional investors to garner support for their campaigns, activists have made institutional investors more aware of the performance and strategic issues facing the firm. Given that activist hedge funds have been successful at improving shareholder value of the firms they target, institutional investors are now also reaching out to activists to initiate activist campaigns against poorly performing firms they are invested in. Thus, companies can no longer rely on passive institutional investors that support management. Not surprisingly, to maintain the firm's institutional investors' allegiance to management, management and the board must now more actively manage the relationship with their institutional investors, which includes keeping them informed regarding issues facing the firm.

One of the most interesting aspects of hedge fund activism is that it has led to a significant number of activists now having board representation. Since 2014, activists have acquired 1,200 board seats, representing a major shift in board composition. This unprecedented development of activist board representation has significant implications for corporate governance. The governance literature has predominantly focused on the role of boards of directors as an "internal" monitor of management (Aguilera et al., 2015). Board directors are nominated by the board with CEO approval, and then elected by the firm's shareholders on a ballot in which they run unopposed. On the other hand, activist director nominees are vetted by the activist, and are appointed to the board as a result of the settlement reached between the activist and the board and management of the target firm. What happens when activists have a seat at the table and become an "internal" mechanism of governance? Does having both a significant ownership stake in the firm and board representation represent a new form of corporate governance? And how does it impact the effectiveness of the board as a governance device? Our existing models of corporate governance do not fully take into account the governance implications of having activist board representation. Furthermore, given that activist investors have also "woken up" institutional investors, companies can no longer rely on passive institutional investors that support management. Thus, research is called for to investigate the corporate governance implications of hedge fund activism, in that they appear to have shaken up boardrooms in multiple ways.

Finally, there is the opportunity to examine how activist hedge funds compare to private equity firms in improving the value of the public firms they invest in, and the consequences for corporate strategy and governance. Both private equity firms and activist hedge funds raise capital from pension funds and other institutional investors and earn management fees as well as performance fees (typically 20%) for any gain on their investments. Activist hedge funds take a stake in a company and seek to improve firm value by demanding changes in the firm's business portfolio, financial structure, or corporate governance. Their success in improving shareholder value is dependent on their negotiations with the board and management of the firm, and whether the changes the activist calls for can lead to improved firm value. While private equity firms can also take a partial stake, in most cases, they take a public company private by putting together a consortium of investors and issuing debt. Private equity firms operate similarly to leveraged buyout firms, and, in fact, many partners of current private equity firms were involved in the leveraged buyout boom of the 1980s. Similar to activist hedge funds, private equity firms seek to improve firm value by providing oversight and advice. But, unlike activist hedge funds, they have greater control over the management of the firm, since it is now a private company owned by private investors. Their main objective for the companies they acquire is to increase the operational efficiencies of the business to improve firm value. They then take the company public again through an IPO to cash out of their investment. Research examining the consequences for firm value depending on the nature of the investors (e.g., private equity vs. activist hedge fund) could provide greater insight as to how these two investors are impacting both the strategic and the financial health of the companies they target.

In conclusion, despite much prior research in finance, our knowledge of the consequences of activism for corporate governance and strategy is rather limited. In light of the social context of hedge fund activism, research is called for to gain a greater understanding of what transpires in an activist campaign and the role and influence that various parties may play. Management scholars have the opportunity to delve deeper into the dynamics of an activist campaign by exploring how impression management tactics, ingratiation, and favor rendering as well as factors such as reputation, status, and legitimacy are likely to influence perceptions of the various parties and thus the outcome of these negotiations. A re-examination of our model of corporate governance is also called for in order to take into account the fact that activists are increasingly becoming an internal monitor through board representation. Management scholars have the opportunity to greatly expand the scope of inquiry and thus our knowledge of hedge fund activism.

DISCUSSION

Activist hedge funds represent a major force in the capital market and are significantly affecting the corporate strategy and governance of publicly traded firms. With more than $65 billion of assets under management, this "asset class" is attracting investment from major institutional investors. While it is evident that activist hedge funds are having a significant impact on the corporate strategy and governance of public firms, it is not clear whether this impact is positive or negative. Are activist hedge funds "the Holy Grail of corporate governance—the long sought-after shareholder champion with the incentives and expertise to protect shareholder interests in publicly held firms" (Kahan & Rock, 2007, p. 1026)? Or do they represent darker forces, in search of quick profit opportunities at the expense of other shareholders and the long-term health of the company?

