

# **Essays on International Shareholder Activism**

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# **I Synopsis**

## **I.1 Introduction**

Activist investors aim to achieve superior investment returns by actively influencing the strategy and decision-making processes of target firms on their own, or by gathering support from fellow investors (Karpoff et al., 1996; Brav et al., 2008). Activists typically use a variety of tools ranging from direct interaction with management teams and supervisory boards, open letters and public demands, and formal shareholder proposals, which may range from hostile to friendly in style (J.P. Morgan, 2015; Denes et al., 2017).

Since its introduction in the North American market in the 1980s, shareholder activism has been a well-researched topic in corporate finance and investment literature, with a focus on short- and long-term outcomes, target selection criteria, and activists' demands and their enforcement processes (Karpoff et al., 1996; Brav et al., 2008; Clifford, 2008; Greenwood and Schor, 2009; Klein and Zur, 2009; Krishnan et al., 2016; Denes et al., 2017; Bebchuk et al., 2020; Albuquerque et al., 2021). As shareholder activism has spread across the globe over the last two decades, research on these campaigns has also extended its focus from the North American market and has started to cover engagements in the Asian-Pacific and European markets as well (Becht et al., 2009; Mietzner and Schweizer, 2014; Bessler et al., 2015; Becht et al., 2017). Data on activist engagements are typically based on a combination of regulatory filings and extensive manual research, as specifically campaigns with stakes below regulatory thresholds are difficult to identify (Brav et al., 2008; Denes et al., 2017).

Several years of a low-yield environment and the search for alternative investment strategies have resulted in a diverse group of activist investors, as traditionally passive investors such as pension funds, private investors or regular corporate investors have shifted to more active investment approaches and established themselves in the activist industry



(J.P. Morgan, 2015; Lazard, 2018; PwC, 2018). In addition, several investors such as Carl Icahn, Elliott Management, and Starboard Value have stood out as serial-activist investors with many engagements over the last two decades and have thereby accumulated extensive experience, knowledge, and reputation (J.P. Morgan, 2015).

While the literature provides important insights into activists' activities, several important questions remain unanswered, and the literature provides only limited insights into the effects of the changes observed over the last two decades. This is specifically the case for the analysis of potential learnings of activists regarding most promising engagement strategies and engagement execution and the analysis of the engagement performance of different types of activists in different regions. This study aims to answer the following questions in order to provide further insights into *international* shareholder activism in a recent research setting:

1. *Are there top activists whose engagements consistently outperform others?*
2. *How do engagements of hedge fund and non-hedge fund activists differ?*
3. *What is the role of public demands on outcomes of hedge fund engagements?*

The analysis of these questions is split into three papers, which use a large, international dataset from 2008 to 2019, covering 2,689 activist engagements by 1,655 hedge fund and 1,034 non-hedge fund investors from *Activist Insight*. The sample covers engagements in the Asia-Pacific region, Europe, and North America, allowing for an international comparison of activist strategies and engagement outcomes.

The first study addresses the question of whether engagements of some hedge fund and non-hedge fund activists consistently outperform other engagements in the long term and whether this offers an investable follow-on strategy for market participants. The second study provides large-sample evidence of the differences in activist engagements and

long-term outcomes of hedge fund and non-hedge fund activists. This study focuses on activist engagements in single geographies and sheds light on activist engagements and outcomes of a diverse group of non-hedge fund engagements using a unified sample. The third study analyzes the use and impact of public demands on financial market assessments of hedge fund activist engagements and on the impact of such demands on the long-term performance of engagements. This study covers different types of demands and focuses on engagements in various geographies.

