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How Does Past Experience Impact Hedge Fund Activism?

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Abstract

Hedge fund activists transfer relevant prior work experience to their activism campaigns. Categorizing activists based on past employment at investment banks (generalists), private equity or special situations partnerships (specialists), or other firms (nonfinancial experts), we relate activists' prior work experience to their choices and outcomes. Both generalists with codifiable skills and specialists with tacit skills contribute to successful outcomes, but differences in these skills lead to differences in activism processes. Activist choices, market responses, target firm responses, and procedural aspects of activism vary with activist identity. Our analysis examines activists' heterogeneous skills and highlights their importance in shaping activist interventions.

I. Introduction

Studies of hedge fund activism typically classify activists as a single group. However, most activists exhibit considerable but different past work experience. About two-thirds of activists previously worked for an investment bank and/or a boutique private equity or special situations partnership. Success in these positions requires strong quantitative, analytical, planning, interpersonal, networking, and negotiation skills. That activists possess considerable relevant skills gained from their prior careers – skills readily transferable to activism – indicates that previously attained skills could shape an activist's campaign choices, including activism frequency, aggregate dollar amount invested, target selection, and engagement with target firm operations, human resources, finance, or governance. If previously acquired skills shape activist interventions, they likely impact both the target firm's response to activism and the target firm's subsequent performance as well.

Categorizing activists based on their prior employment at investment banks (generalists), private equity or special situations partnerships (specialists), or other firms (nonfinancial experts), we link activists' prior work experience to their

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activism choices and outcomes.[1] Plausibly, individuals with certain abilities both *select* and *hone their skills at* previous employers. We predict that differences in past work experience foster differential skills among activists and that these skills directly influence the activism process. Ours is the first study to examine the activism process through the lens of the activist's past work experience. The results identify a potential source of activism success – namely, the skills that activists bring to activism from prior work experience.

Past literature helps to identify, define, and contextualize these skills. In a theoretical model, Morrison and Wilhelm (2004) show that the partnership form of business is well suited to settings that require on-the-job mentoring. In mentoring junior associates, senior partners convey and nurture tacit skills such as close relationships, an active oversight role with counterparties, network management, and a personal reputation for fair dealing: all skills that are difficult to codify. Partnerships are by nature opaque; their flat pay scales, "up-or-out" mentality, emphasis on teamwork, and illiquid stakes make it costly to leave a partnership without the consent of other partners. Hence, partnerships provide a suitable environment for senior agents to help junior agents develop tacit skills.

A publicly traded firm cannot replicate a partnership's incentive scheme for mentoring junior agents, because in a publicly traded firm investors supply financial capital, but employees supply human capital. Further, mentoring becomes more difficult as firm size grows. By contrast, financial and human capital are inseparable in partnerships. Examples of partnership settings include law firms, management consultancies, private equity funds, special situations funds, hedge funds, and *until the late 1980s*, most investment banks.

Morrison and Wilhelm (2008) trace the transition of investment banks from partnerships to publicly traded firms. For nearly 100 years, beginning with Lehman Brothers and the Seligman family in the late 1880s, investment banks are organized as partnerships. In 1970, the New York Stock Exchange (NYSE) allows partnerships to go public; by the late 1980s, all the large banks become publicly traded. The authors partially attribute this transition to "a technologically driven shift in the trade-off between human and physical capital" (Morrison and Wilhelm (2008), p. 314). Developments in technology enable bankers to adopt financial engineering techniques and codify many previously tacit skills, such as valuation and security underwriting. These changes increase the relative importance of technical skills that one can learn in classrooms, often at top business schools, reducing the benefits of personal mentoring. Technological changes also cause trading cost reductions, which reduce profit margins and require banks to grow to maintain profits. Ultimately, these changes cause large investment banks to abandon the partnership structure.

The decline in investment banking partnerships coincides with a rise in boutique firms organized as partnerships, including private equity funds, special situations funds, and hedge funds. Private equity managers cultivate long-term relationships (5–10 years) and build trust with portfolio companies, emphasizing

[1] We classify managers with both investment banking and partnership experience as specialists. See Section II for more details.

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operations, finance, human resources, and governance via board representation.[2] Special situations funds focus on spinoffs, corporate restructurings, recapitalizations, or firms with governance issues. Requisite skills for special situations fund managers include tacit abilities such as a niche network of boutique and referral sources, expertise across the capital structure, geographies and sectors, and the patience for a multi-year holding period.[3] Further, special situations fund managers frequently participate in company management, drawing on their legal and regulatory expertise.[4] Thus, boutique private equity and special situations partnerships have effectively replaced investment banks in bestowing monitoring and mentoring skills. Morrison and Wilhelm (2008), (2015), Chen, Morrison, and Wilhelm (2015), and Morrison, Schenone, Thegeya, and Wilhelm (2018)) provide substantial empirical evidence that after their shift to trading publicly in the late 1980s, investment banks focus on *codifiable* rather than *tacit* skills.

This article investigates the role that prior work experience plays in activism. In our sample, the activist hedge fund managers with prior investment banking experience worked for investment banks *after* the banks publicly listed their shares. Hence, we label activists with prior investment banking experience as "generalists," with codified skills such as analytical talent, transaction expertise (especially with mergers), deal-making experience, and quantitative ability. By contrast, "specialist" activists have prior private equity or special situations partnership backgrounds that indicate strong tacit skills: close client relationships, active involvement with operations and governance, concern for their reputations, legal expertise, restructuring experience, and patience for longer holding periods. We expect that both types of skills can contribute to successful activist outcomes, but that differences in activist skill sets likely contribute to differences in activism processes.

The analysis begins with target firm selection (see Brav, Jiang, Partnoy, and Thomas (2008) and Klein and Zur (2009)). Compared to nonfinancial experts, both generalists and specialists select larger firms with more liquid stocks, consistent with their stronger financial expertise. Relative to specialists, generalists choose targets with higher Tobin's Q, more cash, lower leverage, and worse prior year performance. These lower-risk firms seem to be appropriate targets for generalists with strong analytical, quantitative, and transactional skills. By contrast, specialists with prior experience from active involvement with target firms, in addition to their tacit monitoring and mentoring skills, choose higher-risk targets. Thus, activist target selection reflects activist prior work experience and suggests that skills acquired from past work experience may influence activist target choices. Activists choose targets that (given differences in activist skill sets) appear conducive to their expected approaches.

Turning to choices that activists make over their careers (see Krishnan, Partnoy, and Thomas (2016)), we expect specialists to display the strongest

[2]See, for example, Morrison and Wilhelm (2007). Other research points to the importance of these attributes in venture capital, a subset of private equity. See, for example, Hellman and Puri (2002), Gompers, Kovner, Lerner, and Scharfstein (2010), and Bottazzi, Da Rin, and Hellman (2008).

[3]See, for example, https://anchorcapital.com/primer-special-situations-investing/.

[4]See https://am.jpmorgan.com/uk/institutional/library/private-credit-time-to-consider-special-situations.

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commitment to activism (compared to generalists and nonfinancial experts), consistent with specialists' tacit skills such as concern for reputation and developing close and long-term relationships. We find evidence supporting our hypothesis: specialists perform more campaigns, invest higher aggregate dollar amounts, and devote a higher proportion of total fund assets to activist targets compared to both generalists and nonfinancial experts. Reflecting the role of financial expertise in activism, generalists perform more campaigns and devote higher aggregate dollar amounts to activism compared to nonfinancial experts. Hence, the stronger commitment to activism for both specialists and generalists relative to nonfinancial experts comports with specialist and generalist financial expertise. Supporting both their financial expertise and their well-developed skills in becoming actively involved with target firms, specialists appear the most committed of the 3 groups to activism.

Next, we examine initial campaign choices (see Collin-Dufresne, Fos, and Muravyav (2020)). Compared to both generalists and nonfinancial experts, specialists more frequently invest in targets through private placements, purchase call options less often, and are more willing to breach Hart–Scott–Rodino (HSR) Act dollar investment limits. The HSR act requires that an investor notify the target firm, the Federal Trade Commission, and the Department of Justice 30 days before investing more than a certain dollar amount ($70.9 million at the end of the sample period in 2013). These initial campaign choices comport with specialists' expertise in governance and operations because private placements often involve both board representation and a minimum holding period. Further, these results imply that their prior expertise facilitates and empowers specialists' more extensive involvement with targets: specialists' initial investments more frequently include higher dollar allocations to target firms, and specialists appear less concerned about timing their entry points.

The stock market responds favorably to campaign announcements for all subsets of activists, consistent with a large body of prior literature (see Brav et al. (2008), Clifford (2008), and Klein and Zur (2009), among others). Comparing campaign announcement returns, generalist targets have better short-term stock returns than nonfinancial expert targets, and higher but statistically indistinguishable stock returns compared to specialist targets. Announcement returns for the subset of campaigns in which generalists encourage a merger drive the higher generalist target returns. Potentially reflecting merger expertise acquired while working at investment banks, generalists solicit mergers more often than specialists or nonfinancial experts. Since campaigns resulting in mergers have the best long-term stock performance (see Greenwood and Schor (2009), Boyson, Gantchev, and Shivdasani (2017)), the on-average higher announcement returns for generalist targets may reflect the market's beliefs that the generalists' investment banking expertise increases the likelihood of a target firm merger. This evidence of higher short-term stock returns implies that the deal-making skills that generalists develop in prior employment with investment banks are highly relevant to activism.

We predict that target firm resistance (Boyson and Pichler (2019)) should differ for targets of specialists, because specialists have unique skills in developing close relationships, taking an active role with counterparties, and electing an active oversight role in operations, finance, and governance. In particular, we expect that

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targets of specialists will oppose activists less frequently than targets of generalists or nonfinancial experts. Indeed, we find that targets of specialists less frequently worsen their governance or engage in proxy fights compared to targets of nonfinancial experts. Targets of specialists also resist activists less often than targets of generalists, although this difference just misses statistical significance. That targets of specialists respond more cooperatively to activism comports with the specialists' particular skills – honed at prior jobs – in monitoring target firms.

We next examine intermediate steps of the activism process (as in Bebchuk, Brav, Jiang, and Keusch (2020), Keusch (2019)). Consistent with specialists' skills in taking active oversight roles in management, governance, and operations, the targets of specialists and the specialists themselves attain several notable intermediate objectives. Specialists more often obtain board seats compared to nonfinancial experts and generalists. Targets of specialists replace management more frequently than targets of generalists and nonfinancial experts, and targets of specialists improve governance more often than targets of generalists. By contrast, reflecting the financial and deal-based skills of generalists, targets of generalists more often sell assets in the year after activism compared to targets of specialists and nonfinancial experts. Overall, targets of specialists and generalists take intermediate steps in activism that demonstrate the skills that the specialists and generalists presumably bring from their prior work experience.

Past literature (see Greenwood and Schor (2009)) finds that activists frequently agitate for target firm mergers. For the subset of campaigns in which activists lobby for mergers, targets of generalists more often announce mergers after activism initiation compared to targets of specialists or nonfinancial experts. Further, relative to the number of campaigns, in which generalists agitate for mergers, targets of generalists are more likely to announce and consummate mergers compared to targets of specialists or nonfinancial experts. Mergers of target firms result in high returns and are generally the best outcomes for activists. Announcing more mergers subsequent to activism comports with generalists' on-average higher campaign announcement returns. More important, this finding appears to reflect the deal-making and merger experience that generalists gain at past jobs in investment banking.

We separately examine the extent to which targets complete announced mergers, as in Malmandier, Opp, and Saidi (2016) and Boyson et al. (2017). Targets of specialists consummate a higher proportion of announced mergers, indicating specialists' expertise in close client relationships and active oversight of management. Also likely reflecting specialists' expertise, targets of specialists less often suffer a bad outcome within 18 months of the activism announcement – such as a delisting due to a negative event, a bankruptcy, or a liquidation – compared to targets of both generalists and nonfinancial experts. The relative frequency of merger announcements, merger completions, and bad outcomes for targets of generalists and specialists comports with the skills that these activists seem to enhance and develop during prior employment and deploy in activism.

The final analysis studies long-term operating performance (return on assets) for the 1–5 years following activism (see Becht, Franks, Mayer, and Rossi (2009), Bebchuk, Brav, and Jiang (2015)). In the first year after activism, targets of specialists have better performance than targets of both generalists and nonfinancial

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experts. In the second and third years after activism, targets of both generalists and specialists outperform targets of nonfinancial experts while the performance difference between targets of generalists and specialists is not statistically significant. These long-term operating performance results imply that both generalists and specialists add relatively more value to target firms than activists without financial expertise. Financial experts select firms with different characteristics and conduct campaigns differently. More relevant, these differences reflect the expected skills of each type of activist. Activist skills can be traced to prior experience and indicate that activists appropriately leverage their distinctive skills; targets of activists with financial expertise demonstrate better performance compared to targets of activists without financial expertise.

