Shareholder Activism and Firms' Performance

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Abstract

The increasing attention given to activist campaigns worldwide raises the question of whether shareholder activism can effectively deliver better performance to shareholders. Given this rising activist trend and a diverse array of activists with different motivations, demands, and proposals, it is unsurprising that the impact of this activism on firms is unclear and, sometimes, contradictory. We contribute to the debate on the impact of shareholder activism on performance by disentangling the effects of activist shareholders' entry to firms and how their specific demands impact the performance of the firms targeted. To address this issue, we analyse a unique dataset of activist campaigns targeting firms that have their head offices in the US from 2002 to 2017. Our results suggest that shareholder activism does indeed influence firms' profitability in the aftermath of activist campaigns, albeit not in the direction expected. We find that firms experience a decline in profitability almost immediately after such campaigns, although the effect is unclear in the years subsequent to the activist intervention. We took the additional step of looking at the nature of the demands in activist campaigns. The results suggest that campaigns primarily focused on demanding a change in strategic direction or on obtaining board control intensify the decline in profitability. Seeking board representation is the type of demand that is effective in increasing the profitability of the target firms. Overall, our analysis adds to the existing literature by demonstrating that the type of demand adopted in activist campaigns determines what impact activist action has on the performance of firms.

Keywords: shareholder activism, corporate governance, shareholder resolution, financial performance

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1. Introduction

Activism campaigns have been in the spotlight of practitioners and academics for their increasingly bold moves and strategic actions. The participation of activist shareholders in firms has been growing over recent years (Hadani et al., 2011; Hadani et al., 2019; DesJardine & Durand, 2020), particularly after the financial scandals and the financial crisis of 2007-2008. Activist shareholders have been demanding that firms display greater transparency and provide more relevant and timely information (Goranova & Ryan, 2014; Denes et al., 2017). They also demand that managers carry out necessary actions and measures to improve firm performance and generate a return in the medium and in the long term (Gantchev, 2013; Cundill et al., 2018). Shareholders are now using their ownership rights—whether through exercising their votes on shareholder proposals or by means of direct dialogue with the firm on specific issues of concern—to pressure the firm to change its corporate behaviour (O'Rourke, 2003). Apart from the goal of improving the firm's performance, shareholder activists are concerned to improve the firm's social responsibility and increase its impact on the circumjacent society (Guay et al., 2004).

Consequently, the number of activist proposals has increased appreciably (Lazard, 2018). According to a 2018 report by Activist Insight, the number of governance-related proposals from activists has registered an average annual growth of approximately 11% from 2014 to 2018, with campaigns targeting 805 firms worldwide in 2017. The amount invested in these campaigns has increased as well, amounting to $200 billion in 2016, compared to $47 billion back in 2010. Furthermore, there has been a notable geographic expansion of this movement outside the US. National campaigns have been launched in various European countries including France, Germany, Switzerland, Italy, and Spain. Nevertheless, only about 20% of total activist shareholder funds are located outside the English-speaking world (Ponomareva, 2018).

Firms attach great importance to shareholder activism because research has shown that there are benefits to be had in terms of increases in market value and profitability (e.g., DesJardine & Durand, 2020; Clifford, 2008). However, these benefits differ according to the time span under consideration (e.g., the benefits tend to decrease in the mid-to-long term) and are not captured equally by all shareholders. DesJardine and Durand (2020) find that, besides the short-term increase in market value and profitability, in the long run, activist campaigns can often render outcomes that are detrimental—a decrease in operating cash flow and R&D spending, a reduction in the number of employees, and the exertion of downward pressure on corporate social performance, to name a few. In a related sphere, Chen et al. (2020) document a negative side effect in the case of hedge-fund activism, which can lead to the departure of valuable employees and, ultimately, affect performance adversely (Chen & Feldman, 2018).

Even though previous research has examined the impact of shareholder activism on performance, there is still no clear understanding of what impact an activist shareholder's participation in a firm (Cremers et al., 2016) and the specific proposals advanced actually has on the targeted firm's performance.

Using a unique dataset of US activist campaigns from 2002 to 2017, we combine the information on activist shareholders' proposals for target firms—for example, the target firm's industry, the type of proposal, the announcement date, and the status of the campaign, among other significant aspects. Our empirical analysis finds that the participation of activist shareholders serves to decrease firms' profitability—in particular, immediately after the activist campaigns. Thus, our results are in contrast to those of DesJardine and Durand (2020) and accord more with the case of activist hedge funds. Furthermore, our results do not align with those that claim either short-term (Brav et al., 2008; Bebchuk et al., 2015; deHaan et al., 2019) or long-term effects of activism (Brav et al., 2008; Bebchuk et al., 2015); we find that the effect of activism is unclear in the years subsequent to activist involvement.

We contribute further to the research by taking the additional step of looking at the type of demand in activist campaigns. We find that campaigns that are mainly focused on demanding a change in strategical direction or on obtaining board control exacerbate the decline in profitability.

We also find that actions by activist shareholders aimed at securing board representation are superior to all other types of demand in enhancing the performance of the target firm. The probable cause is that this type of intervention does not imply immediate structural changes in the firm's leadership and strategic positioning. From a managerial perspective, our results suggest that activist movements may not improve profitability levels for either firm or shareholders in the short and medium term. The jury is still out on the long-term impact, which remains unclear.

2. Literature review

2.1. Shareholder activism, motivations, and type of proposals

Shareholder activism can be traced back to 1942, when the U.S. Securities and Exchange Commission (SEC) introduced the first regulation to allow shareholders to submit proposals for inclusion in corporate voting (Gillan & Starks, 2007).