Overall, this thesis adds to the literature in several ways. First, this thesis adds to prior findings by Krishnan et al. (2016) on the determinants of short-term abnormal announcement returns (CAARs) by analyzing the relationship and determinants of short-term CAARs and long-term abnormal buy-and-hold returns (BHARs). The results may help identify the most promising engagements already at their announcement to derive follow-on investment strategies and add to the findings of Lerner et al. (2007) and Korteweg and Sorensen (2017) in the context of private equity funds. Second, this thesis provides a comprehensive overview of shareholder activism by hedge fund and non-hedge fund investors using a large, recent, and international sample that allows for a meaningful analysis of differences in the short- and long-term engagement outcomes of both groups of investors. This adds to prior studies by Brav et al. (2008), Becht et al. (2009), Klein and Zur (2009), Prevost et al. (2012), Mietzner and Schweizer (2014), and Becht et al. (2017), which often focus only on single aspects. Third, this thesis analyzes the use of public demands by hedge fund activists and differences in engagement outcomes depending on different types of public demands using an international, recent sample and adds to prior research by Karpoff et al. (1996), Prevost and Rao (2000), Clifford (2008), Greenwood and Schor (2009), Klein and Zur (2009), and Bebchuk et al. (2020).

This thesis is divided into four sections. The first section provides an overview of prior research on shareholder activism, the key findings of this thesis, and a conclusion. The following three sections contain each a paper that includes a literature review, description of the empirical design and data, and the presentation and discussion of results.

## **I.2 Literature**

This section provides an overview of the results of prior studies on the following topics: (i) short-term stock market reactions, (ii) long-term stock market reactions, (iii) target selection, (iv) target impact, and (v) relationship between short- and long-term returns.

### ***I.2.1 Announcement return effects***

Prior studies report significant positive CAARs around engagement announcements by hedge fund and non-hedge fund activists. Estimated CAARs are higher for announcements by hedge funds (between 5% and 10%) than for announcements by non-hedge funds (-2% to 4%) (Brav et al., 2008; Becht et al., 2009; Greenwood and Schor, 2009; Klein and Zur, 2009; Prevost et al., 2012; Mietzner and Schweizer, 2014; Becht et al., 2017). The CAARs of hedge fund engagements tend to be higher in North America than in the Asia-Pacific region or Europe (Becht et al., 2017), while there is no similar evidence on non-hedge fund engagements, as available studies often focus on specific regions, investors, or time periods and, thus, allow no meaningful comparison (Prevost and Rao, 2000; Becht et al., 2009; Prevost et al., 2012; Mietzner and Schweizer, 2014).

Activist investors often raise public demands around the announcement of their engagements, which, according to prior studies, also affects the levels of CAARs (Greenwood and Schor, 2009; Klein and Zur, 2009; Becht et al., 2017). On the one hand, engagements with ultimately successfully enforced public demands earn significantly higher

CAARs than engagements without public demands and, on the other hand, engagements with mergers and acquisitions (M&A) or capital structure-related public demands yield higher CAARs than engagements with other types of public demands such as, e.g., board-related public demands (Brav et al., 2008; Greenwood and Schor, 2009; Klein and Zur, 2009; Becht et al., 2017). Albuquerque et al. (2021) provide additional insights into the determinants of CAARs and report that CAAR levels can be largely explained by the characteristics of activist investors. Krishnan et al. (2016) show that engagements by activists with financial clout and expertise achieve higher CAARs than engagements by other investors.

### ***1.2.2 Buy-and-hold returns of target firms***

Prior studies estimate significant positive BHARs for target firms of hedge fund and non-hedge fund activists. The estimated annualized BHARs are, on average, higher for hedge fund targets than for non-hedge fund targets but largely vary across regions (Crocini, 2007; Brav et al., 2008; Becht et al., 2009; Greenwood and Schor, 2009; Venkiteshwaran et al., 2010; Prevost et al., 2012; Mietzner and Schweizer, 2014; Becht et al., 2017). International evidence is rare, but the findings of Becht et al. (2009), Klein and Zur (2009), and Mietzner and Schweizer (2014) indicate that BHARs are higher in North America than in other regions. The observed BHARs also vary across engagements with different types of public demands. Greenwood and Schor (2009) report that engagements with merger- and divestiture-related public demands do yield significant positive BHARs, while engagements with other types of demands do not. This is in line with the findings of Venkiteshwaran et al. (2010) that targets that are acquired or taken private after an activist engagement outperform other engagements. Becht et al. (2017) also report that engagements with successfully enforced public demands achieve significant positive BHARs, whereas targets without successful outcomes do not.