In addition to the literature already cited, this article contributes to several categories of research. It adds to activism studies that find a positive relation between hedge fund activism and target firm outcomes (see, e.g., Brav et al. (2008), Clifford (2008), Becht et al. (2009), Klein and Zur (2009), Greenwood and Schor (2009), Boyson and Mooradian (2011), Gantchev (2013), Boyson et al. (2017), and Fos (2017)). It complements and expands work regarding prior experience of firm monitors. Monitors include boards of directors (see Xie, Davidson, and DaDalt (2003), Agrawal and Chadha (2005), Defond, Hann, and Hu (2005), Morrison and Wilhelm (2007), Harris and Raviv (2008), Güner , Malmendier, and Tate (2008), and Minton, Taillard, and Williamson (2014)); investment banks (Bao and Edmans (2011), Huang, Jiang, Lie, and Yang (2014)); and mutual fund managers (Cici, Gehde-Trapp, Goericke, and Kempf (2018)). Finally, this article contributes to the reputation literature on investment banks, private equity funds, and hedge funds (see, e.g., Kaplan and Stromberg (2003), (2004), Gompers et al. (2010), Krishnan, Ivanov, Masulis, and Singh (2011)), Glode, Green, and Lowery (2012)), Cohn and Rajan (2013), Chen et al. (2015), Krishnan et al. (2016), Dittmar and Duchin (2016), Keusch (2019), Johnson and Swem (2021), Corum and Levit (2019), and Bebchuk et al. (2020)).

The article proceeds as follows: Section II describes the data, Section III conducts the analyses, and Section IV concludes.

II. Data

Activism data collection begins with the Audit Analytics' Shareholder Activism Database, which provides 13D filing data for all Securities and Exchange Commission (SEC) registrants filing form 13D for 2001–2013. We hand collect these data for 1994–2000 from the SEC's Edgar database. Section 13(d) of the 1934 Securities Exchange Act requires investors who own 5% or more of a target firm's stock and that have a current or future intent to influence the firm to disclose this information within 10 days of crossing the 5% threshold.[5]

The second source of activism data is FactSet's Shark Repellant database. Shark Repellant covers the period beginning in 1994 and includes many activism events that 13D filings do not capture. Campaigns not reported in 13D filings

[5]A shareholder that acquires greater than a 5% stake, yet does not intend to influence the issuer, may elect to file a (shorter) 13G form instead of a 13D form.

typically include proxy fights and other events in which the activist does not own 5% or more of company stock. One limit of Shark Repellant is that it does not contain the full sample of 13D filings for all hedge funds.[6] Thus, we manually combine the Shark Repellant and 13D data sets, matching on target name, date, and hedge fund, and drop duplicates. From these data sets, we obtain the stated purpose and outcomes of activism and initial activist ownership.

We manually check the identity of each 13D filer and keep the hedge funds. To filter out nonhedge fund filers, we use a 2-step procedure. As a first step, we check each filer's SEC-required Uniform Application for Investment Adviser Registration (ADV) filings to ensure that they have at least 50% of their assets in hedge funds, or at least 50% of their assets owned by high net worth individuals, and that they charge incentive fees. This approach often results in selecting private equity or venture capital firms. In our second step, we read descriptions of the filer type listed in Item 2 of 13D, and Item D of the ADV filing. For the firms that do not file an ADV form, we perform an online review to confirm that the filer is indeed a hedge fund. Finally, we aggregate filings at the hedge fund manager level.[7] This search yields a data set running from 1994 to 2013 with over 4,000 separate activism events.

We also hand collect manager biography data. We obtain the manager's age at his first campaign and the average SAT score of students at his undergraduate institution.[8] These data originate from web searches, such as Bloomberg Businessweek's executive biography database, LinkedIn, hedge fund websites, SEC filings, interviews with managers from reputable media outlets such as *The Wall Street Journal* or *Barron's*, and manager websites. We cross-verify these data using multiple sources to ensure their accuracy.

In addition to past work experience, we also consider on-the-job activism. We create a dummy variable called FREQUENT set to 1 if the hedge fund manager conducts 5 or more campaigns in the 3-year period prior to the current campaign, and 0 otherwise. We choose this cutoff since 5 is the median number of campaigns over a 3-year period. Since online filing and the SEC's EDGAR database become available in 1994, data prior to this year is not available, which could affect the measurement of FREQUENT. Hence, we use data from 2001 onward for the main analyses.

If a manager previously oversaw a different hedge fund (e.g., William Ackman founded Gotham Capital before founding Pershing Square Capital), we measure his experience at the manager level and consider past experience in calculating FREQUENT. However, if the manager worked for another activist hedge fund

[6]Specifically, if a hedge fund files a 13D form that does not state a specific goal in activism (which we call "not purposeful" or "investment-only" activism) and the fund is not identified by Shark Repellant as a "top 50" activist, this 13D filing is typically excluded from the Shark Repellant database.

[7]The SEC assigns each filer a unique Central Index Key (CIK). Sometimes the same hedge fund manager has more than one CIK, representing more than one individual hedge fund with the same manager. Since we perform our analysis at the manager level, we manually collect manager names from the filings, and aggregate the data in this way.

[8]We use the Bloomberg Business Week age data to estimate a manager's age. If age is not available, we infer the manager's age based on his date of undergraduate graduation, subtracting 21 from this date, as in Chevalier and Ellison (1999). The College Board provides online the average SAT score data. This data only represents the most current average SAT scores of these institutions, and therefore, implicitly assumes that college quality does not change much over time.

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before starting his fund, but was not the principal portfolio manager (such as Keith Meister, founder of Corvex Capital who previously worked for Icahn), we do not consider this experience in calculating FREQUENT. Although this approach could understate a manager's past activist experience, it is conservative since it requires that the manager be the fund's key decision maker.

We match the sample of target firms with Compustat and CRSP. We drop closed-end funds, special purpose acquisition companies, bankrupt or liquidated targets, ownership of more than 45%, and new issues of more than 20% of company stock.[9] We drop all campaigns that begin after a firm has announced a merger (see Jiang, Li, and Mei (2018)). We require at least 2 activism events per hedge fund.[10]

We split the sample into 3 categories: activists with prior investment banking experience (generalists), those with prior private equity or special situations funds experience (specialists), and all others (nonfinancial experts).[11] Our main analyses compare generalists and specialists (together, the "treated sample") with nonfinancial experts. Although we cannot control for unobservable differences, we can and do control for observable differences by employing one-to-one nearest neighbor propensity score matching, using firm, manager, and hedge fund characteristics (see the Appendix) to select the best matches from the untreated sample. The initial sample has 1,840 campaigns, with 771 generalists, 481 specialists, and 573 nonfinancial expert campaigns. The final sample, after matching, contains 1,599 campaigns, with 771 generalists, 481 specialists, and 347 nonfinancial expert campaigns.

The Appendix describes the variables, and Table 1 reports summary statistics. All variables except indicator variables are winsorized at the 1% and 99% levels. Table 1 reports target firm characteristics for the year before activism. Panel A of Table 1 groups the variables into 5 categories: target firm characteristics, hedge fund and manager characteristics, career characteristics, campaign characteristics, and target firm reaction. On average, activists target small to midsize firms, with a mean asset size of $1.9 billion but a far lower median of $346 million. A typical target firm has an average TOBIN_Q of 1.9, CASH/ASSETS of 0.23, and LEVERAGE of 0.22. The mean AMIHUD (higher values correspond to less liquid stocks) is 0.25. The average Herfindahl-Hirschman index (HHI) is 0.14, suggesting that most target

[9]Both NYSE and NASDAQ require a firm to obtain stockholder approval to issue common stock, or securities convertible into or exercisable for common stock, that is equal to 20% or more of the common stock or voting power outstanding before the issuance, or that would result in a change of control of the company. NASDAQ generally takes the position that any issuance that puts a stockholder over 20% results in a change of control. NYSE does not provide official guidance on what it considers a change of control, which may be influenced by the extent of any accompanying board representation or governance/approval rights. Because NASDAQ considers 20% or more ownership as a change in control, and not typical activism, we drop these events from our sample.

[10]Even if the target of the activist campaign is missing Compustat or CRSP data and does not appear in the formal analyses, we count the campaign in calculating the FREQUENT variable so that we do not bias this variable to include only firms that CRSP and Compustat cover.

[11]Nearly 80% of specialists also have investment banking experience, almost always obtained before joining a boutique private equity or special situations partnership. Hence, these managers have both codifiable skills and tacit skills. We classify them as specialists, since their codifiable skills likely complement their tacit skills. These tacit skills are also likely to drive many of their overt actions. The remaining subset of campaigns involving specialists without investment banking expertise is too small to examine separately, but univariate tests find no statistically or economically significant differences between these 2 subsets for any key variables.

TABLE 1

Summary Statistics

Panel A of Table 1 reports summary statistics for target firm, hedge fund, manager, career, campaign characteristics and target firm responses, for a one-to-one propensity score matched sample using the nearest neighbor approach. Activists with financial expertise comprise the treatment group and activists without financial expertise comprise the matching group. The matching model uses all manager, target, campaign, and hedge fund characteristics from Panel A. Panel B reports outcome variables. The Appendix describes all variables, and all variables except indicator variables are winsorized at the 1% and 99% tails. The first column reports the 25th percentile; the second reports the median; the third reports the 75th percentile; the 4th reports the mean; and the last column reports standard deviation.

	25th Percentile	Median	75th Percentile	Mean	Std. Dev.
No. of obs.	1,599	1,599	1,599	1,599	1,599
Panel A. Means for Manager, Target, Hedge Fund, Career, and Campaign Characteristics and Target Firm Response					
Target Characteristics (t = year of activism)					
ASSETS ($ million)$_{t-1}$	113	346	1,077	1,900	5,786
TOBIN_Q$_{t-1}$	1.010	1.447	2.269	1.925	1.752
CASH/ASSETS$_{t-1}$	0.041	0.128	0.335	0.225	0.236
LEVERAGE$_{t-1}$	0.000	0.112	0.392	0.224	0.263
AMIHUD $\times$ $10^6{}_{t-1}$	0.002	0.016	0.110	0.247	0.840
HHI$_{t-1}$	0.054	0.101	0.173	0.143	0.130
R&D/ASSETS$_{t-1}$	0.000	0.000	0.068	0.054	0.107
CAR$_{[-25,\ -5]}$ (%)	−7.10	−0.40	6.69	0.01	12.64
BHAR$_{[-250,\ -5]}$ (%)	−31.50	−7.20	11.95	−6.46	39.87
ROA$_{t-1}$(%)	1.00	8.00	15.00	5.05	19.84
Manager Characteristics					
AGE_AT_FIRST_CAMPAIGN	38	44	53	46	10
UG_SAT	1,285	1,385	1,465	1,370	128
HEDGE_FUND_FILES_13F	NA	NA	NA	0.593	0.491
Career Characteristics					
FREQUENT	NA	NA	NA	0.382	0.486
#_OF_PROXY_FIGHTS_PRIOR_YEAR	0	0	0	0.038	0.301
PAST_3_YRS_OWNERSHIP ($ Millions)	4	50	312	758	3512
%_OF_PORTFOLIO_IN_ACTIVIST_STOCKS	0.037	0.138	0.348	0.217	0.218
Campaign Characteristics					
PERCENT_OWNED (%)	5.31	6.39	9.39	7.81	4.26
DOLLAR_OWNERSHIP ($ Millions)	4	12	43	64	140
PURPOSEFUL (indicator)	NA	NA	NA	0.561	0.496
WANT_MERGER (indicator)	NA	NA	NA	0.232	0.422
PRIVATE_PLACEMENT (indicator)	NA	NA	NA	0.020	0.140
PERCENT_PRIVATE_PLACEMENT	NA	NA	NA	0.014	0.103
Percent Private Placement Cond. On PP = 1	NA	NA	NA	0.661	0.304
BUYS_CALLS (indicator)	NA	NA	NA	0.040	0.196
PERCENT_CALLS	NA	NA	NA	0.013	0.087
Percent Calls Conditional on Buys Calls = 1	NA	NA	NA	0.321	0.303
OVER_HSR_LIMIT (indicator)	NA	NA	NA	0.206	0.405
Target Firm Reaction					
ANY_RESISTANCE (indicator)	NA	NA	NA	0.497	0.500
MODERATE_RESISTANCE (indicator)	NA	NA	NA	0.243	0.425
HOSTILE_RESISTANCE (indicator)	NA	NA	NA	0.254	0.629
Panel B. Means for Stock Performance, Operating Performance, and Other Aspects of the Activism Process					
Stock Performance					
CAR$_{[-1,+10]}$ (%) (Days)	−2.13	2.64	8.98	3.73	11.07
Process Variables (indicators)					
BOARD_REPRESENTATION	NA	NA	NA	0.247	0.431
REPLACE_MANAGEMENT	NA	NA	NA	0.461	0.499
SELLS_ASSETS	NA	NA	NA	0.038	0.19
IMPROVE_ GOVERNANCE	NA	NA	NA	0.067	0.25
Bankruptcy/Liquidation Indicator					
BAD_OUTCOME	NA	NA	NA	0.096	0.294
Mergers (indicators)					
MERGER_ANNOUNCED (dummy)	NA	NA	NA	0.221	0.415
MERGER_COMPLETED (dummy)	NA	NA	NA	0.896	0.306
Operating Performance					
ROA_YR1_POST (%)	0.87	7.21	13.72	4.8	16.87
ROA_YR2_POST (%)	1.33	7.7	14.1	5.6	16.51
ROA_YR3_POST (%)	1.24	7.77	14.62	5.65	17.7
ROA_YR4_POST (%)	1.79	8.53	14.7	6.01	18.68
ROA_YR5_POST (%)	1.8	9.07	14.76	6.72	18.3

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firms are not from highly concentrated industries. Hedge funds select targets with poor stock performance (−6.5% on average) but strong return on assets (5.1% on average) in the year before activism. These results comport with prior work: Brav et al. (2008), Clifford (2008), and Klein and Zur (2009).