There are different types of activist (Filatotchev & Dotsenko, 2015), each with (potential) different motives for advancing a proposal. According to Judge et al. (2010), two kinds of motivation for shareholder action exist: (i) financially-motivated activism, and (ii) socially-motivated activism. In the first case, the activist investors pressure the managers and/or directors to rectify certain issues that appear to be mismanaged by the firm. The proposals resulting from this type of motivation are often related to excessive executive pay levels and the failure to pay out dividends. In the second case, socially motivated activist shareholders are driven by social issues, such as the environment, human rights, and employee welfare, to name some of the recurring issues. The degree of "exposure" to shareholder activism also varies according to the activist's motivation, the nature of the firm, and the national context (Judge et al., 2010). For example, when the resolutions are product related, it is more than likely that the target firms are producing products with negative contingencies. Therefore, in the cases of product-related resolutions, the most common industries to be targeted are the food, textiles and clothing, tobacco, and the forestry, paper and publishing industries (Rehbein et al., 2004). Regarding the filing of environmental-related resolutions by activist shareholders, the target firms tend to be from industries with less than satisfactory environmental performance, particularly oil refining, rubber and plastic, communications, and utilities (Rehbein et al., 2004). In contrast, industries such as wholesale and retail—that are characterized by a lower incidence of environmental problems—are not the preferred targets of shareholders for filing environmental resolutions. In addition, firms with questionable employment practices are also targeted, and these are mainly from the oil refining, rubber and plastic, and hotels and entertainment industries.

The degree of exposure argument can also be looked at from an activist point of view. According to Rehbein et al. (2004), shareholder activists are motivated to file resolutions for the purpose of solidifying their group's identity. That is to say, "activists file with corporations to increase the external attention that they receive" (Rehbein et al., 2004, p. 262), which can be one of the reasons why they prefer to target larger firms, even when smaller firms exhibit just as many issues. This could simply be the result of larger firms being more visible and more socially exposed (Sjöström, 2008). In other words, activist shareholders may file resolutions just to pursue their own agenda (Judge et al., 2010; Smith, 1996).

The problems addressed by shareholder activism are dependent on and are closely related to the issues that are currently affecting and changing society. This is consistent with the belief that issues (and, therefore, the various motives for activism among shareholders) can follow different patterns over time. Certain issues arise (and die) suddenly, while others remain in force without being resolved or simply disappear from public consciousness over relatively long periods (Graves et al., 2001). For example, the environmental and climate change crises are currently affecting our daily lives and activities with proliferating intensity and, therefore, these concerns are being raised by shareholder activists and included in their proposals for corporate action. This translates into increasing pressure from shareholders who are prepared to use their rights to influence firms' organisational practices, forcing them to change their ways in response to prevalent safety and environmental concerns and, consequently, countering the threat to the long-term reputation and visibility of firms in the environmental firing line (Monks et al., 2004). To this end, there is a substantial level of support for proposals that fall within the categories of both Corporate Social Responsibility (CSR) and Corporate Governance proposals (Chung & Talaulicar, 2010).

Overall, three main types of activist shareholder intervention are addressed in the literature (Cundill et al., 2018); namely, divestment of shares, dialogue with management, and shareholder proposals at general meetings. The demands from these activist shareholders can be categorised into three main areas (Klein & Zur, 2009; Cundill et al., 2018). Firstly, government-related issues, which aim to influence the management and the overall corporate governance mechanism in target firms. Second, demands concerning mergers and acquisitions can result in campaigns to restructure target firms or take actions that encourage inorganic growth. The third area of intervention targets the firm itself, with activist campaigns usually demanding changes at the operational and strategical level.

In light of the rise of shareholder activism and the diversity of activists with different motives, demands, and proposals, it is no wonder that the impact of their activism on firms is unclear and, sometimes, contradictory. We contribute to the literature by adding to the debate concerning the impact of shareholder activism on performance by disentangling the effects of the participation of an activist shareholder in a firm and the nature of the proposals on the targeted firm's performance.

2.2. Shareholder activism and performance

Shareholder activism is driven by financial or social motives (Judge et al., 2010; Hadani et al., 2019). Financially-driven activism results in the pressurising of managers to act to eradicate the pitfalls and inefficiencies that affect the firm's financial performance— but also to pursue strategies that will enhance the firm's performance (David et al., 2007). Activist investors require higher and faster returns from target firms, even if achieved at the expense of other shareholders. This raises issues regarding a conflict of interests (Anabtawi & Stout, 2007). However, the actual question is whether this particular financial motive applies to all interventions and, furthermore, whether the firm benefits from the activist shareholder resolutions in terms of performance. An analysis of the studies carried out to date presents conflicting results—both in terms of the short-term and the long-term consequences of shareholder activism on target firms. On the one hand, some studies find no substantial evidence that firms benefit from activist resolutions in terms of performance or market value (Karpoff et al., 1996), although performance can be influenced by the institutional context (Yeh, 2014) or the type of shareholder (Marler & Faugère, 2010). Nevertheless, some positive changes will likely result from such resolutions, directly or in their aftermath. For example, Smith (1996) tested whether target firms experienced changes in governance structure, shareholder wealth, and operating performance during the periods before and after being targeted by activist shareholders. According to the author's findings, the targets did not perform significantly differently from their respective peers in their respective industries. However, the stock market price reaction was not indifferent to the targeting announcements, and a significant positive stock price reaction materialized in the case of successful targeting events, and an equally significant adverse reaction in the case of unsuccessful events. Smith's study shows that shareholder activism is mainly successful in changing governance structure, which can lead to an increase in shareholder value if the change is positive. Some qualitative improvements were also reported in the targets' return on assets (ROA) and cash balances, as well as a decrease in leverage (Venkiteshwaran et al., 2010).