Research indicates that activist hedge funds create shareholder value for firms they target (see Brav et al., 2009, for a review). In particular, activists create the most shareholder value when they force a target firm to be acquired by another firm. Studies in corporate finance, as well as in management (Hayward & Hambrick, 1997; Moeller, Schlingemann, & Stulz, 2005; Roll, 1986; Shleifer & Vishny, 1986; Varaiya & Ferris, 1987; Walkling & Edmister, 1985), have provided evidence that firms pay on average a 30–50% stock price premium when they acquire another publicly traded company, which benefits the shareholders of the acquired firm. For example, in 2014, activist Pershing Square Capital partnered with Valeant to buy Allergan. In the end, Allergan sought an alternative buyer and was acquired by Actavis, resulting in a 75% premium.[12] In addition, there is also strong evidence that activist demands to spin-off or divest businesses can lead to significant improvements in shareholder value. For example, the spin-off of PayPal from eBay prompted by activist Carl Icahn resulted in an 8% gain in the value of eBay's stock. Research by Chen and Feldman (2018) found that divestitures demanded by activists generate higher shareholder returns (cumulative returns were greater by 6% to 36%) than divestitures undertaken by management on their own accord. Divestitures and spin-offs enable companies to unlock shareholder value by increasing corporate focus (Comment & Jarrell, 1995). Through divestment and spin-offs, each business benefits from greater management focus, thus resulting in increased shareholder value (John & Ofek, 1995).

On the other hand, there are concerns that activists seek short-term gains at the expense of the long-term interests of the firm. The composition of the firm's shareholders determines its investment horizon, and a strong correlation exists between "short-termism"

[12] Actavis paid $66 billion, or $219.54 per share—a 75% premium to Allergan's 10-day average prior to the initial Valeant announcement. Valeant at the instigation of Pershing Square had offered to buy Allergan for $54 billion, or $180 per share.

within firms and high ownership levels by activists (Coffee & Palia, 2016). A "short-term" investor seeks to profit from short-term changes in the firm's stock price. Actions such as increasing shareholder distributions by dividends or stock buybacks and increased leverage will enhance the firm's stock price. However, such actions also necessitate reducing long-term investments in physical capital (i.e., factories and equipment), market expansion, and research and development (R&D). Research shows that, after activist campaigns, investments in R&D by target firms decrease significantly (Brav, Jiang, Ma, & Tian, 2018; Coffee & Palia, 2016), with one study indicating a reduction of over 50% (Allaire & Dauphin, 2015).

While empirical research has found that activist hedge funds can improve the operational efficiency of the firms they target, there can be adverse consequences for the employees of the firm. Brav, Jiang, and Kim (2015b, p. 2753) found that activist hedge fund involvement is associated with productivity gains at the plants of the target companies, and suggested that "better monitoring of employees" is the primary means by which this is achieved. However, they also found that, while productivity increases, there is a reduction in productivity-adjusted wages, which suggests that hedge fund activism facilitates a transfer of "labor rents" to shareholders (Brav et al., 2015b, p. 2753). The impact of activists' campaigns on target firms' employees have led to media attention on the negative consequences of hedge fund activism. As a result, legislation was proposed in the U.S. Senate to tighten regulation of activist hedge funds. However, the proposed bill never came to the Senate floor and thus no legislation has been enacted to date to restrict the activities of activist hedge funds. Similarly, within the European Union, no legislation has been enacted to restrict the activities or tactics of activist hedge funds.[13]

In addition, by focusing attention on improving shareholder value, the activist may be less inclined to consider the firm's other stakeholders and thus will be less supportive of the firm's corporate social responsibility activities. Due to the lack of research, we don't fully know whether the pressure that activists place on improving the firm's operational efficiency and performance has adverse consequences for the corporate social responsibility agenda of the firm. On the other hand, some activists have stated that, in conducting due diligence on the firms they target, they examine the firm's environmental, social, and governance issues to mitigate their risk and avoid costly legislation.