The average manager is 46 years old at his first event and matriculated from an undergraduate institution having an average SAT score of 1,370 on a 1,600-point scale. Funds with over $100 million in assets (HEDGE_FUND_FILES_13F indicator) represent about 59% of campaigns. Turning to career characteristics, FREQUENT activists conduct 38% of campaigns. The typical activist has not conducted a proxy fight in the last year (Johnson and Swem (2021)), and the average total dollar ownership over the past 3 years is $758 million with a much lower median of $50 million (Krishnan et al. (2016)). Of activists required to report quarterly holdings in Form 13F, the typical activist holds about 22% of his portfolio in activist stocks.

For campaign characteristics, activists own, on average, 8% of target firm outstanding stock (about $64 million). About 56% of activist events are PURPOSEFUL, an indicator variable set to 1 if the activist states a specific purpose for activism in Item 4 of the 13D filing. About 23% of activists encourage the firm to conduct a merger, explore strategic alternatives, or conduct a spinoff (not tabulated). About 2% of events involve a private placement of equity or equity-related securities such as convertible preferred stock, convertible debt, or warrants. A private placement is a lightly regulated private sale of newly issued equity from the target firm to the investor. Total ownership in private placements represents, on average, 1.4% of an activist's total ownership.

The private placement proportion is the total dollar amount invested in private placements divided by the total dollar amount of equity securities purchased by the activist; the mean is very low because most campaigns do not involve private placements. Hence for most campaigns this variable is equal to 0%. However, for campaigns that do include a private placement, the private placement represents about 66% of the activist's ownership stake in that stock. Because private placements are negotiated privately, typically have a minimum holding period, and often involve board representation, they involve a higher degree of investor commitment than open market purchases of stock (see Hertzel, Lemmon, Linck, and Rees (2002) and Dai (2007)).

In contrast to private placements or open market purchases, call option purchases represent a lower degree of commitment, since call options expire and do not confer voting rights. In about 4% of campaigns, activists purchase call options. Across all campaigns, call options represent a modest 1.3% of activist ownership stake. Conditional upon owning call options, however, the proportion of activist ownership stake in call options rises to 32%. Finally, about 21% of activist campaigns involve dollar investments exceeding the HSR yearly limit, which was about $71 million at the end of the sample period.[12] An activist concerned about the price

[12]The Hart–Scott–Rodino Antitrust Improvements Act of 1976 (HSR) established the Federal Premerger Notification Program, which provides the Federal Trade Commission (FTC) and the Department of Justice (DOJ) with information about large mergers and acquisitions before they occur. HSR requires that certain proposed acquisitions of voting securities be reported to the FTC and the DOJ

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impact of his purchase would attempt to avoid HSR requirements because the purchaser must announce the stock purchase 30 days before buying the stock. Both the high dollar amount invested and the willingness to comply with the waiting period could signal a more significant commitment from the activist to the target firm. Overall, these results on derivative securities, private placements, and HSR reporting requirements complement Collin-Dufresne et al. (2020).

The last category is target firm response to activists. Boyson and Pichler (2019) categorize target responses into 3 categories: hostile resistance, occurring when the target firm increases the firm's Bebchuk, Cohen, and Ferrell (2006)) entrenchment index (E_index) which worsens governance; moderate resistance, which includes rejecting or verbally denouncing hedge fund advances, changing advance notice requirements for elections, or postponing or adjourning the annual meeting; and no resistance. Even campaigns with no resistance typically involve publicly observable negotiations, such as meetings, phone calls, or letters between the parties. However, the observable negotiations do not reach the threshold of either hostile or moderate resistance. Boyson and Pichler (2019) document underperformance for target firm shareholders unless the hedge fund counters target hostile resistance. Using these definitions, target firms resist activists 49% of the time; resistance is moderate 24% of the time and hostile 25% of the time.

Panel B of Table 1 reports summary statistics for the activism process. The average 11-day announcement CAR (1 day before to 10 days after) is 3.7%. Hedge funds obtain board representation 25% of the time; management is replaced 46% of the time; the target firm sells assets 4% of the time; and the target firm improves governance about 7% of the time. About 10% of the time, the target firm has a bad outcome within 18 months of activism initiation: it delists for a negative reason (firm conducted fraud, or failed to meet SEC reporting requirements), files bankruptcy, or liquidates.

About 22% of campaigns result in mergers. For target firms that receive an offer, completion rates are about 90%. Both results are consistent with Boyson et al. (2017). Finally, Table 1 reports return on assets (ROA) for the 5 years following hedge fund activism, with means ranging from 4.8% to 6.7% per year. Section III begins the formal empirical analyses.

III. Empirical Analyses

A. Campaign Choices

This section focuses on hedge fund activist choices. Past literature shows that activists select companies that differ from the general population of firms: smaller companies with high cash, good liquidity, low leverage, poor prior year stock performance, but good past operating performance. Brav et al. (2008) argue that

(and the target firm) prior to consummation. The parties must then wait a specified period, usually 30 days, before they may complete the transaction. The size of the transaction that triggers reporting under HSR is adjusted each year (it was $70.9 million at the end of the sample period in 2013). See https://www.ftc.gov/sites/default/files/attachments/premerger-introductory-guides/guide1.pdf for further detail.

activists attempt to identify undervalued companies where the potential for improvement is high.

One important issue in the activism literature concerns the degree to which target firm selection – as compared to activist campaign action – drives activism outcomes. Although this article uses a propensity-score matched sample and controls for observable characteristics, propensity score matching does not directly address the issue of causality. Recognizing that selection plays a role in activist success, this article examines both *activist choices* and *target outcomes.* Activist choices include target firm selection, type of security purchased, activist goals, the frequency and dollar amount committed to activism, and many others. We tie these choices to skills that activists accrue at previous jobs and link these skills to short- and long-term outcomes of activism. By taking this approach, we intend to shed light on the entire activism process, including the influence that skills earned in prior jobs have on both activist choices and target firm outcomes. We approach the research question in this way to address issues such as whether activists choose targets more amenable to improvement given the activist skill set and whether there is a relation between target firm outcomes and activist skills.

Table 2 compares target firm and hedge fund manager characteristics across subgroups. Comparing financial experts to nonfinancial experts – despite the propensity score match – financial experts select larger and more liquid stocks than

TABLE 2

Target Firm, Hedge Fund, and Manager Characteristics; Univariate Comparisons

Table 2 reports means for target firm, hedge fund, and manager characteristics separated into 5 groups. The first group includes all activism events. The second includes activism by nonfinancial experts. The third includes activism by financial experts. The 4th group includes the subset of financial "generalists" with prior investment banking experience, and the final group includes the subset of financial "specialists" with prior private equity or special situations experience. The table reports differences in means between financial experts and nonfinancial experts, between generalists and nonfinancial experts, between specialists and nonfinancial experts, and between specialists and generalists. Variables are described in the Appendix. The table also reports results from *t*-tests for differences in means assuming unequal variance, and indicate statistical significance with *, **, and *** for the 10%, 5%, and 1% levels, respectively.

	Means					Differences			
	All	Past Non-Fin	Past Fin	Past General	Past Special	Past Fin – Past Non-Fin	Past General – Past Non-Fin	Past Spec. – Past Non-Fin	Past Special – Past General
	1	2	3	4	5	3-2	4-2	5-2	5-4
No. of obs.	1,599	347	1,252	771	481				
Target Characteristics (t = Year of Activism)									
ASSETS ($ Million)$_{t-1}$	1,900	1,262	2,077	1,928	2,316	815***	666**	1,054***	388
TOBIN_Q$_{t-1}$	1.925	1.889	1.935	2.022	1.796	0.046	0.133	−0.093	−0.226**
CASH/ASSETS$_{t-1}$	0.225	0.221	0.226	0.243	0.197	0.005	0.022	−0.024	−0.046***
LEVERAGE$_{t-1}$	0.224	0.229	0.222	0.207	0.247	−0.007	−0.022	0.018	0.040***
AMIHUD × $10^8{}_{t-1}$	0.247	0.363	0.214	0.197	0.242	−0.149***	−0.166***	−0.121*	0.045
HHI$_{t-1}$	0.143	0.137	0.144	0.146	0.142	0.007	0.009	0.005	−0.004
R&D/ASSETS$_{t-1}$	0.054	0.051	0.055	0.061	0.045	0.004	0.01	−0.006	−0.016***
CAR$_{[-25,\ -5]}$ (%)	0.01	−0.80	0.24	0.39	−0.01	1.04	1.19	0.79	−0.40
BHAR$_{[-250,\ -5]}$ (%)	−6.46	−4.70	−6.95	−8.42	−4.59	−2.25	−3.72	0.11	3.83*
ROA$_{t-1}$(%)	5.05	4.19	5.29	3.90	7.54	1.10	−0.29	3.35***	3.64***
Hedge Fund And Manager Characteristics									
AGE_AT_FIRST_CAMPAIGN	46	44	46	48	43	2***	4***	−1	−5***
UG_SAT	1,370	1,354	1,375	1,374	1,375	21**	20**	21**	1
HEDGE_FUND_FILES_13F	0.593	0.473	0.626	0.608	0.655	0.153***	0.135***	0.182***	0.047*

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nonexperts. This finding is consistent with financial experts' trading experience and with nonfinancial experts having less capital.

Within the treatment group of financial experts, generalists, and specialists select different types of target firms. Compared to specialists, generalists select firms with higher Tobin's Q, more cash, and lower leverage. The targets that generalists select have the potential to benefit from financial actions such as reducing cash, selling assets, or increasing leverage. The selection of these targets reflects generalists' deal-based, quantitative, and codifiable skills. By contrast, specialists select targets with less obvious improvement potential; these targets may require specialists' tacit skills such as developing close relationships, preference for an active oversight role with target firms, and expertise in management, operations, and governance. Overall, activists select targets consistent with activists' skill sets and thus, appear to choose targets in which their activism is likely to have greater impact.

Examining hedge fund and managerial characteristics, specialists are younger and more frequently manage large funds compared to generalists or nonfinancial experts: the market awards specialists a higher level of assets at a younger age compared to generalists or nonfinancial experts. Both types of financial experts attend higher quality universities than nonfinancial experts. Together, these results indicate numerous important differences in selection that are consistent with activist prior experience.

B. Fund Manager Choices

1. Commitment to Activism

Section III.A finds that hedge funds with different backgrounds choose different targets, consistent with differential expertise from their prior jobs. Table 3 investigates another activist choice: the overall commitment to activism. Columns 1 and 2 use a probit model in which the dependent variable, FREQUENT, is set to 1 if the activist conducts 5 or more campaigns over the prior 3-year period and 0 otherwise. The model controls for manager and hedge fund characteristics and time trends; clusters standard errors at the year level; and reports marginal effects with all other variables (except time trend indicators) set to their means. Compared to activists without financial expertise, activists with financial expertise are 16% more likely to be FREQUENT. Since the mean value of FREQUENT is 38%, this result indicates a 42% relative difference in probability. Further, this result is stronger for specialists, who are 25% more likely than nonfinancial experts (63% relative difference) and 15% more likely than generalists (39% relative difference) to be FREQUENT activists.

Columns 3 and 4 use an Ordinary Least Squares (OLS) model to study the likelihood for activists to engage in proxy fights, using as the dependent variable the number of proxy fights in the prior year as in Johnson and Swem (2021). The regressions control for managerial and hedge fund characteristics and time trends and cluster standard errors at the year level. These tests find no differences in the number of proxy fights among subsets. Columns 5 and 6 consider the log of dollar ownership over the past 3 years, as in Krishnan et al. (2016) and find that both

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TABLE 3
Hedge Fund Manager Choices

Table 3 presents probit and Ordinary Least Squares (OLS) models of hedge fund manager decisions. Panel A reports career level decisions. Columns 1 and 2 present a probit model in which the dependent variable is the indicator variable FREQUENT, set to 1 if the manager performs more than 5 campaigns in the prior 3 years. Columns 3 and 4 present an OLS model in which the dependent variable is the number of proxy fights the hedge fund manager engaged in during the past year, columns 5 and 6 present an OLS model in which the dependent variable is the log of the dollar amount of estimated hedge fund ownership summed across all campaigns in the past 3 years, and columns 7 and 8 present an OLS model in which the dependent variable is the proportion of the hedge fund's total portfolio that is dedicated to activist stocks. Panel B presents decisions at the campaign level. Columns 1 and 2 present a probit model in which the dependent variable is set to 1 if the campaign includes a private placement of equity. Columns 3 and 4 present an OLS model in which the dependent variable is the percentage of hedge fund ownership of privately placed equity. Columns 5 and 6 present an OLS model in which the dependent variable is the percentage of hedge fund ownership in call options. Columns 7 and 8 present a probit model in which the dependent variable is set to 1 if hedge fund ownership is higher than the Hart-Scott-Rodino (HSR) reportable limit that year. Models include year and industry fixed effects and year-clustered standard errors; *z*-values (probit) or *t*-values (OLS) are reported below coefficients in parentheses; and statistical significance is indicated with *, **, and *** at the 10%, 5%, and 1% levels, respectively. The *p*-value from a χ^2 test for the difference between financial generalists and specialists is reported at the bottom of the table.