### ***1.2.3 Characteristics of target companies***

Hedge fund and non-hedge fund activists have initially targeted smaller, undervalued firms with lower growth rates but have broadened their focus over the last few years and now engage larger, financially healthy firms that offer specific opportunities for value creation (Brav et al., 2008; Klein and Zur, 2009; Becht et al., 2017; Denes et al., 2017). In addition, non-hedge funds tend to focus on firms with relatively poor operational and financial performance compared with hedge fund targets (Denes et al., 2017). Becht et al. (2017) report similar target firm characteristics for targets in different geographies, while prior studies on different types of public demands do not specifically cover this aspect (see, e.g., Clifford, 2008; Greenwood and Schor, 2009).

### ***1.2.4 Impact on the operating and financial performance of target firms***

The oftentimes positive BHARs of target firms are also reflected in the realized changes in the operating and financial performance indicators of targets (Denes et al., 2017). On average, hedge fund target firms decrease size, reduce capital expenditures, and simultaneously increase their operating profitability and payout ratios (Brav et al., 2008; Clifford, 2008; Denes et al., 2017). The results for the targets of non-hedge fund activists are not as clear as those of hedge funds; the results are heterogeneous and show significant changes only rarely or not at all (Karpoff et al., 1996; Becht et al., 2009; Klein and Zur, 2009). Similar to BHARs, the observed changes in target firms' performance indicators tend to be higher in North America than in other regions (Becht et al., 2009; Greenwood and Schor, 2009; Klein and Zur, 2009; Mietzner and Schweizer, 2014). Clifford (2008) also finds that engagements with public demands have significantly higher increases in payout ratios and return on assets compared to engagements by passive investors with no public demands.

In addition, Greenwood and Schor (2009) report no significant changes in the return on assets, payout ratios or asset growth for target firms that are not acquired after engagement.

### ***1.2.5 Relationship of short- and long-term results***

The identification of common drivers of short- and long-term returns could be helpful for outside investors in identifying the most promising engagements from a return perspective. However, prior studies have not analyzed the relationship between short-term CAARs and long-term BHARs for activist engagements. Although Krishnan et al. (2016) analyzed activist-specific determinants of short-term CAARs, they did not cover long-term target performance. Thus, this thesis borrows from the literature on M&A and private equity investments to provide further insights into a potential relationship.

Starting with the predictive power of CAARs, Ben-David et al. (2022) find that CAARs surrounding acquisition announcements only have limited power to predict ultimate outcomes. Although private equity funds do not have CAARs because of their nature, Korteweg and Sorensen (2017) provide insights into long-term return persistence and find that the past returns of private equity funds only provide limited insights for fund investors to identify future top-performing funds. These results are in line with the findings of Lerner et al. (2007), who reported that only seasoned investors who can leverage their private information from prior investments can identify new funds with higher returns in the future.

## **I.3 Empirical design**

### ***1.3.1 Data***

The data on activist engagements is from the database provider *Activist Insight*. *Activist Insight* collects information on activist engagements across the globe based on, for example, regulatory filings, newspaper articles, and press releases by activists, and thereby

covers engagements below regulatory thresholds. The data covers engagements in all industries and regions and contains information on activist backgrounds and covers, for example, traditional hedge fund activists, private persons, asset managers, and corporations. Finally, the data provides detailed information on the public demands by activists, their achieved outcomes, and exit strategies.

The data on activist engagements are enriched with stock price and volume data from *Refinitiv Datastream* and financial statement data from *Refinitiv Worldscope*. Data on country-specific governance indicators are from the *Worldwide Governance Indicators* by the World Bank. Firm-specific data on environmental, social, and governance (ESG) scores and the board of directors are from *Refinitiv Datastream Asset4*.

### ***1.3.2 Methodology***

This thesis uses various techniques to estimate short- and long-term abnormal stock returns, identify target firm characteristics, and assess the impact of activist engagement on such characteristics.

#### *Announcement returns of target firms*

This thesis applies a market model to estimate the abnormal stock returns of target firms around the announcement of activist engagement. The largest event window ranges from 20 days prior to an engagement announcement to 20 days after the announcement, while the estimation window covers the last 200 trading days prior to the event window.