Furthermore, research indicates that activists can also lead to earnings pressure, whereby management seeks to meet the quarterly analysts' consensus earnings target. Khurana et al. (2018) found that target firms are more likely to engage in real earnings management by temporarily boosting sales, overproducing inventory to reduce the cost of goods sold, and cutting discretionary expenses. Management will take "real" actions to meet quarterly earnings targets since failure to do so will have a negative effect on the firm's stock price (Bartov, Givoly, & Hayn, 2002; Kinney, Burgstahler, & Martin, 2002). Due to activists' pressures, executives are likely to be more concerned with meeting analysts' earnings forecasts because failure to meet these performance benchmarks can have significant adverse consequences on investors' assessments of the firm and managers' reputations and careers (Graham, Harvey, & Rajgopal, 2005).

Activists are also having a significant impact on corporate governance. Seeking board representation is their number one demand. Through board representation, activists believe they can influence strategic and financial decision-making to improve shareholder value. While boards of directors are charged with a fiduciary duty to the shareholders of the corporation, boards are not always diligent in their oversight and monitoring responsibilities (Fama & Jensen, 1983; Hambrick et al., 2015; Mizruchi, 1983). As a result, scholars have proposed a variety of ways to improve the monitoring capabilities of boards (e.g., Dalton, Hitt, Certo, & Dalton, 2007; Finkelstein, Hambrick, & Cannella, 2009). Prescriptions include structural adjustments, such as separating the chair and CEO positions (Green, 2004; Tuggle, Sirmon, Reutzel, & Bierman, 2010), changing the size of the board (Dowell, Shackell, & Stuart, 2011), specifying the composition of various key board committees (e.g., audit, nominating, compensation) (Ruigrok, Peck, Tacheva, Greve, & Hu, 2006), and increasing the proportion of independent directors. However, despite significant changes in board composition and independence due to changes in U.S. stock exchange listing requirements and the passage of the

[13] The only European Union legislation that has been approved that deals directly with activist hedge funds is the Alternative Investment Fund Managers Directive. This legislation applies to hedge funds, private equity funds, and real estate funds. These investment vehicles were previously outside of European Union regulation and the intent of the Alternative Investment Fund Managers Directive was to increase disclosure requirements and transparency to provide for safeguards in response to the 2007–2008 financial crisis. Thus, this legislation is primarily focused on imposing "robust risk management systems" to discourage excessive risk taking and financial leverage. This legislation is intended to protect investors and does not necessarily impede hedge fund activism.

Sarbanes–Oxley Act in 2002,[14] boards nonetheless are not always diligent in their fiduciary responsibilities to the firms' shareholders (Hermalin & Weisbach, 1998). CEOs continue to have a major influence regarding which directors serve on the board, while directors lose their impartiality as they acquire greater board tenure (Hermalin & Weisbach, 1998).

By gaining board representation, activists can increase the effectiveness of boards as an internal monitor since activist directors lack allegiance to current management and the board. Over the past five years, activists have successfully gained more than 1,200 board seats (Activist Insight, 2019). By virtue of their expertise and in-depth knowledge of the company's competitive situation,[15] activist directors are perceived as experts, giving them legitimacy in the eyes of the board. Armed with analysis and data that have been provided by the activist, these legitimate experts may be able to effectively raise issues regarding the firm's performance and strategy with other board directors and thus influence major strategic and financial decision-making to enhance firm value. Activist board representation can also result in the removal of complacent board directors and even the replacement of the target firm's CEO, as was the case for ThyssenKrupp and for General Electric. Thus, activist board representation may very well enhance corporate governance by providing the board with independent data and analysis as well as removing ineffective directors or poorly performing CEOs.