Panel A. Career Level Decisions

	Dependent Variable							
	FREQUENT		#_OF_PROXY_FIGHTS_PRIOR_YEAR		log(PAST_3_YRS_OWNERSHIP)		%_OF_PORTFOLIO_IN_ACTIVIST_STOCKS	
	Probit		OLS		OLS		OLS	
	1	2	3	4	5	6	7	8
Expertise Indicator								
ANY_FINANCIAL_EXPERTISE	0.159*** (3.64)		−0.003 (−0.18)		0.814*** (5.62)		0.054 (1.60)	
FINANCIAL_GENERALIST		0.092* (1.75)		−0.004 (−0.22)		0.546*** (2.98)		0.026 (0.60)
FINANCIAL_SPECIALIST		0.253*** (5.13)		−0.003 (−0.08)		1.208*** (6.34)		0.093*** (3.51)
Hedge Fund and Manager Characteristics								
AGE_AT_FIRST_CAMPAIGN	0.006*** (3.19)	0.008*** (4.00)	0.002 (0.82)	0.002 (0.79)	0.047*** (3.97)	0.054*** (4.27)	−0.000 (−0.15)	0.001 (0.52)
log(UG_SAT)	−0.143 (−0.65)	−0.120 (−0.58)	−0.016 (−0.13)	−0.016 (−0.14)	0.799 (1.07)	0.923 (1.32)	0.079 (1.13)	0.091 (1.57)
HEDGE_FUND_FILES_13F	0.186*** (5.40)	0.176*** (5.37)	0.014 (0.85)	0.014 (0.84)	1.409*** (6.14)	1.360*** (6.05)	– –	– –
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	1,599	1,599	1,599	1,599	1,599	1,599	947	947
Pseudo/R^2	0.126	0.141	0.035	0.035	0.235	0.245	0.085	0.101
Generalist = Specialist (*p*-value)		0.004***		0.971		0.021**		0.094*

Panel B. Campaign Choices

Dependent Variable	PRIVATE_PLACEMENT		PERCENT_PRIVATE_PLACEMENT		PERCENT_CALL		OVER_HSR_LIMIT	
	Probit		OLS		OLS		Probit	
Expertise Indicators	1	2	3	4	5	6	7	8
ANY_FINANCIAL_EXPERTISE	0.007 (1.28)		0.736 (1.29)		0.078 (0.14)		0.019 (0.79)	
FINANCIAL_GENERALIST		0.002 (0.45)		0.166 (0.26)		0.692 (1.06)		−0.015 (−0.51)
FINANCIAL_SPECIALIST		0.012** (2.34)		1.592** (2.45)		−0.839 (−1.50)		0.065*** (3.05)
Hedge Fund And Manager Characteristics								
AGE_AT_FIRST_CAMPAIGN	0.000 (0.93)	0.000 (1.51)	0.018 (0.71)	0.033 (1.22)	0.100* (1.67)	0.084 (1.50)	0.005*** (4.46)	0.006*** (4.96)
log(UG_SAT)	0.025 (1.10)	0.023 (1.12)	3.024* (1.73)	3.272* (1.85)	5.971* (1.75)	5.710* (1.79)	0.624*** (4.97)	0.633** (−1.95)

(continued on next page)

TABLE 3 (continued)
Hedge Fund Manager Choices

Panel B. Campaign Choices (continued)

Dependent Variable	PRIVATE_ PLACEMENT		PERCENT_PRIVATE_ PLACEMENT		PERCENT_CALL		OVER_HSR_ LIMIT	
	Probit		OLS		OLS		Probit	
Expertise Indicators	1	2	3	4	5	6	7	8
HEDGE_FUND_ FILES_13F	0.003 (0.59)	0.004 (0.73)	0.244 (0.37)	0.172 (0.26)	−0.100 (−0.33)	−0.022 (−0.07)	– –	– –
Firm Characteristics								
log(ASSETS)$_{t-1}$	−0.004 (−1.51)	−0.004 (−1.61)	−0.253 (−1.07)	−0.292 (−1.22)	1.032*** (3.73)	1.074*** (3.70)	– –	– –
TOBIN_Q$_{t-1}$	0.001 (1.39)	0.001 (1.34)	0.530 (1.46)	0.529 (1.47)	0.226** (1.96)	0.227* (1.92)	0.028*** (4.81)	0.028*** (4.96)
CASH/ASSETS$_{t-1}$	0.017* (1.82)	0.017** (1.96)	3.542** (2.31)	3.666** (2.38)	0.521 (0.55)	0.390 (0.41)	−0.146** (−2.28)	−0.129** (−1.95)
LEVERAGE$_{t-1}$	−0.009 (−1.59)	−0.009 (−1.53)	−0.207 (−0.30)	−0.172 (−0.25)	0.089 (0.07)	0.055 (0.05)	0.058 (0.89)	0.060 (0.92)
LIQUIDITY$_{t-1}$	−0.003 (−1.52)	−0.002* (−1.69)	−0.883* (−1.64)	−0.876* (−1.67)	−0.488** (−2.32)	−0.497*** (−2.55)	– –	– –
HHI$_{t-1}$	0.003 (0.21)	0.004 (0.22)	1.336 (0.58)	1.491 (0.63)	0.244 (0.12)	0.073 (0.04)	−0.042 (−0.49)	−0.035 (−0.42)
R&D/ASSETS$_{t-1}$	−0.008 (−0.27)	−0.008 (−0.28)	2.296 (0.27)	2.415 (0.28)	0.487 (0.68)	0.353 (0.53)	−0.537*** (−5.18)	−0.537*** (−5.12)
CAR$_{[-25,\ -5]}$	−0.010 (−0.58)	−0.009 (−0.60)	−1.151 (−0.45)	−1.103 (−0.43)	1.177 (0.81)	1.129 (0.81)	−0.025 (−0.27)	−0.025 (−0.27)
BHAR$_{[-250,\ -5]}$	0.008 (1.28)	0.008 (1.19)	1.593 (1.07)	1.581 (1.05)	0.464 (1.51)	0.473 (1.47)	0.057** (2.30)	0.059** (2.30)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	1,599	1,599	1,5989	1,599	1,599	1,599	1,599	1,599
Pseudo/R^2	0.148	0.161	0.044	0.047	0.093	0.098	0.132	0.139
Generalist = Specialist (*p*-value)		0.022**		0.045**		0.019**		0.000***

generalists and specialists commit higher dollar amounts than nonexperts, and that specialists commit higher dollar amounts than generalists.

Finally, columns 7 and 8 examine the proportion of a hedge fund's total assets committed to activism for the subset of large hedge funds that file 13F forms. This variable is equal to the total amount invested in activist stocks divided by total equity holdings from the quarterly 13F filings in the quarter preceding activism. Specialists have 9% more equity assets in activist stocks than nonfinancial experts and 7% more equity assets in activist stocks than generalists. Differences relative to this variable's 22% mean indicate large relative differences of 42% and 30%, respectively.

Taken together, the results of this section indicate that specialists have a higher commitment to activism compared to generalists and nonfinancial experts; specialists conduct campaigns more frequently, invest larger aggregate dollar amounts, and apportion a higher percent of their stock portfolios to activism campaigns. Consistent with the importance of financial expertise to hedge fund activism, generalists perform more campaigns and devote higher aggregate dollar amounts to activism compared to nonfinancial experts. Overall, specialists are the most committed of the 3 groups to activism. This result is strongly consistent with specialists' tacit skills gained from prior employment, such as fostering close relationships, an active oversight role with target firms, and experience with finance, human resources, operations, and governance.

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2. Campaign Level Choices

Panel B of Table 3 examines hedge fund choices at the campaign level. Columns 1–4 examine private placements. A private placement is a private sale of newly issued equity from the target firm to an investor or a small group of investors, typically with little SEC oversight. On average, small firms with relatively poor operating performance are more likely to issue stock using a private placement (Hertzel et al. (2002)). Further, private placements often represent a significant proportion of a firm's stock, thereby increasing ownership concentration, and often sell at a discount to market value to compensate the investor for monitoring or advice (Wruck (1989)). These previously documented characteristics also hold for this article sample: on average, private placements in the sample are issued at a 10% discount to the prior day's stock price; the prior year ROA averages −15%; hedge fund ownership in the firm is on average 12%; and 53% of private placements in the sample involve board representation (these results are not tabulated).

Given the complementary nature of the above private placement characteristics with specialists' tacit skills including developing close relationships, an active oversight role with target firms, and experience with finance, operations, human resources, and governance, we expect specialists not only to be more willing to participate in private placements, but also to invest larger amounts. Columns 1–4 of Table 3 provide support. Specialists are 1.2% more likely to invest in private placements than nonfinancial experts and 1% more likely to invest in private placements than generalists. Compared to a mean probability of 2%, these values represent a 60% (50%) higher relative probability, respectively. Further, specialists allocate 1.6% more of their total investments to private placements than nonfinancial experts and 1.4% more than generalists. Compared to a mean percentage ownership of 1.4%, these values represent a 114% (100%) greater investment, respectively.

Columns 5 and 6 show that specialists invest a smaller proportion of target firm allocations in call options than do generalists. Since call options expire and have no associated voting rights, investing in call options is inconsistent with the more active role that specialists prefer. Finally, columns 7 and 8 show that specialists are significantly more willing to commit aggregate dollar investments that trigger the HSR reporting requirements (which require a 30-day notification and waiting period) than either generalists or nonfinancial experts.[13]

Summarizing, initial campaign choices reflect specialists' skills in governance and operations because private placements often involve both board representation and a minimum holding period. Consistent with the idea that specialists' skills make them better prepared to engage extensively with targets and to add value through this involvement, the specialists' initial campaign choices indicate a longer-term and higher dollar commitment to target firms and less concern about timing the entry point. Taken together, the results of this section find a strong relation between the tacit skills of specialists (such as fostering close relationships, an active oversight role with target firms, and experience with finance, human resources,

[13]These regressions exclude the 13F indicator variable, log of assets, and liquidity because the maximum likelihood estimation does not converge with these variables included.

operations, and governance) and the specialists' commitment to activism at both the aggregate and the individual campaign levels.

C. Cumulative Abnormal Returns Around the Crossing Date

Thus far, this article shows that activist choices are highly consistent with our expectations grounded in the theoretical literature that informs our understanding of activist skills gained in prior employment. Notably, specialists' tacit skills of developing close relationships and taking an active oversight role map closely to their activist choices. Compared to generalists and nonfinancial experts, specialists perform more activism and invest greater aggregate dollar amounts, devote a higher proportion of assets under management to activist stocks, and are more likely to invest in private placements but less likely to invest in call options. This section examines how the market initially responds to the announcement of activism and whether there is a relation between the market response to activism and activist prior experience.

Table 4 presents results of OLS regressions in which the dependent variable is the 11-day cumulative abnormal return to activism ($CAR_{[-1,+10]}$) beginning 1 day before activism and ending 10 days after. Untabulated results indicate that targets of all 3 categories of activists have CARs that are statistically higher than zero, consistent with prior literature. Comparing across activist categories, Columns 1–4 of Table 4 include different sets of control variables and find that targets of activists with financial expertise (combining generalists and specialists) outperform targets of activists without financial expertise by about 100 basis points, a relative difference of about 37% compared to an average CAR of 3.7%. The subset of generalist targets drives the results for the targets of activists with financial expertise; targets of generalists outperform targets of nonfinancial expert campaigns by about 133 basis points. Targets of specialists do not outperform targets of nonfinancial experts. Further, the difference in CARs between generalist and specialist campaigns of about 86 basis points is statistically insignificant.

The finding that generalists have the best performance of the 3 groups (although not statistically different from specialists) is consistent with the idea that these activists have codifiable skills, such as analytical talent, transaction expertise (especially with mergers), deal-making, and quantitative abilities. These skills might lead investors to believe that generalists will achieve high-value results consistent with these skills, such as changes to capital structure, asset sales, or a sale of the firm, especially since Table 2 shows that generalists choose targets (high cash, low leverage, and high liquidity firms) that are likely more amenable to actions leading to high-value results.