Abnormal stock returns are calculated as the difference between estimated and observed stock returns on a given date for a given target firm. The estimated returns are based on the following formula:

$$R_{it} = \alpha_i + \hat{\beta}_i R_{mt} + \varepsilon_i \quad \text{for} \quad t = -220, \dots, -21 \quad (1)$$

where the stock return of target firm  $i$  on day  $t$  is denoted as  $R_{it}$  and the market index return on day  $t$  is denoted as  $R_{mt}$ . The study in Chapter 2 uses a slightly modified model and calculates CAARs based on the difference in stock returns between target and matched nontarget firms. The statistical significance of CAARs is assessed using the cross-sectional  $t$ -test, standardized cross-sectional test by Boehmer et al. (1991), and generalized sign test by Cowan (1992).

#### *Buy-and-hold returns of target firms*

BHARs are calculated as the difference in the log returns of two-year buy-and-hold returns (BHRs) between the target and matched nontarget firms (see, e.g., Mietzner and Schweizer, 2014). The BHRs are calculated using the following formula:

$$BHR_{it} = \frac{Price\ Year2_{it}}{Price\ Year0_{it}} - 1, \text{ and} \quad (2)$$

$$BHR_{im} = \frac{Price\ Year2_{im}}{Price\ Year0_{im}} - 1 \quad (3)$$

where  $BHR_{it}$  represents the two-year stock return of target firm  $i$  and  $BHR_{im}$  is the stock return of the matched nontarget firm.  $PriceYear0$  is the closing price on the announcement day and  $PriceYear2$  is the closing price two years later. The BHARs are calculated using the following formula:

$$BHAR_i = \ln(1 + BHR_{it}) - \ln(1 + BHR_{im}) \quad (4)$$

The matching of target and nontarget firms bases on one-to-one propensity score matching. Firms are matched based on three firm characteristics: total assets in USD, market-to-book ratios, and return on assets. The group of nontarget firms comprises all available firms in *Refinitiv Worldscope*. Firms are matched on a year-by-year basis and must operate in the same industry based on the first two digits of their SIC codes and the same geography



(e.g., Rosenbaum and Rubin, 1983; Rosenbaum, 1989; Li and Prabhala, 2007; Roberts and Whited, 2013). This combination of target and nontarget firms also provides the basis for analyzing the impact of activist engagements on the operational and financial ratios of target firms.

#### *Selection of target firms*

Logit regressions are used to analyze the effect of firm characteristics on the likelihood of becoming a target firm. The variables are based on prior studies and lagged by one year (see, Brav et al., 2008; Clifford, 2008; Greenwood and Schor, 2009; Klein and Zur, 2009; Becht et al., 2017). Logit regressions base on the following formula:

$$Logit(Y_{1/0}) = \alpha_i + \sum_{j=1}^{J+1} \beta_j X_i^j + e_i \quad (5)$$

#### *Operational and financial impact on target firms*

Difference-in-differences models are used to analyze the differences in changes in the operational and financial ratios of target and matched nontarget firms using the following formula:

$$Y_{it} = \alpha_i + \beta_1 post_i + \beta_2 treat_i + \beta_3 post_i \times treat_i + \gamma_t + e_i \quad (6)$$

where  $Y_{it}$  denotes the firm characteristic of firm  $i$  at time  $t$ . *Treat* is a dummy variable that is one for firms in the treatment group, that is, target firms, and zero otherwise; *post* is a dummy variable that is one in the treatment period and zero otherwise. This model is extended to a difference-in-difference-in-differences setting to analyze changes in target

firm characteristics between subsamples of hedge fund and non-hedge fund investors or between geographies using the following formula:

$$Y_{it} = \alpha_i + \beta_1 post_i + \beta_2 treat_i + \beta_3 Geo_i + \beta_4 post_i \times treat_i + \beta_5 post_i \times Geo_i + \beta_6 Geo_i \times treat_i + \beta_7 post_i \times treat_i \times Geo_i + \gamma_t + e_i \quad (7)$$

where *Geo* is one for firms in the geography of interest and zero otherwise. The specification also includes time fixed effects and firm fixed effects (see, Dinc, 2005; Atanasov and Black, 2016). The coefficients of interests are  $\beta_3$  in Equation (6) and  $\beta_7$  in Equation (7).