On the other hand, some studies point to the tendency for certain gains in performance or value to accrue, although these gains can be conditional on timing, ownership stake, the type of resolution, or the external context. For example, Yeh (2017, p. 245) finds that "(…) resolutions initiated by large shareholders have positive impacts on the target firms, which reported positive announcement-associated abnormal returns". Similarly, when large shareholders initiate proposals for the election of members of the board or amendments to the statutes, there is evidence of increased post-resolution operating performance (Graves et al., 2001). This improvement is accompanied by an increase in management share-buyback options and dividend pay-outs. When investors cite environmental issues in resolutions, the findings of Kim and Lyon (2011) show that institutional investor activism on climate change can increase shareholder value when the external business environment becomes more climate conscious. On a related theme, Clifford (2008) finds that, for hedge funds, shareholder activism is associated with positive wealth creation and better operating performance in target firms one year prior to the block acquisition (a percentage of the firm acquired). When the findings of Gillan and Starks (2000), Venkiteshwaran et al. (2010), and Denes et al. (2017) are added into the mix, the argument is that the activism of special types of investor, such as an institutional investor or a coordinated group, appears to have had slightly better success in obtaining positive results. Klein and Zur (2009) suggest that the reason for the better results could be that these investors are pursuing distinct post-intervention strategies, rather than seeking immediate profitability. Such investors can make specific demands that the strategies are adjusted in order to achieve their goals. For example, the authors in question show that hedge funds "address the free cash flow problem by frequently demanding the target firm buy back its shares, cut the CEO's salary, and initiate dividends".

As stated, the evidence looking at the association between shareholder activism and performance is mixed. Nevertheless, it seems clear that shareholder activists pursue their interventionist strategies to change the firm's management path by introducing new ideas and new processes designed to improve operations and enhance shareholder value. Alternatively, the reality could be that shareholder activists are simply out to make gains, even if these gains are not obtained immediately. Accordingly, this study departs from the assumption that the entry of an activist shareholder into the target firm's investor structure has a positive impact on firm performance, both in the short term and in the long term. When all is considered, we propose the following as our first hypothesis:

Hypothesis 1: The entry of activist shareholders positively influences firm performance.

Activist interventions lead to a plethora of demands. These can vary but, ultimately, the goal is to improve performance and shareholder value. To improve the target's performance, activists can demand cost reductions (Gillan & Starks, 2008; Westphal & Bednar, 2008), cutbacks on investments (Bebchuk et al., 2015), payment of more cash or dividends to shareholders (Chen & Feldman. 2018), and changes in the boardroom, such as replacing the CEO or other board members (Gantchev, 2013). It is, therefore, essential to sort the demands into groups in order to assess their influence on firm performance. In our study, following data availability and preliminary grouping from the data provider of our sample, nine types of demand are identified in our empirical approach and sorted into three main groups: governance-related (board control, board representation, shareholders' rights); M&A-related (force a sale, oppose a sale, spin-off, hostile acquisition); and business-related (seek alternatives, strategic direction). The next section explains each type and gives instances from our sample. It goes without saying that not all demands by activist shareholders can effectively trigger enhanced firm performance. The governance-related group includes board representation and protection of shareholder rights, without transforming the firm's business structurally. This is most likely attained through M&A-related demands, which could obviously be transformational. The literature has not yet combined all types of demand in a single study (Klein & Zur, 2009; Chung & Talaulicar, 2010; Cundill et al., 2018). Instead, there have been major studies focusing on governance issues (Wu, 2004; Gantchev, 2013), investments (David et al., 2001; Bebchuk et al., 2015), and the takeover market (Gillan & Starks 2007), to name a few. Therefore, we propose the following hypothesis:

> *Hypothesis 2: The influence of the entry of activist shareholders on performance is affected by the type of demand from shareholder activists.*

3. Data and methodology

3.1. Data selection

To analyse the impact of shareholder activism on firm's performance, we collected data from US firms over the period from 2000 to 2019. Data on shareholders' proposals were collected from the "Corporate Governance Market Overview", a subsection of Thomson Reuters Eikon. The data obtained included information the campaigns of activist shareholders, such as the announcement date, the activist shareholder responsible for the proposal, the target firm, the status of the proposal, and the investor's specific demands. The data were then cross-checked to ensure reliability.

The final list contained campaigns from different geographic locations, although we focussed exclusively on target firms whose head offices were located in the US. The reason for restricting our analysis to US-based firms is twofold. Firstly, we limit the influence of country-level variability on the outcome. Secondly, approximately 70% of the campaigns listed in the "Corporate Governance Market Overview" contain firms whose head offices are located in the

US. This concentration leaves relatively few events from non-US countries that can be used to generalise findings to countries that have a different cultural landscape, socioeconomic institutions, and a variety of governance models (Shin & You, 2020). Activist campaigns have been on the rise since the 2000s, with the number of proposals submitted increasing year on year, rising to maximum levels in recent years with more than 200 proposals filed in the US alone (Figure 1), according to our initial database. However, the data include more than one campaign for each target firm.