Columns 5 and 6 investigate this idea further. Prior literature shows that when activists lobby for more aggressive changes, such as mergers, the stock price reaction to activism is higher than when activists lobby for less aggressive changes (see Greenwood and Schor (2009)). Columns 1–4 confirm this prior finding: the coefficient of 2.1% on WANT_MERGER, the indicator variable set to 1 if the activist campaigns for a merger or a merger-related transaction, is both statistically and economically significant relative to the mean CAR of 3.7%.

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TABLE 4

Announcement Returns to Activism

Table 4 presents OLS regressions modeling activism announcement returns. The dependent variable is the cumulative abnormal return for the period starting day before to 10 days after the activism filing date. Models differ by their control variables. Models include year and industry fixed effects and year-clustered standard errors, and *t*-values are reported below coefficients in parentheses. Statistical significance is indicated with *, **, and *** at the 10%, 5%, and 1% levels, respectively. The *p*-value from a χ^2 test for the difference between financial generalists and specialists is reported at the bottom of the table.

	Dependent Variable: $CAR_{[-1,+10]}$					
Variables	1	2	3	4	5	6
Expertise Indicators						
ANY_FINANCIAL_EXPERTISE	1.024**		0.981**		0.497	
	(2.31)		(2.15)		(0.74)	
FINANCIAL_GENERALIST		1.351**		1.330**		0.661
		(2.52)		(2.48)		(0.81)
FINANCIAL_SPECIALIST		0.546		0.468		0.296
		(1.09)		(0.91)		(0.43)
Interaction Variables						
ANY_EXPERTISE × WANT_MERGER					2.594	
					(1.13)	
GENERALIST × WANT_MERGER						3.167
						(1.34)
SPECIALIST × WANT_MERGER						1.153
						(0.45)
Hedge Fund And Manager Characteristics						
AGE_AT_FIRST_CAMPAIGN	−0.008	−0.016	−0.009	−0.018	−0.011	−0.017
	(−0.26)	(−0.49)	(−0.28)	(−0.52)	(−0.35)	(−0.51)
log(UG_SAT)	−1.626	−1.782	−1.662	−1.840	−1.504	−2.055
	(−0.65)	(−0.71)	(−0.60)	(−0.66)	(−0.54)	(−0.72)
HEDGE_FUND_FILES_13F	−1.279**	−1.242**	−1.285**	−1.246**	−1.259**	−1.338**
	(−2.35)	(−2.26)	(−2.42)	(−2.33)	(−2.41)	(−2.34)
Firm Characteristics						
$\log(ASSETS)_{t-1}$	0.103	0.136	0.136	0.157	0.137	0.143
	(0.65)	(0.79)	(0.43)	(0.49)	(0.44)	(0.45)
$TOBIN_Q_{t-1}$	0.438***	0.438***	0.426**	0.424**	0.422**	0.416**
	(3.30)	(3.29)	(2.79)	(2.78)	(2.72)	(2.65)
$CASH/ASSETS_{t-1}$	1.531	1.456	1.380	1.292	1.434	1.352
	(1.10)	(1.02)	(1.00)	(0.91)	(1.03)	(0.96)
$LEVERAGE_{t-1}$	1.662	1.6643	1.673	1.662	1.609	1.636
	(1.44)	(1.43)	(1.34)	(1.33)	(1.32)	(1.35)
$LIQUIDITY_{t-1}$	0.070	0.066	0.094	0.092	0.090	0.101
	(0.28)	(0.26)	(0.38)	(0.36)	(0.36)	(0.41)
HHI_{t-1}	2.497	2.405	2.495	2.396	2.482	2.363
	(1.19)	(1.17)	(1.19)	(1.17)	(1.17)	(1.16)
$R\&D/ASSETS_{t-1}$	−6.927*	−6.980*	−6.903*	−6.961*	−7.038*	−7.071**
	(−2.00)	(−2.02)	(−1.91)	(−1.93)	(−1.91)	(−1.94)
$CAR_{[-25,\ -5]}$	−1.870	−1.905	−1.788	−1.822	−1.730	−1.797
	(−0.65)	(−0.66)	(−0.62)	(−0.63)	(−0.61)	(−0.63)
$BHAR_{[-250,\ -5]}$	−1.258	−1.252	−1.331	−1.331	−1.335	−1.324
	(−1.31)	(−1.31)	(−1.42)	(−1.42)	(−1.43)	(−1.40)
Campaign Characteristics						
PERCENT_OWNED	0.207***	0.207***	0.196***	0.195***	0.197***	0.195***
	(3.52)	(3.46)	(3.48)	(3.40)	(3.45)	(3.39)
WANT_MERGER	2.122**	2.063**	2.189**	2.127**	0.085	0.093
	(2.47)	(2.43)	(2.57)	(2.53)	(0.04)	(0.05)
PURPOSEFUL	0.284	0.295	0.253	0.266	0.229	0.223
	(0.48)	(0.49)	(0.44)	(0.46)	(0.40)	(0.38)
USES_CALL_OPTIONS			0.052	0.017	−0.027	−0.080
			(0.04)	(0.01)	(−0.02)	(−0.07)
PRIVATE_PLACEMENT			3.660	3.779	3.690	3.758
			(1.36)	(1.41)	(1.39)	(1.43)
OVER_HSR_LIMIT			−0.143	−0.112	−0.169	−0.073
			(−0.17)	(−0.13)	(−0.21)	(−0.09)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	1,595	1,595	1,595	1,595	1,595	1,595
R^2	0.047	0.048	0.049	0.050	0.050	0.052
Generalist = Specialist (*p*-value)		0.206		0.169		0.045
WANT_MERGER + ANY_EXPERTISE × WANT_MERGER					2.679**	
WANT_MERGER + GENERALIST × WANT_MERGER						3.260***
WANT_MERGER + GENERALIST + GENERALIST × WANT_MERGER						3.920***

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In an untabulated analysis, we calculate the proportion of campaigns in which each type of activist lobbies for a merger. Generalists lobby for a merger in 28% of their campaigns; specialists lobby for a merger in 20% of campaigns; and nonfinancial experts lobby for a merger in 17% of their campaigns. The differences between generalists and specialists of 8% and generalists and nonfinancial experts of 11% are both statistically significant, whereas the difference of 3% between specialists and nonfinancial experts is insignificant. This comparison provides evidence that, consistent with their prior experience, generalists campaign for mergers significantly more often. We interact the WANT_MERGER indicator variable separately with the SPECIALIST and GENERALIST indicator variables, and test in column 6 of Table 4 whether generalists' merger-related campaigns result in higher CARs.

The results in column 6 of Table 4 indicate that when campaigns are not merger related, CARs do not differ across subsets, as evidenced by the insignificant coefficients on the SPECIALIST and GENERALIST indicator variables. The sums of the interaction variables presented at the bottom of the table indicate that generalists who lobby for a merger have CARs that are 326 basis points higher than specialists and 392 basis points higher than nonfinancial experts. Both results are highly statistically significant and imply that the market expects generalists with investment banking experience (which often includes merger transaction advising) to be successful in achieving their merger-related goals. Hence, not only do generalists with past investment banking experience lobby more often for mergers, but also the market appears to recognize these skills and reward their campaigns with better initial returns. Taken together, these results strongly support our expectations for each subset of activists.

D. Target Firm Resistance

This section examines how target firms respond to activism. Specifically, do they collaborate with or resist activists? Given their tacit skills of developing close relationships and providing operational, human resource, financial and governance oversight to portfolio firms, we expect specialists to face less target resistance than nonfinancial experts. The analysis relates to Boyson and Pichler (2019) who find that resistance to activism can harm target firm value. Table 5 performs the analysis using probit models. Since it is not possible to observe resistance to activism when the hedge fund does not state a purpose, the analysis is limited to the subset of purposeful activism campaigns. Following Boyson and Pichler (2019), we define 3 categories of resistance: hostile resistance – the target firm worsens governance by increasing the firm's entrenchment index (E_index) of Bebchuk et al. (2006); moderate resistance – the activist rejects or verbally denounces activism, changes advance notice requirements for elections, or postpones or adjourns the annual meeting; and no resistance. Most campaigns with no resistance involve publicly observable negotiations, such as meetings, phone calls, or letters between the parties but do not reach the threshold of either hostile or moderate resistance.

Columns 1 and 2 of Table 5 combine moderate and hostile resistance into 1 variable set to 1 if the target firm engages in either hostile or moderate resistance, and 0 otherwise. Results in column 2 indicate that target firms are 11% less likely to

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TABLE 5
Resistance to Activism

Table 5 presents probit models of target firm resistance to hedge fund activism. The dependent variable in columns 1 and 2 is an indicator set to 1 if the target firm responds with any resistance. The dependent variable in columns 3 and 4 is an indicator set to 1 if the target firm responds with moderate resistance, which includes rejecting or verbally denouncing hedge fund advances, changing advance notice requirements for elections, or postponing or adjourning the annual meeting. The dependent variable in columns 5 and 6 is an indicator set to 1 if the target firm worsens governance in a way that increases the firm's entrenchment index (E_index). Models include year and industry fixed effects and year-clustered standard errors, and *z*-values are reported below coefficients in parentheses. Statistical significance is indicated with *, **, and *** at the 10%, 5%, and 1% levels, respectively. The *p*-value from a χ^2 test for the difference between financial generalists and specialists is reported at the bottom of the table.

	Dependent Variable					
	ANY_RESISTANCE		MODERATE_RESISTANCE		HOSTILE_RESISTANCE	
	1	2	3	4	5	6
Expertise Indicators						
ANY_FINANCIAL_EXPERTISE	−0.057		−0.016		−0.032	
	(−1.02)		(−0.80)		(−0.65)	
FINANCIAL_GENERALIST		−0.028		−0.012		−0.010
		(−0.42)		(−0.57)		(−0.18)
FINANCIAL_SPECIALIST		−0.107**		−0.024		−0.073*
		(−2.14)		(−0.81)		(−1.69)
Hedge Fund And Manager Characteristics						
AGE_AT_FIRST_CAMPAIGN	0.005***	0.005***	0.002	0.002	0.004**	0.003**
	(3.26)	(2.87)	(1.59)	(1.43)	(2.28)	(1.93)
log(UG_SAT)	0.237*	0.202	0.223*	0.218*	−0.019	−0.050
	(1.64)	(1.39)	(1.90)	(1.82)	(−0.14)	(−0.41)
HEDGE_FUND_FILES_13F	−0.045	−0.041	−0.029	−0.028	−0.006	−0.002
	(−0.88)	(−0.81)	(−0.90)	(−0.89)	(−0.15)	(−0.05)
Firm Characteristics						
$\log(\text{ASSETS})_{t-1}$	0.016	0.018	0.001	0.001	0.013	0.014
	(0.66)	(0.77)	(0.06)	(0.07)	(1.03)	(1.13)
TOBIN_Q_{t-1}	0.011	0.011	0.000	0.000	0.009	0.009
	(1.31)	(1.34)	(0.05)	(0.05)	(1.47)	(1.48)
CASH/ASSETS_{t-1}	−0.009	−0.018	−0.038	−0.039	0.026	0.017
	(−0.12)	(−0.26)	(−0.52)	(−0.53)	(0.26)	(0.18)
LEVERAGE_{t-1}	−0.049	−0.052	0.064	0.063	−0.117	−0.117
	(−0.49)	(−0.55)	(0.79)	(0.79)	(−1.23)	(−1.22)
LIQUIDITY_{t-1}	0.051**	0.052**	0.024	0.025	0.030**	0.031**
	(2.31)	(2.376)	(1.18)	(1.21)	(2.09)	(2.08)
HHI_{t-1}	−0.022	−0.032	0.034	0.032	−0.051	−0.060
	(−0.12)	(−0.18)	(0.23)	(0.23)	(−0.50)	(−0.59)
$\text{R\&D/ASSETS}_{t-1}$	0.131	0.123	0.118	0.115	0.006	−0.000
	(0.48)	(0.45)	(0.56)	(0.55)	(0.05)	(0.00)
$\text{CAR}_{[-25,-5]}$	0.107	0.105	0.023	0.023	0.100	0.102
	(0.59)	(0.59)	(0.15)	(0.15)	(0.73)	(0.75)
$\text{BHAR}_{[-250,-5]}$	0.052	0.055	0.018	0.018	0.034	0.035
	(1.26)	(1.34)	(0.39)	(0.40)	(0.74)	(0.77)
Campaign Characteristics						
PERCENT_OWNED	0.011***	0.012***	−0.007	−0.007	0.016***	0.016***
	(3.07)	(3.13)	(−1.47)	(−1.45)	(3.05)	(3.10)
USES_CALL_OPTIONS	0.054	0.054	−0.150**	−0.151**	0.155**	0.154**
	(0.88)	(0.90)	(−2.30)	(−2.28)	(2.51)	(2.52)
PRIVATE_PLACEMENT	−0.446**	−0.422**	−0.200	−0.197	−0.325**	−0.307**
	(−2.47)	(−2.31)	(−1.31)	(−1.26)	(−2.17)	(−2109)
OVER_HSR_LIMIT	−0.049	−0.053	−0.007	−0.008	−0.042	−0.045
	(−0.54)	(−0.58)	(−0.12)	(−0.13)	(−0.94)	(−0.98)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	872	872	872	872	872	872
Pseudo R^2	0.057	0.060	0.052	0.052	0.091	0.094
Generalist = Specialist (*p*-value)		0.109		0.671		0.113

resist specialists than nonfinancial experts and 8% less likely to resist specialists than generalists. The first result is significant at the 5% level and the second result has a *p*-value of 0.109, just missing statistical significance. Columns 3–6 separately examine moderate and hostile resistance and find that the results in column 2 are driven by the subset of hostile resistance events.