### ***1.3.3 Sample description***

This thesis covers activist engagements between January 2008 and July 2019, which results in an initial sample of 9,829 activist engagements. The initial sample is filtered according to the criteria used in prior studies that address, e.g., the requirements on information and data availability, and holding periods (see, Brav et al., 2008; Greenwood and Schor, 2009; Klein and Zur, 2009; Boyson and Mooradian, 2011). This results in a final sample of 2,689 activist engagements by 1,109 unique investors in 2,221 unique target firms.

The final sample consists of 1,655 hedge fund engagements and 1,034 non-hedge fund engagements. The group of non-hedge fund investors is diverse and comprises, for example, 293 engagements by individuals, 266 engagements by asset managers, 237 engagements by investment firms, and 119 engagements by traditional companies. Activist engagements are not equally distributed across the world. Most engagements occur in North America (1,380), followed by Europe (680) and the Asia-Pacific region (629). The share of hedge fund engagements is highest in North America (67% vs. 33%), followed by Europe (63% vs. 37%) and the Asia-Pacific region (48% vs. 52%).

In the global sample, the share of domestic engagements where the activist and target reside in the same country averages 69% for hedge fund engagements and 76% for non-hedge fund engagements. At the regional level, domestic engagements account for 90% of all engagements in North America, 64% of all engagements in the Asia-Pacific region, and 41% of all engagements in Europe. Activists often raise public demands around the announcement of engagements. The share of engagements where activists raise such demands within ten days after an announcement is higher for non-hedge fund engagements (21%) than for hedge fund engagements (15%). At the regional level, the share is highest in North America (23%) and similar in the Asia-Pacific region (12%) and Europe (11%).

The average transaction experience measured as the number of transactions in the two years prior to an engagement is higher for hedge fund activists (7.5 transactions) than for non-hedge fund activists (2.8 transactions). The distribution is similar in single geographies. The share of one-time investors who only engage in one target in the sample period is higher for non-hedge fund activists (58%) than for hedge fund activists (13%). At the regional level, the share is highest in the Asia-Pacific region (41%), followed by North America (27%) and Europe (26%).

The average holding period of engagements exited within the sample period is 2.7 years for non-hedge funds and 2.1 years for hedge funds. The average holding period is similar across regions (Asia-Pacific 2.3 years, Europe 2.4 years, North America 2.2 years).

## **I.4 Empirical results**

The following section provides a summary of the motivations, scope, and results of the three papers in this thesis.

#### ***1.4.1 Paper A***

The first paper focuses on the relationship between the short- and long-term stock performance of target firms by hedge fund and non-hedge fund activists. This paper provides insights into the determinants of short- and long-term returns and addresses the question whether there are activists whose engagements consistently outperform engagements by others and whether financial markets' short-term stock price reactions or other publicly available information help to predict future top-performing targets at the announcement.

This paper contributes to prior findings by Krishnan et al. (2016), who analyze activist-specific determinants of short-term announcement returns of hedge fund engagements, but do not link these results to long-term stock price performance and do not cover non-hedge fund engagements. The recent sample of this paper allows the analysis of the potential effects of the sharp increase in international shareholder activism in the last decade. In addition, this paper contributes to the literature on the short- and long-term return persistence of M&A transactions (e.g., Ben-David et al., 2022) and the literature on the performance persistence of private equity funds (e.g., Lerner et al., 2007; Korteweg and Sorensen, 2017).

The analyses mainly focus on short-term CAARs, long-term BHARs, and accounting variables of target and nontarget firms. The estimated CAARs are based on the difference between the target and matched nontarget firms. BHARs are based on the differences between the target firms and matched nontarget firms and between target firms and stock indices for holding periods of up to three years and the exit date. The paper groups engagements in top-performing engagements that are in the top 25% of all engagements based on their two-year BHARs and other engagements. Accounting variables, engagement characteristics, and activist characteristics are used to identify the top-performing targets at the announcement of the engagement.