[Insert Figure 1 around here]

The sample period is from 2000 to 2019, although the campaigns themselves only run from 2002 to 2017. The process of sample selection begins by considering all data available in the period under analysis. To ensure the efficient tracking of each firm during the years before and after the first activist campaign, the sample selection ensures data availability at least for the range of t-2 to t+2, with t representing the campaign year. However, the sample selection yields a longer period for some firms. For all firms, at least 5 years of data are available, yet for at least 90% of firms, data is available for at least 10 years. Firms in the financial sector were excluded because dissimilar variables drive profitability, and these firms are usually explored separately in the literature on finance. The final sample comprises 5,105 firm-year observations of 320 unique firms that were the target of activist campaigns in the US. In the robustness analysis, the sample is restricted to the period of t-2 to t+2, which reduces the sample to 1,600 firm-year observations. A visual inspection in Figure 2 shows that performance drops in years preceding the activist campaigns, and a recovery is shown in the two years following the campaign. Nevertheless, the question remains as to whether shareholder activism can effectively return better performance to shareholders, which may well depend on the type of proposal.

[Insert Figure 2 around here]

The main objectives in activist shareholder demands in our sample cover three main areas of intervention: governance-related (9.4% board control, 36.9% board representation, 15.3% shareholders' rights); M&A-related (2.2% force a sale, 1.0% oppose a sale, 1.9% spin-off, 2.2% hostile acquisition); and business-related (28.4% seek alternatives, 2.8% strategic direction).

Board control is a demand aimed at securing control of the board of directors, which usually means replacing the CEO and other board members. The 13D filling on the Wegener Corp in

December 2005 is an example where a group of activist shareholders led by Henry Partners, holding 7.9% of the capital in Wegener, mailed a proxy to all shareholders requesting that the firm’s poison-pill plan be revoked, that two new members be nominated to the board, and that the CEO’s option plan, recently granted, be rescinded.

Board representation relates to activist campaigns seeking to secure better representation on the board by having new directors appointed. One of our examples is Jana Partners LLC's entry into Bristol-Myers Squibb Co. as significant shareholders in the fourth quarter of 2016. The move led the US drug maker to appoint three new directors to the board in early 2017 after talks with the activist investor.

Shareholder rights is a campaign whether activists demand that shareholders rights are honoured. The focus could be on granting the right to call a special meeting, demanding an independent audit, or forcing the firm to undertake various other actions consistent with the claimed rights. Our sample includes the Carl Icahn pressure exerted on Apple in 2013, demanding that the management increase shareholders' returns through a buyback program.

Force sale involves campaigns in which shareholders intervene to force the sale or the merger of the target firm. One instance in our sample is the Whirlpool Corporation acquisition of Indesit Company S.p.A in 2014. The deal was forced through by activist shareholders led by Amber Capital, which demanded that Indesit, a family-controlled Italian company, boost its scope and expand beyond its main markets.

Oppose sale is the opposite of *force sale*, where a campaign is launched to demand that the target firm nullify a proposed sale or merger. Western Digital Corporation is a case in point. The firm struggled to acquire SanDisk Corporation after Alken Asset Management Ltd disclosed its intent to vote against the stock issuance that the firm would require to complete the deal.

Hostile acquisition involves activists demanding that the firm ramps up an ongoing hostile takeover attempt or embarks on a campaign to take out a new takeover target. The sample includes campaigns such as the hostile attempt of Matrixx Initiatives Inc. to acquire ProPhase Labs Inc. in 2012, which involved the former acquiring options and engaging a former CEO of the target.

Spin-off is where activists demand the target firm sell the entire company or spin off business units or subsidiaries. Our sample includes the board of Timken Company who agreed to split the company in two, separating the steel business from its industrial operations, following pressure from activist investors.

Seek alternatives the variable assumes 1 if a demand where activists search for alternatives through dialogue with the management team with the aim of delivering greater value to shareholders, and zero otherwise. Our sample includes the move by activist investor Nelson Peltz to make his fund one of the top shareholders in General Electric Co in 2015 and to use that position to issue a series of recommendations rather than make assertive demands.

Strategic direction involves activist demands for the target firm to shift strategic direction. Our sample includes another move by Carl Icahn, this time taking a stake in Netflix Inc. in 2012 and demanding a new strategic direction involving the DVD-by-mail rental service and online streaming.

3.2. Research design and variables measurement

Table 1 contains the variable definitions. The dependent variable is the return on equity (*ROE*) of each firm. The ROE captures firm performance from the shareholder perspective, as it is calculated as the net income divided by the book value of equity. For robustness purposes, we also used return on assets (ROA), which is defined as the ratio between net income and total assets and is intended to measure performance from the firm perspective. Both variables are truncated at -1 and +1 in order to remove the effect of extreme values for the ratio. Furthermore, all firms presenting negative equity were excluded because the ROE would otherwise be misleading. The average firm delivers a ROE of 4.0%, a ROA of 1.7% through moderate leverage, and an average debt-to-equity ratio (D/E) of 0.72. Nevertheless, the ROE demonstrates relevant variability, even after removing extreme observations.

We used the following econometric model with a fixed-effects specification for firm and year:

$$Y_{it} = B_0 + \alpha\ Activism + \theta\ Firm\ controls + \mu_{it} \tag{1}$$

where the variable *Activism* is used to analyse the impact of shareholder activism on profitability. This variable assumes the value one from the year of the first activist shareholder entry onwards, and zero before.

For robustness purposes, we used a dummy variable, which captures the effect of the activist shareholder in the entry year (*T0*) and one and two years after (*T1* and *T2*, respectively). These time dummies aim to narrow the effect on profitability in the defined years after the entry of the activist shareholder. The actions by activists may not yield performance changes immediately (Brav et al., 2015), and so the base case coupled with the variable *Activism* will not deermine whether an effect is time sensitive.