The finding that targets resist specialists less often than other activists is consistent with specialists' tacit skills of developing close relationships, taking an active oversight role with target firms, and participating in finance, human resources, operations, and governance. In addition, this finding reinforces Table 3's result that specialists exhibit a higher commitment to activism, reflecting their experience at private equity or special situations firms when they were actively and extensively involved with portfolio firms. While target firms do not necessarily welcome specialists with open arms, they do appear relatively willing to cooperate with specialists possessing key skills that could help improve target firm operations, finance, human resources, or governance.

E. Activism Process

Thus far, this article provides evidence of a relation between activist prior work experience and target selection, the way the activist conducts his campaigns, the activist's commitment, the market's initial response to activism, and the target firm's resistance or cooperation. These findings support the idea that activists with differential skill sets conduct activism differently. Specialists develop close relationships and engage in more active oversight of target firms, whereas generalists employ their analytic, technical, and deal-making skills to make choices regarding target firms. Overall, our results provide substantial evidence that activist choices affect both the market and the target firm response.

To explore activism further, this section examines 4 components of the activism process. The first component is board representation. Columns 1 and 2 of Table 6 present results from a probit model in which the dependent variable is an indicator set to 1 if the activist gains board representation and 0 otherwise. A recent paper by Bebchuk et al. (2020) finds that board representation is more likely if ownership is higher, if activists have more prior campaigns, and if stock or operating performance have recently been poor. Results in Table 6 support these findings, showing that specialists are 11% more likely to achieve board representation than nonfinancial experts and 9% more likely than generalists. The results are strongly consistent with the specialists' skills of developing close relationships and active oversight of target firms.

Columns 3 and 4 examine the likelihood that the target firm replaces a member of senior management within a year of activism. Recent work by Keusch (2019) examines activism and CEO turnover. Keusch finds that activists tend to target underperforming CEOs, replacing them with CEOs from outside the company. CEO turnover is most common if hedge funds seek governance improvements, use hostile tactics, and receive board representation. Results in columns 3 and 4 of Table 6 are consistent with Keusch: targets of specialists are 9% more likely than nonfinancial experts and 10% more likely than generalists to replace a top manager. Although it is impossible to determine whether this result is causal, it is consistent

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TABLE 6
Activism Process

Table 6 presents probit models of the activism process. Dependent variables are set to 1 if the target firm performs the specified action while the activist is still involved with the firm (defined in the Appendix). Models include year and industry fixed effects and year-clustered standard errors, and *z*-values are reported below coefficients in parentheses. Statistical significance is indicated with *, **, and *** at the 10%, 5%, and 1% levels, respectively. The *p*-value from a χ^2 test for the difference between financial generalists and specialists is reported at the bottom of the table.

	Dependent Variable							
	BOARD_ REPRESENTATION		REPLACE_ MANAGEMENT		IMPROVE_ GOVERNANCE		SELLS_ ASSETS	
	1	2	3	4	5	6	7	8
Expertise Indicators								
ANY_FINANCIAL_ EXPERTISE	0.053*** (2.66)		0.028 (0.89)		0.004 (0.52)		0.007* (1.88)	
FINANCIAL_ GENERALIST		0.015 (0.76)		−0.011 (−0.33)		0.002 (0.20)		0.007** (2.26)
FINANCIAL_ SPECIALIST		0.107*** (4.25)		0.088* (2.49)		0.008 (1.03)		0.006 (1.37)
Hedge Fund And Manager Characteristics								
AGE_AT_FIRST_ CAMPAIGN	0.000 (0.09)	0.001 (1.26)	−0.002 (−1.28)	−0.001 (−0.47)	0.000 (0.53)	0.000 (0.82)	−0.000 (−1.43)	−0.000 (−1.37)
log(UG_SAT)	0.073 (0.81)	0.097 (1.13)	0.194 (1.47)	0.212 (1.59)	−0.014 (−0.58)	−0.012 (−0.50)	−0.021 (−1.35)	−0.021 (−1.42)
HEDGE_FUND_ FILES_13F	−0.086*** (−3.03)	−0.090*** (−3.16)	−0.030 (−1.23)	−0.034 (−1.45)	0.003 (0.89)	0.003 (0.80)	−0.005** (−2.00)	−0.005** (−2.07)
Firm Characteristics								
$\log(\text{ASSETS})_{t-1}$	0.028** (2.42)	0.026** (2.31)	0.082*** (6.00)	0.081*** (6.14)	0.002 (1.12)	0.002 (1.05)	0.004*** (4.46)	0.004*** (4.44)
TOBIN_Q_{t-1}	−0.009 (−1.21)	−0.009 (−1.20)	0.009 (0.90)	0.009 (0.94)	0.001 (0.84)	0.001 (0.84)	−0.003* (−1.74)	−0.002* (−1.74)
CASH/ASSETS_{t-1}	−0.169** (−2.30)	−0.159** (−2.19)	0.075 (0.95)	0.084 (1.08)	−0.007 (−0.52)	−0.007 (−0.52)	−0.003 (−0.45)	−0.003 (−0.46)
LEVERAGE_{t-1}	−0.132*** (−2.71)	−0.129*** (−2.97)	−0.066 (−0.89)	−0.066 (−0.94)	−0.001 (−0.25)	−0.002 (−0.27)	−0.006 (−0.95)	−0.006 (−0.94)
LIQUIDITY_{t-1}	0.003 (0.30)	0.003 (0.36)	−0.027* (−1.86)	−0.027* (−1.80)	−0.004 (−1.38)	−0.003 (−1.38)	−0.002 (−0.91)	−0.002 (−0.92)
HHI_{t-1}	0.045 (0.63)	0.053 (0.75)	0.075 (0.77)	0.088 (0.90)	0.011 (0.65)	0.012 (0.71)	−0.048*** (−3.97)	−0.049*** (−4.03)
$\text{R\&D/ASSETS}_{t-1}$	0.121 (1.29)	0.130 (1.43)	0.198 (0.99)	0.208 (1.01)	−0.016 (−0.66)	−0.014 (−0.57)	−0.009 (−0.96)	−0.009 (−0.99)
$\text{CAR}_{[-25,-5]}$	0.171** (2.18)	0.171* (2.15)	0.009 (0.08)	0.010 (0.09)	−0.022 (−0.99)	−0.023 (−1.04)	−0.008 (−1.14)	−0.008 (−1.14)
$\text{BHAR}_{[-250,-5]}$	−0.043 (−1.15)	−0.042 (−1.06)	−0.189*** (−3.88)	−0.189*** (−3.79)	0.002 (0.38)	0.002 (0.37)	−0.004 (−0.77)	−0.004 (−0.77)
Campaign Characteristics								
PERCENT_OWNED	0.012*** (5.17)	0.012*** (5.28)	0.004 (1.18)	0.004 (1.18)	−0.000 (−0.31)	−0.000 (−0.39)	0.000 (0.71)	0.000 (0.70)
PURPOSEFUL	0.208*** (10.93)	0.210*** (11.38)	0.073** (2.54)	0.075** (2.62)	0.039*** (13.68)	0.039*** (13.72)	0.019*** (4.20)	0.019*** (4.19)
USES_CALL_ OPTIONS	−0.009 (−0.23)	−0.004 (−0.10)	−0.120 (−1.22)	−0.115 (−1.17)	0.003 (0.47)	0.003 (0.50)	0.002 (0.38)	0.002 (0.38)
PRIVATE_ PLACEMENT	0.297*** (4.06)	0.282*** (3.83)	0.138* (1.79)	0.126 (1.58)	0.021** (2.13)	0.021** (2.05)		
OVER_HSR_LIMIT	−0.030 (−0.74)	−0.034 (−0.81)	−0.087* (−2.02)	−0.093** (−2.17)	−0.010** (−3.08)	−0.010** (−3.11)	0.003 (1.31)	0.003 (1.32)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	1,599	1,599	1,599	1,599	1,599	1,599	1,599	1,599
Pseudo R^2	0.140	0.146	0.104	0.108	0.210	0.214	0.237	0.237
Generalist = Specialist (*p*-value)		0.000***		0.001***		0.127		0.864

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with the higher rates of board representation that we document and with tacit skills of specialists to become directly involved in their target firms.

Next, columns 5 and 6 of Table 6 investigate whether target firms enhance their governance within a year of activism by taking an action that improves their G-index (Gompers, Ishii, and Metrick (2003)). The dependent variable is set to 1 if the firm takes such action and 0 otherwise. Although targets of specialists are more likely than targets of generalists or nonfinancial experts to take these actions, the results do not meet standard levels of significance. Finally, columns 7 and 8 investigate whether the target firm sells assets within the year following activism, with a dependent variable set to 1 if the firm sells assets and 0 otherwise. Information on asset sales comes from 10-K footnotes and Form 8-Ks. Targets of generalists are much more likely to sell assets than targets of nonfinancial experts, but no more likely than targets of specialists. This tendency of generalist targets to more often sell assets is consistent with generalists' deal-making, quantitative and analytical skills. Selling assets is a relatively quick way to improve a firm's return on assets and to recognize gains on undervalued assets.

Taken together, the results of this section provide evidence that target firms appear to respond differently to different types of activists. Targets of specialists more frequently allow activists on their boards and more often replace management, consistent with specialist skills of developing close relationships and active oversight. By contrast, targets of generalists are more likely to sell assets, consistent with the generalists' quantitative, analytical, deal-making and target selection skills. Overall, activists with differential skill sets choose targets that respond to the application of these skills.

F. Good And Bad Outcomes

Table 7 examines mergers and other outcomes of activism. Following Greenwood and Schor (2009), columns 1–4 study the probability that the target of activism announces a merger and then actually merges within 18 months of activism initiation. Within the subset of firms that announce a merger agreement, columns 5 and 6 examine the likelihood that the target completes the merger in 18 months.[14]

Results in columns 1 and 2 indicate no significant differences among subsets of activists but find the probability of a merger is higher if the activist has lobbied for a merger in his initial 13D filing. Since Section III.C shows that generalists are more likely to lobby for mergers, consistent with the generalists' prior M&A investment banking experience, columns 3 and 4 interact the WANT_MERGER indicator variable with the activist type indicator variables. Are generalists who seek mergers more likely to obtain them? Results from column 4 find affirmative evidence: generalists who seek a merger have a 13% higher probability of achieving a merger

[14]While we focus on the tendency for targets to be acquired, Gantchev, Sevilir, and Shivdasani (2020) show that firms with poor acquisition records are more likely to become targets of hedge fund activists. Once targeted, these firms make fewer acquisitions and increase the pace of divestitures relative to non-targeted firms. In a related paper, Wu and Chung (2020) find that targets of activism make fewer but better acquisitions. These authors argue that the presence of a hedge fund activist disciplines target firm management.

TABLE 7

Merger Announcements, Merger Completions, and Bad Outcomes

Table 7 presents probit models of target firm outcomes. Dependent variables are set to 1 if a merger is announced within 18 months of activism (columns 1–4), if an announced merger is completed (columns 5 and 6), or if the firm files bankruptcy, liquidates, or delists due to distress (columns 7 and 8). Models include year and industry fixed effects and year-clustered standard errors, and *z*-values are reported below coefficients in parentheses. Statistical significance is indicated with *, **, and *** at the 10%, 5%, and 1% levels, respectively. The *p*-value from a χ^2 test for the difference between financial generalists and specialists is reported at the bottom of the table.