The paper reports significant positive CAARs of 2.7% and 3.9% for the hedge fund and non-hedge fund sample, respectively, while the reported two-year BHARs are significant at 0.09 for the hedge fund sample, and not significant and negative for the non-hedge fund sample (-0.06). However, the top 25% of hedge fund and non-hedge fund engagements with regard to two-year BHARs achieve significantly higher two-year BHARs than the other engagements. These are the most attractive engagements for follow-on investments from a return perspective, but the analyses of those engagements reveal two key results: (1) CAARs are higher for the top 25% engagements than for other engagements but differences are noisy and often not statistically significant; (2) publicly available information on target firms and activists can help increase the probability of selecting future engagements in the top 25% at the announcement, but this applies only to small subsamples and, thus, should be treated with caution. This point is strengthened by the fact that serial activists with at least five engagements in the sample period fail to place most of their engagements in the top 25%, even though they might have access to additional private information.

The findings are in line with those of Ben-David et al. (2022), who find limited predictive power for CAARs on the ultimate outcome of acquisitions, and Korteweg and Sorensen (2017), who find limited return persistence in private equity funds and, again, limited predictive power publicly available information and past fund performance to select future top-performing funds.

#### ***1.4.2 Paper B***

The second paper aims to provide new insights into activist engagements by hedge funds and non-hedge funds across the globe and into regional differences between both types of investors regarding target selection, ultimate engagement outcomes, and the perception of such engagements by financial markets. Moreover, the paper analyzes the development of activist engagements over the course of the underlying sample from 2008 to 2019.

The paper contributes to the literature in three important ways. First, it provides large-sample evidence on the differences between hedge fund and non-hedge fund activists in different geographic regions during the same sample period. This adds to Prevost and Rao (2000), Becht et al. (2009), and Prevost et al. (2012), who focused on specific types of investors and to international evidence by Mietzner and Schweizer (2014), Bessler et al. (2015), and Becht et al. (2017), which are often limited to hedge funds. In addition, this study uses a more recent sample compared to studies by Brav et al. (2008), Clifford (2008), Klein and Zur (2009), and Krishnan et al. (2016), thereby covering the potential effects of the sharp increase in activist engagements and global spread. This is particularly important, as the number of activist engagements has risen sharply since 2010, which is often not covered in similar prior studies (see, e.g., Klein and Zur, 2009; Krishnan et al., 2016). Finally, the study analyzes differences in the investment approach and outcomes of hedge fund and non-hedge fund engagements to identify potential drivers of differences in short- and long-term results.

The paper finds that engagements of both hedge fund and non-hedge fund activists yield significant positive CAARs that are, on average, economically higher for non-hedge fund engagements than for hedge fund engagements, while differences are rarely significant. The CAARs of non-hedge fund engagements are at similar levels across all regions, but for hedge fund engagements they are highest in North America, followed by the Asia-Pacific region and Europe. However, the paper reports contrary long-term results. Two-year BHARs are significant and positive for hedge fund engagements, but not significant and negative for non-hedge fund engagements in the global sample, which is consistent with the estimated changes in target firms. The paper finds significant improvements in return on assets and decreases in sales for hedge fund targets compared to matched nontarget firms, but no similar significant differences for non-hedge fund engagements. A detailed analysis of the results

for individual regions provides interesting insights. Estimated changes in sales are significant for hedge fund targets in the Asia-Pacific region and in North America, while changes in return on assets are only significant for hedge fund targets in Europe and in North America; but partly with low significance levels. Two-year BHARs are only significant positive for hedge fund targets in the Asia-Pacific region and in Europe, but significant negative for non-hedge fund targets in Europe. The gap between the initial euphoria around engagements and announcements and the long-term results increases over time. The paper identifies an upward trend in CAARs for hedge fund and non-hedge fund engagements, while long-term stock performance and realized changes in target firms decrease over time in the sample.

These findings indicate a shift in the initial perception of non-hedge fund engagements by financial markets, as the reported CAARs are higher than those reported by, e.g., Becht et al. (2009), Klein and Zur (2009), and Prevost et al. (2012) and increase over time for the sample. However, the long-term results of non-hedge fund engagements are weaker than those by, e.g., Klein and Zur (2009), who report significant positive BHARs and significant changes in target firm characteristics, and decrease over time for the underlying sample. Short- and long-term results of hedge fund engagements are overall in line with those of prior studies by, e.g., Brav et al. (2008), Clifford (2008), Greenwood and Schor (2009), and Becht et al. (2017).