On the other hand, activist directors can also pose a potential conflict of interest. Activist directors are not independent since they are chosen and vetted by the activist. Furthermore, they can have incentives that are provided by the activist in the form of a "golden leash," whereby the directors are compensated by the activist for any gains made in the firm's stock price while they serve on the board. For example, in 2014, Dow Chemical Company reached a negotiated settlement with activist Third Point to appoint two nominees to its board of directors. The activist's compensation agreement with its director nominees included a cash payment of $250,000 for being appointed as directors of Dow Chemical, and additional cash payments based on the performance of the company after three and five years of service on the board. This could lead to a conflict of interest whereby activist directors serve the interests of the activist solely, rather than the interests of all of the firm's shareholders. Thus, by gaining an unprecedented number of board seats, activists are holding boards and management more accountable, yet the appointment of activist directors also poses a potential conflict of interest. Furthermore, activist directors are generally appointed to the board as a result of private negotiations between the activist and the target firm's management and board rather than a shareholder vote—thus compromising "shareholder democracy" (Coffee, Jackson, Mitts, & Bishop, 2019). Institutional investors such as BlackRock, State Street Global Advisors, and Vanguard have repeatedly contended that private settlements between management and hedge fund activists lead to "disenfranchisement" of institutional investors, as it excludes them from any meaningful voice (Coffee et al., 2019).

Finally, the impact of hedge fund activism extends beyond target firms, in that it can lead to spillover effects whereby the result of an activist campaign can lead other firms in the industry to adopt similar actions. For example, activists were instrumental in getting firms with real estate holdings to separate these assets from their operating businesses and convert them into a real estate investment trust (REIT).[16] One of the major benefits of a REIT is that it unlocks shareholder value (Campbell, Ghosh, & Sirmans, 2005).[17] In 2011, activist Elliott Management pressured Iron Mountain, a document-storage company, to

[14] The Sarbanes–Oxley Act of 2002 stipulated many requirements of boards. Boards were required to consist of a majority of "independent directors," boards had to conduct regular executive sessions without management directors present, and it required audit committees to consist of qualified experts. The Sarbanes–Oxley Act also required the SEC to require the stock exchanges to adopt listing standards regulating public company corporate governance and public disclosure. These listing requirements stipulated stricter standards for what constituted an "independent" director.

[15] Based on our interviews, we found out that director nominees supported by the activist hedge fund will be briefed about the target firm and be highly knowledgeable about the analysis conducted by the activist and the proposed suggestions for improving firm value.

[16] A "real estate investment trust" is a company that owns, operates, or finances income-producing real estate. They operate in a manner similar to mutual funds, in that they allow for individual investors to acquire ownership in commercial real estate portfolios that receive income from properties such as apartment complexes, office buildings, warehouses, hotels, and shopping malls.

[17] By law, REITs are required to distribute to their shareholders at least 90% of their taxable income. The stable and predictable stream of contractual rents paid by the tenants occupying the properties of the REITs allow the trust to return high dividends to its shareholders.

convert itself to a REIT, which was granted Internal Revenue Service approval in 2014. Additional REIT conversions motivated by activists include MGM Resorts' spin-off of its real estate into MGM Growth Properties, LLC in 2015. The practice of REIT conversions was subsequently adopted by firms (e.g., Windstream Holdings) that were not targeted by activists. Thus, activist hedge funds were pivotal in diffusing a practice to unlock shareholder value (e.g., REIT conversion).

The presence of activists can also lead to defensive behavior on the part of other firms in an industry. Aslan and Kumar (2016) found that firms respond to activism targeting their industry peers by improving their own efficiency and product differentiation. Similarly, Gantchev, Gredil, and Jotikasthira (2019) found that industry peers of target firms responded by improving operating performance (return on assets and asset turnover), increasing leverage and payout, and decreasing cash holdings. Research has also provided evidence that managers of public firms are taking a proactive stance to avoid becoming the target of activists (Coffee & Palia, 2016). Thus, activism has repercussions that extend beyond the target firm.

In conclusion, there is considerable debate concerning whether activist hedge funds have a positive or negative impact on the corporate strategy and governance of publicly traded firms. Our finance colleagues have viewed activist hedge funds as serving a disciplinary role by correcting market inefficiencies and poor corporate governance. However, given the complexity and broader context that activist hedge fund campaigns entail, there remain many questions unanswered. While activists have been very effective at forcing management and boards to make tough decisions, such as putting the company up for sale or spinning off and divesting business units to improve shareholder value, the question arises of who is better informed to make these decisions: management or activists? And what about the long-run consequences of reducing investments in R&D and market expansion as firms seek to improve short-term shareholder value? As activists gain greater board representation, what will be the impact on corporate governance? Does having board directors dedicated to certain shareholders lead to special influences that may contradict the long-run interests of the firm and its shareholders? Despite having a significant impact on the corporate strategy and governance of the firms they target, thus far, no legislation has been enacted to restrict the tactics or activities of activist hedge funds. Clearly, more research is needed to examine the consequences of hedge fund activism on not just shareholder wealth but also the other constituents of the firms they target.