A set of firm-specific variables are included as controls in this study. We used *Size* (the log of the value of total assets) to control for the firm's dimension because larger firms tend to deliver a better performance as a consequence of scale. We also control for leverage, which is captured by the *D/E* ratio (the debt-to-equity ratio). Firms with more debt can deliver better performance, due to the benefits from leveraging the debt to amplify returns and also from the incentive to repay that comes from the very fact of holding debt. We also control for the firm's operational profitability (measured by *EBITDA margin*), together with the firm's capital intensity, which is measured by the *PP&E* variable (Property, Plant, & Equipment). The market valuation of firms is controlled by the *Market/Book* variable (the firm's market value divided by its corresponding book value). Finally, we control for the firm's effective tax rate (*Book ETR*), as taxation naturally impacts a firm's returns and performance (Jacob & Jacob, 2013). The number of analysts following each firm was also used (*N. Analysts*). Table 1 presents the dependent variables and the explanatory and control variables. The descriptive statistics are presented in Table 2. The usual econometric diagnostic tests were performed (multicollinearity, Wald test, omitted variables test), and robust standard errors were used to circumvent heteroscedasticity.

[Insert Table 1 and Table 2 around here]

4. Results and discussion

To understand whether activist campaigns give rise to increased profitability, we run Equation (1), using a fixed-effects specification for both firm and year. Column (1) of Table 4 presents the results of our primary analysis. Surprisingly, the negative coefficient suggests that activist campaigns are associated with a decrease in profitability. Shareholder activists claim that they carry out a positive role in forcing operational and strategical decisions (Brav et al., 2008) that enhance efficiency and yield greater returns. Our results suggest the opposite. The variable *Activism* captures all the years following the first activist campaign.

Next, we restrict our analysis in column (2) by interacting the variable *Activism* with the period *T0*. The latter assumes the value of one for the year of the first campaign, leaving the interaction for the remaining years with the value of zero. Columns (3) and (4) adopt a similar approach and measure the effect of campaigns for both the year after the campaign (*T1*) and two years later (*T2*). Shareholder activism can exert pressure on management to implement short-term restructuring to boost long-term growth, which tends to jeopardise lucrative performances in the short term. The results in Table 3 partially support this rationale. Overall, ROE decreased by approximately 3% following activist campaigns, representing the major effect for the T0 of such campaigns. That is to say, the immediate effect of activist campaigns on performance is negative, the effect in the year of the campaign (*T0*) being larger than the aggregate effect in column (1).

[Insert Table 4 around here]

Consistent with existing empirical evidence, larger firms are associated with better returns for shareholders. Furthermore, the *EBITDA margin*, which measures operational performance, is a proxy that is positive in cases of profitability. Multiples for a firm's book value highlight how the market currently values the firm's growth potential and, therefore, it is not surprising that *Market/Book* has a positive association with the profitability reported in a firm's accounts. Financial analysts can exert opposing effects on firms. There is, for example, a stream of extant literature that supports the view that analysts exercise no more than a fairly benign monitoring role, whereas an alternative view considers analysts as a source of sustained pressure on managers to attain the performance levels projected in the financial analysis.

To tackle potential endogeneity, we perform a Generalised Method of Momentums (GMM) approach to estimate a dynamic version of the base model (Arellano & Bover, 1995; Blundell & Bond, 1998). We apply a version of the GMM estimator with three levels of lagged performance with two main purposes in mind. Firstly, to capture the trends that may trigger activist shareholders' actions. Second, to account for the delay effect in implementing measures to boost firm performance. This approach to containing endogeneity issues supports the results from the base model that ROE decreased following activist campaigns, especially in the first year – T0.

[Insert Table 5 around here]

Activism accounts for all the years following the first activist campaign. For some firms, data is available beyond the range t-2 to t+2, and variability exists across firms. However, as part of a robustness analysis, we restricted our sample to the period of t-2 to t+2, before and after the activist campaign. From this point in the study onwards, all analyses are run on a restricted sample. The results in Table 6 support the previous conclusions. ROE measures the accounting return to shareholders and is dependent on capital structure decisions, in addition to operational performance. Constraints on the funding of target firms can drive shareholder activism. Furthermore, the reputation and size of shareholder participants in campaigns can enable target firms to gain access to funding sources that they would not otherwise be able to access. One can argue that our results are biased towards leverage effects. Therefore, to address this potential issue, we perform an additional robustness analysis. In Table 7, the firm's profitability is measured from the firm perspective and is proxied by ROA, with the results being similar for the *Activism* variable, which again suggests that profitability decreases in the short term.

[Insert Table 6 and Table 7 around here]

While profitability appears to decrease in the first year of the campaign (T1), there is no relevant association afterwards. We suspect that our results provide an explanation for two consequences. Firstly, firms targeted by shareholder activism can be pressured to implement post-intervention strategies regarding restructuring activities in the period immediately following activist campaigns (Klein & Zur, 2009), although the benefits from this restructuring may not manifest themselves quickly. If our analysis had been carried out over a longer time span, it could well have revealed a crossover point where the coefficient for *Activism* switches and becomes statistically positive. However, due to the lack of availability of comparative data beyond t+2 of our balanced dataset, it was not feasible to reach this crossover point. Secondly, often activist shareholders are looking for a cash return on their investments. As an accounting measure, ROE does not play a significant role in ensuring a return on investment over the period of the campaign. Activist shareholders are subject to risk during each campaign, although recovering a portion of the cash invested expeditiously can function as a risk management mechanism. The firm's dividend policy can also play a role in risk mitigation (Ahmad et al., 2018; Barros et al., 2020, 2021). Graves et al. (2001) tentatively addressed this issue by suggesting there is an increase in buybacks and dividend pay-outs during the post-resolution period. In addition, Klein and Zur (2009) reported that, when the activists are hedge funds, a frequent demand is the buyback option. The type of demand can also exert a variable effect on profitability, where the aims of one campaign can differ from the other on the timing of implementation and the intensity of change.