The paper identifies changes in engagement characteristics, activists' background and experiences, and increasing competition as drivers for the observed gap in short- and long-term results and thereby adds to prior studies by Becht et al. (2017), who partially observe a similar phenomenon for activist engagements in the Japanese market.

### ***1.4.3 Paper C***

The third paper focuses on the effects of public demands around engagement announcements by hedge fund activists on short-term stock price effects and long-term engagement outcomes. This paper compares the results of engagements with and without public demands and the effects of different types of demands using an international sample. This also includes analyzing when and what types of demands activists raise.

The paper contributes to the literature in several ways. This study analyzes the short- and long-term effects of public demands in general and of various types of public demands in an international setting, while prior studies by, e.g., Brav et al. (2008), Clifford (2008), Greenwood and Schor (2009), and Klein and Zur (2009) only focus on certain aspects thereof. The international sample also enables an analysis of individual regions and a comparison of the effects of different types of public demands.

The paper finds that engagements with public demands around their announcement yield significantly higher CAARs than those without public demands. Engagements with later successfully enforced demands also yield significantly higher CAARs than other engagements, indicating that financial markets might already be able to identify such engagements at their announcements. However, the long-term results somewhat contradict this observation. The paper reports no significant outperformance of targets with public demands in general or with successfully enforced public demands compared to the remaining targets regarding two-year BHARs and realized changes in target firms. The paper also analyzes short- and long-term results for engagements with different types of public demands, such as board-related demands or no board-related demands but finds no evidence of a significant outperformance of specific types of demands in the short- and long-term. Significant differences in short-term CAARs between engagements with and without public demands are mainly driven by engagements in North America, as this is the only region with



significant differences, while long-term results are similar in all regions and are mostly not significant. The paper finds that increased public awareness of activist engagements and global spread in new markets may explain the initial euphoria, while increased competition complicates target selection, as most viable targets may have already been targeted. This development, combined with more complex transaction structures for engagements with public demands in the Asia-Pacific region and Europe, may explain rather weak long-term results.

These findings provide new insights compared with those of prior studies. Findings on short-term CAARs are in line with prior studies by, e.g., Brav et al. (2008), Clifford (2008), Greenwood and Schor (2009), and Klein and Zur (2009) but mostly apply to engagements in North America and not in the Asia-Pacific region and Europe. Overall, the long-term results are weaker than those reported in earlier studies by, e.g., Brav et al. (2008), Clifford (2008), and Greenwood and Schor (2009), who report a significant outperformance by engagements with public demands.

## **I.5 Conclusion**

This thesis provides new insights into the short- and long-term results of hedge fund and non-hedge fund activists using a recent, international sample.

First, this thesis shows that there are no top activist investors that significantly outperform other investors and allow a meaningful investment strategy for outsiders. This is surprising given the long transaction history of some investors and their often high number of engagements, which could have provided the basis for developing superior strategies.

Second, the analyses identify a shift in the perception of non-hedge fund engagements by financial markets, as CAARs are at similar levels compared to hedge fund engagements and higher than those reported in prior studies. However, long-term performance is not as promising as the long-term performance of hedge fund targets, which

tend to perform better. The observed discrepancy between the short- and long-term increases over time in the sample period for both types of investors as, on average, CAARs increase while long-term results decrease.

Third, public demands around engagement announcements by hedge funds only serve to a limited extent as value drivers, as such engagements have significantly higher CAARs, while long-term results are rather disappointing, as such engagements or specific types of demands do not significantly outperform other engagements, regardless of whether the demands are successfully enforced.

Overall, the results indicate that the sharp increase in activist engagements, appearance of activist investors with diverse backgrounds, and global spread of shareholder activism seem to affect the observed short- and long-term results. The overall impression is that short-term stock price reactions indicate too much euphoria measured against long-term results, which raises the question of how financial markets may adjust their assessment of activist engagements and how activists may adapt their investment strategies and target selection over the coming years.