CONCLUSION

The purpose of the present paper is to draw management scholarly attention to hedge fund activism so that we can provide further insight on this important phenomenon. An activist hedge fund campaign represents a highly visible contest for the control of the firm. Activists are not afraid to launch proxy fights and to band together in a "wolf pack"[18] in order to pressure the companies they target. Given their compensation structure and with their own personal stake in the game, these activists are highly motivated to take aggressive actions to enhance the value of their investments. As we have highlighted, there is considerable debate within the literature regarding whether activist hedge funds are making short-term gains at the expense of the long-run interests of the companies they target, and whether they are serving as effective monitors of management (Coffee & Palia, 2016). Yet, management scholars have largely neglected to investigate the influence that activist hedge funds have on companies, thus ignoring an important constituent that is driving corporate strategy and governance. Our lack of attention to the role of activists in influencing companies may be due to a focus on internal mechanisms of governance and thus failing to adequately recognize the importance of capital market constituents (Aguilera et al., 2015; Brauer & Wiersema, 2018). As a result, we have ignored the influence of the broader context in which publicly traded companies operate and thus have an incomplete understanding of the factors that influence executive decision-making. Our failure to fully address the influence of activist hedge funds would not be significant if it were not for the fact that these constituents are driving unprecedented change in corporate strategy and governance at the companies they target. Since we seek to understand what drives managerial and board decision-making, as well organizational outcomes, it is imperative that management scholars devote more research attention to this influential stakeholder.

[18] According to the SEC and the courts, it is hard to classify a group of investors as a "group" and to determine if they are acting in concert unless the investors reveal that they are acting in concert. Since activists have no incentives to do so, such disclosures do not occur. This enables a group of activists to gather a sizeable stake in the target firm without disclosure.

Our extensive research on activist hedge funds, the firms they target, and the nature of activist campaigns have provided the basis for the research agenda that we propose. Our overview of the intricacies of the engagement between activist hedge funds and target firms and the various constituents that are involved reveal that an activist hedge fund campaign is a complex phenomenon. The eventual outcome is determined not only by the negotiations that occur between the activist and the target firm's board and management but is also influenced by the various parties that may become involved in the campaign. Furthermore, hedge fund activism also challenges our existing models of corporate governance, as activists appear to be shaking up corporate boardrooms in multiple ways. Given the significant influence that hedge fund activism is having on corporate strategy and governance, we call on management scholars to address the void in our knowledge. By shedding light on hedge fund activism, management scholars have the opportunity to provide greater clarity as to whether these activists are shareholder champions or if they undermine the long-term strategic health of companies.

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APPENDIX A: RESEARCH CONDUCTED ON HEDGE FUND ACTIVISM

CAMPAIGNS STUDIED

To better understand hedge fund activism, we accessed the SharkRepellent database. The SharkRepellent database provides detailed information on the profiles of activist investors, including their campaigns, intentions stated and tactics employed, as well as the outcomes of their campaigns. This database provides information on both activist hedge funds as well as their target companies.

For purposes of this study, we identified the campaigns by the 50 most active hedge funds during the 2008–2014 time period. The SharkRepellent database identifies the top 50 activists (SharkWatch 50) based on the number of publicly disclosed activist campaigns that the activist engages in, size of target companies, stock ownership in the target company, and the size of the activist hedge fund. During the seven-year time period, we identified a total of 424 activist campaigns (Table A1).

The SharkRepellent database provides details for each individual campaign, including access to all public filings filed by both management and the activist hedge fund. Public filings that are accessible include Schedule 13D filings, 8-K filings, press releases, letters to the board, letters to shareholders, and proxy filings (DFAN14A) when available. In addition, the database provides special exhibits such as proxy fight vote results, poison pill documents including amendments, and white papers. Using these public filings, for all campaigns, we captured the principal parties involved, the duration of the campaign, as well as major developments and significant actions that occurred.