Building on the second issue, we derive an additional analysis in the form of looking at the types of demand made by activist shareholders in each of the 320 campaigns in our sample. This analysis is related to our second hypothesis and is performed because the data available allow us to carry out an incursion into a parallel, yet relevant topic. Interaction terms are added to Equation (1) for each of the nine types of campaign, namely: seeking board control, board representation or protecting shareholder rights, which are both governance-related demands; M&A-related demands to force a sale, demands to oppose a sale, spin-off or engaging in hostile acquisitions, and business-related demands, such as seeking alternatives or demanding a shift in strategic direction. Our analysis defined each type according to the primary demand established for each campaign, although campaigns may not necessarily be mutually exclusive in their goals. The results for this additional analysis are presented in Table 8.

Our base estimation in Column (1) of Table 4 pointed to a contraction of 2.9% in ROE following the activist campaigns. The results in Table 8 and Table 9 suggest that the campaigns mainly focused on demanding change in strategical direction or obtaining board control augment the decline in profitability for shareholders by an additional 6.5% and 12.0%, respectively. Nevertheless, seeking board representation is the only demand type that effectively enhances the profitability of the target firms, which offsets the overall negative effect by about 0.4%. Similar results were found for excluding the effect of capital structure decisions on firm profitability. For robustness, we present the analysis for the ROA as a proxy for profitability in Table 9, and the results are maintained.

[Insert Table 8 and Table 9 around here]

Building on the opposing effect of the two governance-related types of demand, we combined these effects in column (10) of both tables. Results remain unchanged from the previous analyses in columns (1) and (2), reinforcing the point that demanding board representation enhances firm performance, although a more challenging form of governance demand—complete board control—jeopardizes firm performance.

5. Conclusions

This study aims to assess whether shareholder activism increases firm profitability following activist campaigns. Activist investment is an ongoing trend, and the prevailing view is that they add value to firms. However, the current debate on this topic has still not reached consensus. Our research is designed to add further clarification to the discussion. Our analysis considered firms that were the target of activist campaigns from 2002 to 2017, with an exclusive focus on US-based firms.

Our analyses reveal that shareholder activism does indeed influence firms' profitability following activist campaigns; however, not in the expected direction. We find that firms face declining profitability immediately following an activist campaign. Arguably, this effect comes as no surprise when one considers the disruptive effect of restructuring in the immediate aftermath of such campaigns. The results suggest that profitability decreases in the short term, but that this effect is much less obvious in the years that follow. The conclusions are robust in the case of different proxies for firm profitability— specifically when using ROE as an equity approach and ROA as a firm approach.

The discovery of an opposite, yet economically relevant, effect led us to further explore the topic by examining another potential driver of activist campaigns—the type of demand. Our rationale is that not all demands by activist shareholders adopt the same timing for implementation, nor do they exert the same intensity of change. The results reveal that the intensity of change shapes the effect of campaigns on profitability in different ways. For instance, demands that require more significant structural change in governance, such as seeking control of the board by replacing the CEO and another members, or changes in the strategic direction of the firm, tend to have an even more deleterious effect on investor returns. On the other hand, the demand for board representation by activist shareholders does not necessarily imply major structural changes, even though such activist action may well create the foundations for further change. Our results suggest that less-extensive demands exert a residual beneficial effect on the level of profitability. In fact, when all things are considered, campaigns driven by the desire to obtain board representation yield a positive but very modest effect on ROE of approximately 0.4%.

From a managerial point of view, our results suggest that activist movements do not necessarily trigger better profitability levels for both firm and shareholders, in the short and the medium term. However, the long-term impact still remains largely unexplored. Furthermore, our analysis adds to the existing literature by demonstrating that the type of demand in activist campaigns shapes how activist activity influences returns.

Our findings carry certain policy implications. Overall, the assertion that activist shareholders yield positive performance in the short term is contradicted by our study, whilst not supported over the medium-to-long-term outlook. Activist interventions impose costs on companies and may be detrimental to creating value for non-controlling and minority shareholders. Yet, activist campaigns do not affect companies linearly. Actions by activist shareholders aimed at securing board representation are superior to all other types of demand in enhancing the target firm's performance. In addition, when the demand takes a step further to secure control of the board, the effect is the opposite, offsetting any potential gains from having established a foot in the boardroom door.

Our results pinpoint several avenues for future research. Firstly, exploring the motives behind initiating a campaign could be a fruitful pursuit in future research. Secondly, it was found that, although profitability is negatively affected in the short term, there is no evidence of any association in the medium term. Consequently, there is a need to identify the point of inflexion in firm profitability, which is relevant to stakeholders' ability to better assess how and when activism campaigns are likely to guarantee a return for incumbent shareholders.