	Dependent Variable							
	MERGER_ANNOUNCED				MERGER_COMPLETED		BAD_OUTCOME	
	1	2	3	4	5	6	7	8
Expertise Indicators								
ANY_FINANCIAL_EXPERTISE	0.009		0.021		0.048**		−0.172	
	(0.25)		(0.50)		(2.26)		(−1.22)	
FINANCIAL_GENERALIST		0.015		0.021		0.036		−0.008
		(0.40)		(0.47)		(1.46)		(−0.60)
FINANCIAL_SPECIALIST		−0.001		0.022		0.071***		−0.035*
		(−0.02)		(0.52)		(3.35)		(−1.89)
Interaction Variables								
ANY_EXPERTISE × WANT_MERGER			−0.056					
			(−0.81)					
GENERALIST × WANT_MERGER				−0.036				
				(−0.55)				
SPECIALIST × WANT_MERGER				−0.109				
				(−1.11)				
Hedge Fund And Manager Characteristics								
AGE_AT_FIRST_CAMPAIGN	−0.000	−0.000	−0.000	−0.000	−0.003**	−0.002**	0.001	0.001
	(−0.41)	(−0.64)	(−0.34)	(−0.44)	(−2.27)	(−1.97)	(1.52)	(1.23)
log(UG_SAT)	0.041	0.038	0.038	0.021	−0.156	−0.160	−0.016	−0.018
	(0.29)	(0.27)	(0.27)	(0.14)	(−1.11)	(−1.18)	(−0.26)	(−0.30)
HEDGE_FUND_FILES_13F	0.001	0.001	0.000	0.000	−0.061**	−0.062**	0.010	−0.011
	(0.03)	(0.07)	(0.00)	(0.02)	(−2.19)	(−2.25)	(0.89)	(1.01)
Firm Characteristics								
log($ASSETS_{t-1}$)	−0.014*	−0.014*	−0.014*	−0.015*	0.029**	0.028*	−0.020***	−0.020***
	(−1.82)	(−1.81)	(−1.83)	(−1.86)	(2.01)	(1.92)	(−3.17)	(−3.15)
$TOBIN_Q_{t-1}$	−0.019***	−0.019***	−0.019***	−0.019***	0.011	0.011	−0.014**	−0.014**
	(−4.95)	(−4.93)	(−5.12)	(−5.00)	(1.24)	(1.32)	(−2.28)	(−2.30)
$CASH/ASSETS_{t-1}$	−0.034	−0.036	−0.035	−0.037	−0.020	−0.010	0.010	0.008
	(−0.54)	(−0.56)	(−0.56)	(−0.57)	(−0.31)	(−0.15)	(0.37)	(0.33)
$LEVERAGE_{t-1}$	−0.084**	−0.084**	−0.083**	−0.082**	0.012	0.017	0.070**	0.072**
	(−2.21)	(−2.20)	(−2.22)	(−2.19)	(0.22)	(0.33)	(2.02)	(2.14)
$LIQUIDITY_{t-1}$	0.056**	0.056**	0.056**	0.057**	0.081	−0.082	0.002	0.002
	(2.11)	(2.13)	(2.10)	(2.12)	(−1.49)	(−1.61)	(0.14)	(0.19)
HHI_{t-1}	−0.158**	−0.159**	−0.158**	−0.160**	−0.149*	−0.142*	0.055	0.052
	(−2.26)	(−2.29)	(−2.29)	(−2.38)	(−1.86)	(−1.86)	(1.05)	(1.00)
$R\&D/ASSETS_{t-1}$	0.171	0.170	0.175	0.175	0.333*	0.314*	0.016	0.008
	(0.85)	(0.85)	(0.87)	(0.88)	(1.88)	(1.75)	(0.19)	(0.10)
$CAR_{[-25,-5]}$	0.033	0.031	0.031	0.028	−0.042	−0.033	−0.092*	−0.092*
	(0.29)	(0.27)	(0.27)	(0.24)	(−0.29)	(−0.23)	(−1.79)	(−1.84)
$BHAR_{[-250,-5]}$	0.054	0.054	0.054	0.055	0.121***	0.120***	−0.067***	−0.066***
	(1.42)	(1.43)	(1.42)	(1.47)	(3.00)	(3.05)	(−3.04)	(−3.09)
Campaign Characteristics								
PERCENT_OWNED	−0.002	−0.002	−0.002	−0.002	−0.002	−0.002	0.002*	0.003*
	(−0.84)	(−0.84)	(−0.84)	(−0.86)	(−0.58)	(−0.52)	(1.70)	(1.70)
WANT_MERGER	0.095***	0.094***	0.141**	0.141**				
	(2.92)	(2.94)	(2.00)	(2.00)				
PURPOSEFUL	−0.011	−0.011	−0.011	−0.011	−0.012	−0.011	0.004	0.004
	(-0.37)	(−0.35)	(−0.36)	(−0.37)	(−0.45)	(−0.44)	(0.21)	(0.23)
USES_CALL_OPTIONS	0.043	0.043	0.045	0.044	−0.013	−0.009	−0.012	−0.009
	(0.82)	(0.80)	(0.84)	(0.80)	(−0.18)	(−0.12)	(−0.31)	(−0.24)
PRIVATE_PLACEMENT	−0.131	−0.129	−0.132	−0.132	−0.056	−0.052	−0.011	−0.008
	(−1.11)	(−1.10)	(−1.13)	(−1.13)	(−0.91)	(−0.85)	(−0.25)	(−0.17)
OVER_HSR_LIMIT	0.016	0.017	0.017	0.019	−0.077***	−0.075***	−0.037*	−0.037*
	(0.75)	(0.75)	(0.78)	(0.90)	(−3.62)	(−3.54)	(−1.73)	(−1.71)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	1,599	1,599	1,599	1,599	394	394	1,599	1,599
Pseudo R^2	0.059	0.059	0.059	0.061	0.193	0.197	0.162	0.165
Generalist = Specialist (*p*.value)		0.470				0.216		0.055*
WANT_MERGER + ANY_EXPERTISE × WANT_MERGER			0.085***					
WANT_MERGER + GEN × WANT_MERGER				0.105***				
WANT_MERGER + GEN + GEN × WANT_MERGER				0.126**				

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than specialists, and a 9% higher probability of achieving a merger than nonfinancial experts. Given an average merger probability of 22%, these differences are economically and statistically significant. The results are also consistent with generalists having valuable deal-making skills. Finally, these findings confirm that the positive initial market response to merger-related activism by generalists documented in Table 4 appears warranted, since generalists indeed have a higher likelihood of achieving a merger.

Table 4 next examines the subset of firms that receive a merger bid in the 18 months following activism. This sample differs from the sample in columns 1–4. The sample in columns 1–4 includes all observations and the dependent variable equals 1 if the target firm receives a takeover bid and completes a merger in the 18 months following the initiation of activism. The sample in columns 5 and 6 includes only the subset of firms that receives a takeover bid, whether or not the merger is completed. Thus, the dependent variable MERGER_COMPLETED equals 1 if the merger is completed and 0 if the merger falls through. We theorize that among the firms that receive a takeover bid, targets of specialists have a higher probability of merger completion due to specialists' close involvement with target firms, more frequent board representation and incidence of management turnover, and greater oversight of firm finances, human resources, operations, and governance. Results from this analysis indicate that targets of specialists have a 7% higher probability of merger completion than targets of nonfinancial experts. The difference in the probability of merger completion comparing targets between specialists and generalists is not statistically significant, although the point estimate for targets of specialists is about twice as high.

Finally, columns 7 and 8 consider outcomes of activism in which the firm files bankruptcy, liquidates, or delists due to fraud or not meeting the listing requirements of the exchange. The indicator variable BAD_OUTCOME is set to 1 if the firm has one of these outcomes within 18 months of activism and 0 otherwise. Results from this regression indicate that targets of specialists are 4% less likely than targets of nonfinancial experts and 3% less likely than targets of generalists to experience a bad outcome. Relative to a 10% unconditional probability of a bad outcome, these differences are both economically and statistically significant. Further, the results comport with specialist tacit skills of relationship management, oversight of target firms, and involvement with finance, human resources, operations and governance. Although it is impossible to observe the private interactions between activists and target firms, these findings indicate a relation between the outcomes of activism we investigate and the activist skills developed in, or associated with, prior employment. Section III.G examines target firm long-term operating performance.

G. Long-Term Operating Performance

The final analysis examines long-term operating performance. Prior research (including, e.g., Clifford (2008), Brav et al. (2008), Klein and Zur (2009), and Bebchuk et al. (2015)), finds positive long-term operating performance improvements for targets of activism. This section examines whether improvements in long-term performance vary with an activist's prior expertise. Results thus far show that

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while specialists and generalists take different approaches to activism, especially with respect to target selection and the extent of their involvement with targets, both generalists and specialists commit more resources to activism and achieve better intermediate outcomes compared to nonfinancial experts. Some outcomes include better short-term stock returns (generalists), fewer resistant targets (specialists), higher rates of board representation and management turnover (specialists), more mergers and asset sales (generalists), and fewer bankruptcies or liquidations (specialists). Importantly, activist choices and activist outcomes map directly to our expectations about the tacit skills of specialists and codifiable skills of generalists.

Table 8 presents results for target long-term operating performance (return on assets, ROA) for each of the 5 years following activism announcement, as in Bebchuk et al. (2015). Regressions include all control variables from prior tables, and ROA for the year preceding activism, such that the coefficients on the activist type indicator variables reflect the change in ROA for the year of interest relative to the year before activism. Controlling for past ROA is particularly important since Table 2 shows that financial specialists select firms with the highest ROA preceding activism.

Columns 3 and 5 find that the targets of activists with financial experience (generalists and specialists combined) outperform targets of nonfinancial experts for the 2 and 3 years following activism relative to the year before activism. Further, columns 2, 4, and 6 indicate that targets of specialists significantly outperform targets of nonfinancial experts in the 1, 2, and 3 years following activism, by 200, 260, and 340 basis points, respectively. Compared to the mean ROAs of 4.8%, 5.6%, and 5.7% for years 1, 2, and 3 following activisms, respectively, the operating performance results also demonstrate economic significance. Targets of generalists outperform targets of nonfinancial experts by 270 basis points in the third year after activism. Finally, while targets of specialists earn higher ROAs than targets of generalists for all 5 years following activism, this difference is statistically significant only in the first year.

Overall, targets of activists with financial expertise achieve better operating performance than targets of nonfinancial experts, with targets of specialists performing slightly better than targets of generalists. The operating performance results comport with the previous finding that both types of activists commit more resources to activism and achieve better intermediate outcomes compared to nonfinancial experts. Both activist tacit skills – including developing close relationships, taking an active oversight role, and becoming involved with finance, human resources, operations, and governance – and activist codifiable skills – such as analytical talent and M&A experience – appear to confer long-term benefits to target firms.

IV. Conclusion

Most hedge fund activists accumulate significant work experience prior to beginning their activism careers. This article examines the choices that activists make during their activism campaigns and ties those choices to activist prior employment experience. We analyze the entire activism process, from initiation through 5 years after activism. Using detailed data on activist prior work experience, we show

TABLE 8
Operating Performance

Table 8 presents OLS regressions in which the dependent variable is return on assets (as defined in the Appendix) for the 1–5 years after activism. Regressions include year and industry fixed effects and year-clustered standard errors, and *t*-values are reported below coefficients in parentheses. Statistical significance is indicated with *, **, and *** at the 10%, 5%, and 1% levels, respectively. The *p*-value from a χ^2 test for the difference between financial generalists and specialists is reported at the bottom of the table.

	Dependent Variable									
	ROA_YR1_POST		ROA_YR2_POST		ROA_YR3_POST		ROA_YR4_POST		ROA_YR5_POST	
	1	2	3	4	5	6	7	8	9	10
Expertise Indicators										
ANY_FINANCIAL_EXPERTISE	1.418		2.068*		2.998***		1.118		2.196	
	(1.22)		(1.98)		(3.22)		(0.88)		(1.55)	
FINANCIAL_GENERALIST		0.997		1.721		2.722***		0.637		1.627
		(0.81)		(1.70)		(2.95)		(0.52)		(1.29)
FINANCIAL_SPECIALIST		2.045*		2.573**		3.410***		1.835		3.032
		(1.84)		(2.13)		(3.06)		(1.20)		(1.62)
Hedge Fund And Manager Characteristics										
AGE_AT_FIRST_CAMPAIGN	0.005	0.016	−0.002	0.007	−0.014	−0.006	−0.019	−0.006	0.037	0.053
	(0.14)	(0.43)	(−0.05)	(0.15)	(−0.35)	(−0.14)	(−0.47)	(−0.14)	(0.73)	(1.19)
log(UG_SAT)	−1.475	−1.157	−0.694	−0.404	−6.277*	−6.009	−0.517	−0.054	0.598	1.215
	(−0.49)	(−0.37)	(−0.22)	(−0.12)	(−1.79)	(−1.70)	(−0.11)	(−0.01)	(0.10)	(0.21)
HEDGE_FUND_FILES_13F	0.420	0.366	−1.250*	−1.297*	−0.756	−0.788	−0.775	−0.814	−1.683	−1.772
	(0.55)	(0.48)	(−2.01)	(−2.08)	(−0.78)	(−0.82)	(−0.62)	(−0.64)	(−1.30)	(−1.34)
Firm Characteristics										
$\log(\text{ASSETS})_{t-1}$	0.432	0.410	0.792***	0.776***	0.544	0.530	0.675	0.646	0.926*	0.891*
	(1.65)	(1.60)	(3.06)	(3.07)	(1.69)	(1.62)	(1.54)	(1.48)	(1.90)	(1.79)
TOBIN_Q_{t-1}	0.168	0.168	1.271***	1.274***	1.961***	1.963***	1.241**	1.247**	1.570***	1.588***
	(0.51)	(0.51)	(3.87)	(3.84)	(5.59)	(5.53)	(2.33)	(2.30)	(3.43)	(3.44)
CASH/ASSETS_{t-1}	−10.39***	−10.32***	−6.961	−6.91***	−10.47**	−10.43**	−8.782*	−8.715*	−6.671*	−6.611*
	(−3.31)	(−3.26)	(−2.94)	(−2.94)	(−2.21)	(−2.22)	(−1.87)	(−1.86)	(−1.81)	(−1.80)
LEVERAGE_{t-1}	1.099	1.100	1.466	1.451	4.645*	4.646*	5.666**	5.698**	3.583	3.648
	(0.60)	(0.60)	(1.01)	(1.00)	(1.85)	(1.85)	(2.15)	(2.18)	(1.08)	(1.12)
LIQUIDITY_{t-1}	1.709*	1.712*	0.680	0.686	1.072	1.078	1.248	1.267	0.267	0.278
	(1.79)	(1.78)	(0.86)	(0.85)	(1.18)	(1.17)	(1.22)	(1.22)	(0.35)	(0.36)