We also coded the intentions of activist hedge funds in their campaigns as well as the outcome for each campaign. In their 13D filings, an activist hedge fund states their intentions toward the target company. The SharkRepellent database sorts the intentions by the activist hedge funds into 16 categories. Some examples of intentions include "board representation," "vote against a management proposal," "remove director," and "oppose merger." We grouped the 16 different categories provided by SharkRepellent into three main types: corporate governance, corporate strategy, and financial. Intentions can range from a single intention (e.g., maximize shareholder value) to a variety of intentions (e.g., seeking to replace the CEO, issue dividends, and sale of the company). From our examination of activist intentions, we found that corporate governance was the most frequent intention.

After coding the intentions of each campaign into these categories, we then examined the final outcome of each campaign to evaluate the success in achieving their stated intentions. We calculated campaign success by dividing the number of successful intentions by the total number of intentions. From our analysis of 424 activist campaigns, we

TABLE A1
U.S. Hedge Fund Activism (SharkWatch 50)

Year	No. of Campaigns	No. of Activist Hedge Funds	No. of Target Firms
2008	64	29	62
2009	31	18	31
2010	46	19	43
2011	51	23	50
2012	60	28	57
2013	81	34	75
2014	91	35	86
Total	424	*48 unique activist hedge funds*	*387 unique target firms*

TABLE A2
In-Depth Case Studies

Year	Activist Hedge Firm	Target Firm
2009	Pershing Square	Target
2011	Biglari Holdings	Cracker Barrel
2012	Elliott Management	Emulex
2012	Altai Capital Management	Emulex
2012	Voce Capital	Harmonic
2013	Starboard Value	Emulex
2014	Engaged Capital, Lone Star Value Management	Rentech, Inc.
2014	Engaged Capital, Voce Capital	Oplink Communications Inc.
2016	Ides Capital	Boingo Wireless
2016	Trian Fund Management	DuPont
2017	Trian Fund Management	Procter & Gamble
2018	Icahn Enterprises, Starboard Value	Newell Brands

found that the mean success rate for activists was 69%.

IN-DEPTH CASE STUDIES

We conducted in-depth case studies on 12 campaigns in which we examined all correspondence between the activist hedge fund and target firm (see Table A2). We chose campaigns targeting very large firms as well as smaller firms and campaigns in which there were single as well as multiple activists involved. Each case study involved reading numerous white papers issued by the activist and all correspondence between the two parties as well as examining media accounts of the campaign.

QUALITATIVE RESEARCH

To gain insight into the intricacies of what actually transpires in an activist campaign and the various intermediaries involved, we also conducted qualitative research wherein we interviewed directors and CEOs of target firms and principals of activist hedge funds. Specifically, we conducted semi-structured interviews with two principals of activist hedge funds, two CEOs of firms that were targeted by activist investors, and six directors who sat on boards of firms that were targeted by activist hedge funds. The interviewees were selected based on the researchers' network of board directors and hedge fund activists and included only U.S. directors and activists.

Our semi-structured interviews differed for board directors and activists. Each interview lasted approximately an hour. For board directors on companies that had been involved in a campaign, we asked specific questions about the sequence of events that occurred during the campaign, the various parties that were involved, the nature of the interactions between the activist and the board and

CEO, the tactics used by the activist, the responses by management and the board, and the eventual outcome of the campaign. We also asked specific questions about how the target firm's board and management reacted to the activist's demands and what happened when an activist was appointed to the board. Our interviews with activists focused on the research they conducted prior to initiating a campaign, how they selected their targets, whether they collaborated with other activists in their campaigns, their involvement with the target firm's institutional investors, and how they managed the campaign. The activists we spoke to were involved in multiple campaigns. We also asked questions about the tactics they used in their campaigns and how they perceived the target firm's board and management responding to these tactics.

Our qualitative research provided keen insights into the nature of campaigns, the various constituents involved, and how boards and activists perceived a campaign. It also shed considerable light as to how boards perceive activists and how activists perceive the board and management. This qualitative research provided us with a better understanding of the factors that come into play in a campaign as well as the nature of the interactions between the activist hedge fund and the board and management of the target firm.