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Figure 1 – Evolution of Activist Campaigns in the US That are Listed in Thomson Reuters

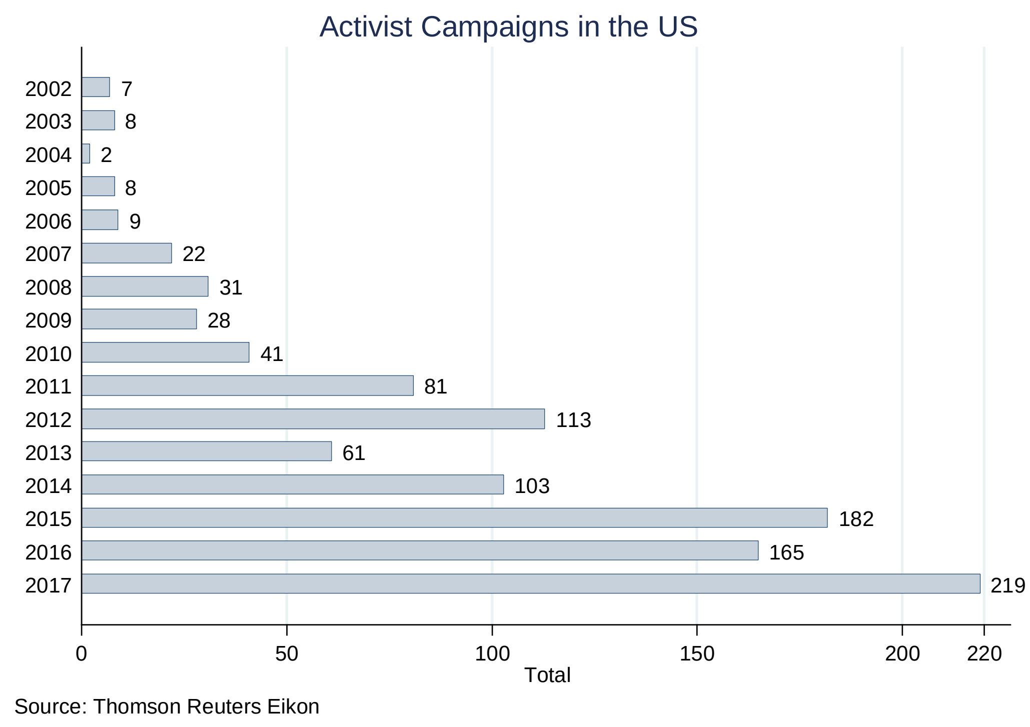

Figure 2 – Return of the Target Firm in Years Surrounding the Activist Campaign

The figure computes the average performance in each of the years surrounding the activist campaign (t-3 to t+3), in which t=0 is the campaign year. Data is collapsed by mean.

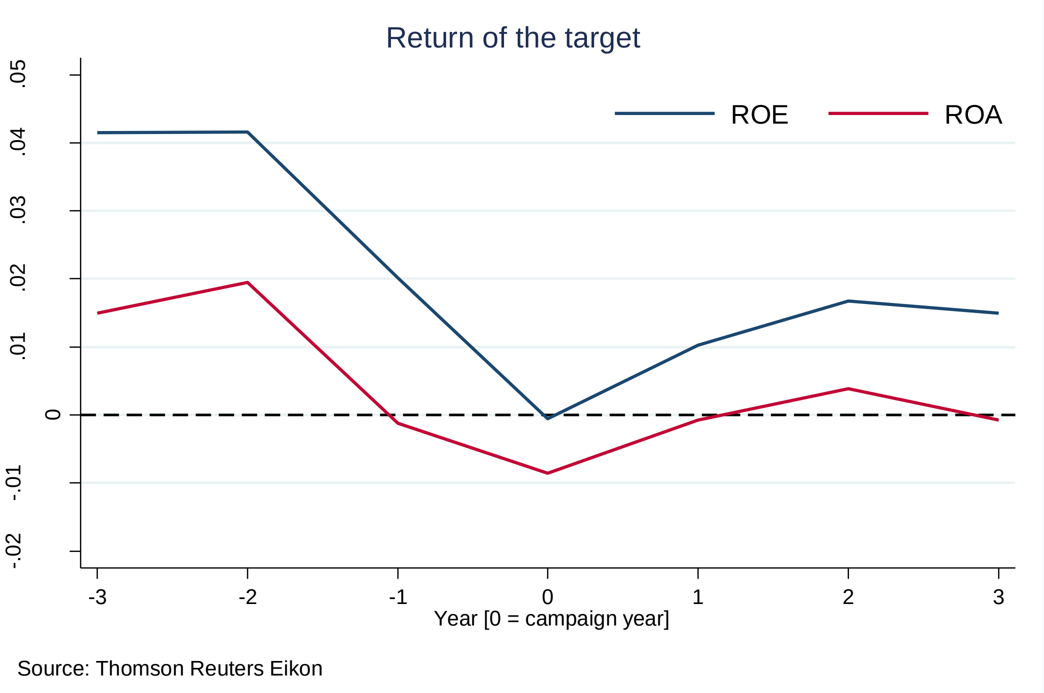

Table 1 – Definition of Variables

Variable	Description
Dependent variables	
ROE	ROE is the firm's return on equity, measured as the ratio between net income and the book value of equity. Firms presenting negative equity are excluded. The variable is truncated at -1 and +1.
ROA	ROA is the firm's return on assets measured as the ratio between net income and total assets. The variable is truncated at -1 and +1.
Activism	
Activism	Activism is a treatment variable that takes the value one from the year of the first activist campaign on firm *i* onwards, and zero otherwise.
T0	T0 is a dummy variable taking the value one in the year of the activist campaign, and zero otherwise.
T1	T1 is a dummy variable taking the value one a year after the activist campaign, and zero otherwise.
T2	T2 is a dummy variable taking the value one for the second year after the activist campaign, and zero otherwise.
Demands (1)	
Board Control	Dummy variable taking the value one if the activists demand to obtain board control, and zero otherwise. Examples of shaping the control of the board include replacing the CEO or another board member.
Board Representation	Dummy variable taking the value one if the activists demand aims to have board representation by the activist shareholders, and zero otherwise.
Shareholder Rights	Dummy variable taking the value one if the activists demand to ensure shareholders rights, and zero otherwise. Shareholder rights focus on the ability to grant the right to call a special meeting, independent auditing, and other actions.
Force Sale	Dummy variable taking the value one if the activists demand to force a sale, and zero otherwise. In the cases of the demand to force a sale, activist shareholders intervene to force the sale or the merger of the target firm.
Oppose Sale	Dummy variable taking the value one if the activists demand to oppose a sale, and zero otherwise. Contrary to forcing a sale, these campaigns demand not to effect a sale or merge the target firm.
Hostile Acquisition	Dummy variable taking the value one if the activists demand to engage in a hostile takeover of both an ongoing attempt or to foster further takeover, and zero otherwise.
Spinoff	Dummy variable taking the value one if the activists demand the target firm sell itself or spin off business units or subsidiaries, and zero otherwise.
Seek Alternatives	Dummy variable taking the value one if the activists demand to seek alternatives through actions of dialogue with the management team aimed at benefiting shareholders and delivering them greater value, and zero otherwise.
Strategic Direction	Dummy variable taking the value one if the activists demand a shift of strategic direction, and zero otherwise.
Control variables	
Size	Size captures the firm's size and is measured by the log of the firm's total assets.
D/E	D/E is a proxy for leverage, being set as the ratio of debt-to-equity. The variable is winsorised at 0.5%.