(continued on next page)

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TABLE 8 (continued)

Operating Performance

	Dependent Variable									
	ROA_YR1_POST		ROA_YR2_POST		ROA_YR3_POST		ROA_YR4_POST		ROA_YR5_POST	
	1	2	3	4	5	6	7	8	9	10
HHI_{t-1}	−1.354	−1.268	−4.987**	−4.901**	−1.746	−1.687	−1.640	−1.530	−0.862	−0.656
	(−0.44)	(−0.4)	(−2.34)	(−2.27)	(−0.74)	(−0.71)	(−0.65)	(−0.61)	(−0.32)	(−0.24)
$R\&D/ASSETS_{t-1}$	−15.735	−15.717	−29.76***	−29.75***	−18.93**	−18.97**	−28.31***	−28.45***	−29.75***	−30.03***
	(−0.95)	(−0.95)	(−3.35)	(−3.35)	(−2.56)	(−2.56)	(−2.91)	(−2.94)	(−4.19)	(−4.28)
$CAR_{[-25,-5]}$	0.342	0.288	4.742	4.719	9.940**	9.866**	11.595***	11.443***	3.371	3.173
	(0.06)	(0.05)	(1.29)	(1.31)	(2.14)	(2.15)	(3.17)	(3.16)	(0.66)	(0.63)
$BHAR_{[-250,-5]}$	1.540	1.573	2.633**	2.647**	1.432	1.433	−0.521	−0.528	2.676	2.692
	(1.46)	(1.50)	(2.17)	(2.16)	(0.92)	(0.93)	(-0.36)	(−0.36)	(1.48)	(1.46)
ROA_{t-1}	0.459***	0.458***	0.415***	0.414***	0.414***	0.413***	*0.412***	*0.410***	*0.421***	*0.419***
	(9.32)	(9.39)	(6.44)	(6.43)	(7.08)	(7.04)	(6.32)	(6.22)	(9.47)	(9.53)
Campaign Characteristics										
PERCENT_OWNED	0.148	0.148	−0.063	−0.063	−0.155	−0.155	−0.130	−0.131	−0.076	−0.075
	(1.45)	(1.45)	(−0.49)	(−0.49)	(−1.53)	(−1.53)	(−0.70)	(−0.70)	(−0.59)	(−0.59)
PURPOSEFUL	0.099	0.127	−0.452	−0.426	−0.397	−0.385	−0.493	−0.457	−0.047	0.005
	(0.13)	(0.16)	(−0.53)	(−0.50)	(−0.33)	(−0.32)	(−0.37)	(−0.34)	(−0.03)	(0.00)
USES_CALL_OPTIONS	−0.572	−0.496	−2.609	−2.552	−1.246	−1.202	1.119	1.199	−1.164	−1.088
	(−0.61)	(−0.51)	(−1.38)	(−1.37)	(−0.90)	(−0.87)	(0.54)	(0.59)	(−0.60)	(−0.58)
PRIVATE_PLACEMENT	−7.978**	−8.144**	−7.726*	−7.809*	−9.081**	−9.139**	−3.153	−3.284	−4.265	−4.375
	(−2.34)	(−2.40)	(−1.84)	(−1.85)	(−2.42)	(−2.43)	(−0.68)	(−0.71)	(−1.02)	(−1.05)
OVER_HSR_LIMIT	1.840	1.785	1.071	1.018	1.348	1.300	2.057	1.966	1.193	1.076
	(1.29)	(1.25)	(0.95)	(0.92)	(1.25)	(1.24)	(1.72)	(1.65)	(0.88)	(0.81)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	1,225	1,225	1,084	1,084	991	991	898	898	793	793
R^2	0.491	0.491	0.455	0.455	0.407	0.408	0.411	0.412	0.436	0.437
Generalist = Specialist (p-value)		0.035**		0.203		0.407		0.186		0.237

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that the majority of activists have experience in the financial industry, divided into 2 categories: investment banks (generalists) or private equity and special situations funds (specialists).

Grounded firmly in prior theoretical and empirical literature, we characterize the investment banking subsample (the generalists) as having codifiable academic skills, such as strong quantitative and analytical expertise and transaction-based skills arising from corporate transactions and deals, including mergers and acquisitions. By contrast, specialists have tacit skills honed from long-term interactions with portfolio firms. These skills include developing close relationships, network management, a personal reputation for fair dealing, and an active oversight role with counterparties regarding finance, operations, human resources, and governance.

Overall, specialists and generalists conduct their campaigns quite differently. Activist choices, market responses, target firm responses, and procedural aspects of activism vary with activist identity. Notably, specialists are more committed to activism both in the aggregate and at the campaign level, face less resistance from target firms, and are more likely to achieve board representation and target firm management turnover. Further, the targets of specialists already in merger negotiations are more likely to merge, and targets of specialists are less likely to experience bad outcomes such as bankruptcies or liquidations.

On the other hand, generalists select target firms with more cash and lower leverage (firms that may be easier to improve). Generalists are more committed to activism than nonfinancial experts but less committed than specialists; are more likely to have target firms that sell assets in the year following activism; and are more likely to lobby for mergers and acquisitions, a result that is correlated with a positive short-term stock market response and a higher probability of a merger. Targets of both specialists and generalists have better long-term operating performance compared to targets of activists without financial expertise.

Although we broadly characterize specialists as more overt and generalists as more subtle, it is plausible that generalists are active in ways that news reports or SEC filings do not capture, such as meeting with management or privately encouraging certain behaviors. Regardless of the exact mechanism, this article provides significant novel evidence that while specialists and generalists conduct their campaigns differently, targets of specialists and generalists benefit more from activist involvement than targets of activists without financial expertise. Overall, we conclude that financial expertise gained through prior experience appears to play a role in every aspect of the activism process, shedding light on numerous mechanisms in play during this process, and highlighting the role in activism of expertise, experience, and training.

Appendix Variable Descriptions

Target Firm Characteristics

ASSETS ($ million): Total assets. Source: Compustat

TOBIN_Q: Book value of debt plus market value of equity divided by the book value of debt plus the book value of equity. Source: Compustat, CRSP

CASH/ASSETS: Cash plus cash equivalents scaled by assets. Source: Compustat

LEVERAGE: Book value of debt divided by the sum of the book value of debt and the book value of equity. Source: Compustat

AMIHUD $\times$ 10^8*:* Illiquidity measure based on Amihud (2002). Source: CRSP

HHI: Herfindahl-Hirschman index by industry. Source: Compustat

R&D/ASSETS: Research and development expense scaled by assets. Source: Compustat

CAR $_{[-25,\ -5]}$ *(%):* Cumulative abnormal return for the period 25 days before to 5 days before the activism filing date. Source: CRSP

BHAR $_{[-250,\ -5]}$ *(%):* Market-adjusted buy and hold return for the period 250 days before to 5 days before activism. Source: CRSP

ROA (%): EBITDA scaled by the average of current and prior year assets. Source: Compustat

Hedge Fund and Manager Characteristics

AGE_AT_FIRST_CAMPAIGN: Estimated manager age for the first activism event in the sample. Source: Firm web page; Bloomberg

UG_SAT: Average SAT score for students at the manager's undergraduate institution. Source: Firm web page; Bloomberg; College Board

HEDGE_FUND_FILES_13F: Indicator variable set to 1 if the hedge fund files quarterly 13F forms, indicating more than $100 million in hedge fund assets. Source: WRDS 13F data

FREQUENT: Indicator variable set to 1 if the hedge fund manager participates in 5 or more activist campaigns in the 3-year period prior to the campaign of interest. Source: Shark Repellant; Form 13D

#_OF_PROXY_FIGHTS_PRIOR_YEAR: Total number of proxy fights for the manager during the year prior to the campaign of interest. Source: Shark Repellant; Form 13D

PAST_3_YRS_OWNERSHIP: Total dollar ownership of all the manager's campaigns in the last 3 years. Source: Shark Repellant; Form 13D

%_OF_PORTFOLIO_IN_3_ACTIVIST_STOCKS: Proportion of stocks, based on dollar ownership, in the activist portfolio that are associated with a 13D filing. Source: Form 13F

Campaign Characteristics

PERCENT_OWNED (%): Hedge fund's ownership stake in the target firm as a percentage of total market capitalization. Source: Shark Repellant; Form 13D; CRSP

DOLLAR_OWNERSHIP ($ millions): Estimated dollar ownership of the hedge fund, based on firm's market capitalization at the time of activism and the hedge fund's target ownership stake. Source: Shark Repellant; Form 13D; CRSP

PURPOSEFUL: Indicator variable set to 1 if the hedge fund manager states a specific purpose in activism at any point during the campaign. Source: Shark Repellant; Form 13D

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WANT_MERGER: Indicator variable set to 1 if the hedge fund states in the 13D filing that he wants the target firm to merge, do a spinoff, or explore strategic alternatives. Source: Form 13D

Indicator variable set to 1 if the activist buys common stock in a private placement Source: Form 13D; Form 3; Form 4

PERCENT_PRIVATE_PLACEMENT: The percentage of hedge fund ownership that is represented by a private placement of stock. Source: Form 13D; Form 3; Form 4

BUYS_CALLS: Indicator variable set to 1 if the hedge fund owns physically settled call options. Source: Form 13D

PERCENT_CALLS: The percentage of hedge fund ownership that is represented by physically settled call options. Source: Form 13D

OVER_HSR_LIMIT: Indicator variable set to 1 if hedge fund ownership in the stock is over the yearly HSR reportable limit Source: Form 13D; HSR limit data from SEC

Target Firm Reaction

ANY_RESISTANCE: Indicator variable set to 1 if the target firm resists the activist in either a moderate or hostile way (as in Boyson and Pichler (2019)). Source: Form 13D; Form 8-K; news reports

MODERATE_RESISTANCE: Indicator variable set to 1 if the target firm resists the activist in a moderate way (as in Boyson and Pichler (2019)). Source: Form 13D; Form 8-K; news reports

HOSTILE_RESISTANCE: Indicator variable set to 1 if the target firm resists the activist in a hostile way (as in Boyson and Pichler (2019)). Source: Form 13D; Form 8-K; news reports

Outcome Variables

Stock Performance

$CAR_{[-1,+10]}$ *(%) (days):* Cumulative abnormal return for the period 1 day before to 10 days after the activism filing date. Source: CRSP

Process and Other Outcome Variables

BOARD_REPRESENTATION: Indicator variable set to 1 if hedge fund obtains a board seat within a year of activism. Source: Proxy statements, 13D, other SEC filings, news

REPLACE_MANAGEMENT: Indicator variable set to 1 if target firm replaces senior management within a year of activism. Source: Proxy statements, 13D, other SEC filings, news

SELLS_ASSETS: Indicator variable set to 1 if target firm reports selling assets within a year of activism. Source: Proxy statements, 13D, other SEC filings, news

IMPROVE_GOVERNANCE: Indicator variable set to 1 if target firm improves governance (measured by the G-index) within a year of activism. Source: Proxy statements, 13D, other SEC filings, news

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BAD_OUTCOME: Indicator variable set to 1 if target firm files bankruptcy, delists for a negative reason, or liquidates within 18 months of activism. Source: Proxy statements, 13D, other SEC filings, news

Mergers

MERGER_ANNOUNCED: Indicator variable set to 1 if target firm announces a merger within 18 months of activism. Source: Proxy statements, 13D, other SEC filings, news

MERGER_COMPLETED: Indicator variable set to 1 if target firm's announced merger is completed within 18 months of activism. Source: Proxy statements, 13D, other SEC filings, news

Operating Performance

ROA_YR1 _POST (%): Return on assets 1 year after activism is announced. Source: Compustat

ROA_YR2 _POST (%): Return on assets 2 years after activism is announced. Source: Compustat

ROA_YR3 _POST (%): Return on assets 3 years after activism is announced. Source: Compustat

ROA_YR4 _POST (%): Return on assets 4 years after activism is announced. Source: Compustat

ROA_YR5 _POST (%): Return on assets 5 years after activism is announced. Source: Compustat

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