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## II Paper A

# Can the market identify prosperous activist engagements? Evidence from announcement and long-term buy-and-hold returns

Jochen Hartmann\*, Matthias Pelster\*\* & Soenke Sievers\*\*\*

### *Abstract*

We document a discrepancy between abnormal announcement returns (CAARs) and two-year buy-and-hold abnormal returns (BHARs) of activist engagements. Activist targets that earn the highest two-year BHARs yield, on average, only marginally higher CAARs than the other targets. This indicates that financial markets have difficulties to consistently distinguish between long-term top-performing engagements and other engagements at the announcement of an engagement. Even the best activists frequently suffer low or negative two-year BHARs. Long-term top-performing targets have significantly different firm characteristics than the other targets, which may help to increase the probability of selecting future top performing engagements. However, activists do not solely engage in such targets. We conclude that the long-term performance of target firms seems to be driven by a combination of target firm characteristics, investor skills, and potentially some luck, but provides only limited follow-on investment strategies for outside investors.

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**Keywords:** Shareholder activism, international evidence, hedge funds, non-hedge fund activism, institutional investors

**JEL Classification:** G34, G23, G15

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**CRedit authorship contribution statement:** Jochen Hartmann: Conceptualization, Methodology, Software, Formal analysis, Validation, Writing - Original Draft, Writing - Review & Editing. Matthias Pelster: Conceptualization, Methodology, Validation, Writing - Review & Editing, Supervision. Soenke Sievers: Methodology, Validation, Writing - Review & Editing, Supervision.

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**Remarks:** This paper is part of the dissertation of Jochen Hartmann. It is a companion paper to Hartmann et al. (2021) and Hartmann (2022) and is based on the same sample data but has a different focus.

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### III Paper B

## Shareholder activism around the globe: Hedge funds vs. other professional investors

Jochen Hartmann\*, Matthias Pelster\*\* & Soenke Sievers\*\*\*

### *Abstract*

Shareholder activism has sharply increased over the past decade and spread both across countries and among different types of investors. Today, 50% of all engagements occur outside North America, with non-hedge fund investors accounting for one-third of all engagements. We investigate the effects and characteristics of hedge fund and non-hedge fund activism using an international dataset of 2,689 activist engagements across 44 countries between 2008 and 2019. Activist investments in North America, on average, yield the largest immediate positive stock market returns and buy-and-hold returns, followed by engagements in Europe and the Asia-Pacific region. In North America, short-term abnormal returns for hedge funds are at a similar level as those for non-hedge funds, but in Europe and the Asia-Pacific region, they are higher for non-hedge funds. However, globally, hedge funds achieve higher buy-and hold returns and are more successful than non-hedge funds in implementing change in target firms. Over time, our results suggest unfulfilled investor expectations, as announcement returns are increasing but (abnormal) buy-and-hold returns and the impact on performance measures of target firms are decreasing for both hedge funds and non-hedge funds.

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**Keywords:** Shareholder activism, international evidence, hedge funds, non-hedge fund activism, institutional investors

**JEL Classification:** G34, G23, G15

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## IV Paper C

### Impact of public demands on the performance of hedge fund activist engagements

Jochen Hartmann\*

International Review of Financial Analysis, 87, 102563

#### Abstract

Hedge fund activists raise public demands around engagement announcements for a quarter of their engagements. I analyze the short- and long-term effects of public demands on the performance of target firms using an international dataset of 1,670 activist engagements across 35 countries between 2008 and 2019. For the global sample, I estimate significantly higher announcement returns for engagements with public demands than for those without public demands. At the regional level, differences in announcement returns between such engagements are significant only in North America, and not in Europe and the Asia-Pacific region. I find no evidence of a significant long-term outperformance of engagements with public demands in general and for engagements with successfully enforced public demands, compared to the remaining engagements for all regions. My findings indicate that activists have started to target firms with different characteristics than previously, which may help to explain the non-existent long-term outperformance of engagements with public demands.

**Keywords:** Shareholder activism, international evidence, hedge funds, institutional investors

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