EBITDA margin	EBITDA margin is measured as earnings before interest, taxes, depreciation, and amortisation (EBITDA) scaled by revenues. The ratio is winsorised at 0.5%.
PP&E	Property, Plant & Equipment (PP&E) is a proxy for capital intensity. The variable is computed as PP&E over the firm's total assets and is winsorised at 0.5%.
Market/Book	Market to Book is the market ratio that measures the relationship between equity at market values and the corresponding book value. The variable is winsorised at 0.5%.
Book ETR	Book ETR is the book effective tax rate (ETR). The variable is set as income tax scaled by pre-tax profits and is winsorised at 0.5%.
N. Analysts	N. Analysts is the number of sell-side analysts covering the firm each year.

(1) see examples of each demand type in section 3.

Table 2 – Descriptive statistics

The table presents descriptive statistics for all variables.

	N	Mean	St. Dev	Q1	Median	Q3
Dependent Variables						
ROE	5,105	0.040	0.235	-0.028	0.075	0.158
ROA	5,105	0.017	0.122	-0.013	0.035	0.074
Activism						
Activism	5,105	0.391	0.488	0.000	0.000	1.000
Activism × T0	5,105	0.063	0.242	0.000	0.000	0.000
Activism × T1	5,105	0.063	0.242	0.000	0.000	0.000
Activism × T2	5,105	0.063	0.242	0.000	0.000	0.000
Controls						
Size	5,105	20.44	2.304	18.72	20.33	22.09
D/E	5,105	0.720	1.627	0.01	0.325	0.824
EBITDA m	5,105	-0.056	2.817	0.047	0.113	0.196
PP&E	5,105	0.257	0.245	0.071	0.165	0.368
Market/Book	5,105	2.824	3.075	1.230	1.982	3.264
Book ETR	5,105	0.183	0.756	0.026	0.297	0.373
N. Analysts	5,105	8.460	9.469	1.000	5.000	13.00
Demands						
Board Control	320	0.094	0.292	0.000	0.000	0.000
Board Representation	320	0.369	0.483	0.000	0.000	1.000
Force Sale	320	0.022	0.147	0.000	0.000	0.000
Hostile Acquisition	320	0.022	0.147	0.000	0.000	0.000
Oppose Sale	320	0.009	0.097	0.000	0.000	0.000
Seek Alternatives	320	0.284	0.452	0.000	0.000	1.000
Shareholder Rights	320	0.153	0.361	0.000	0.000	0.000
Spinoff	320	0.019	0.136	0.000	0.000	0.000
Strategic Direction	320	0.028	0.166	0.000	0.000	0.000

Table 3 – Correlations

This table presents the correlation matrix. The symbols * represent significant level of 10%.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) ROE	1.000								
(2) ROA	0.886*	1.000							
(3) Size	0.318*	0.261*	1.000						
(4) D/E	0.069*	-0.004	0.271*	1.000					
(5) EBITDA m	0.170*	0.232*	0.097*	0.035*	1.000				
(6) PP&E	0.051*	0.055*	0.261*	0.193*	0.070*	1.000			
(7) Market/Book	0.205*	0.129*	0.076*	0.159*	-0.004	-0.119*	1.000		
(8) Book ETR	0.073*	0.071*	0.092*	0.020	0.021	0.046*	-0.001	1.000	
(9) N. Analysts	0.251*	0.208*	0.742*	0.094*	0.067*	0.147*	0.230*	0.049*	1.000

Table 4 – Profitability (ROE) following activist campaigns – full sample

This table presents the main results for the assessment of the association between activist shareholders' campaigns and firms' profitability. The sample allows firms to add observations beyond the period t-2 to t+2, thus enabling a broader period for the treatment effect. The dependent variable is the firm's ROE. Robust standard errors are in brackets, and the symbols *, **, and *** represent significant levels of 10%, 5%, and 1%, respectively.

ROE	(1) All Period	(2) t=0	(3) t=1	(4) t=2
Activism	-0.029***			
	(0.009)			
Activism × T0		-0.031***		
		(0.012)		
Activism × T1			-0.021*	
			(0.012)	
Activism × T2				-0.020
				(0.013)
Size	0.034***	0.028***	0.028***	0.028***
	(0.010)	(0.009)	(0.009)	(0.009)
D/E	-0.006	-0.007	-0.007	-0.007
	(0.008)	(0.009)	(0.008)	(0.008)
EBITDA m	0.007***	0.007***	0.007***	0.007***
	(0.002)	(0.002)	(0.002)	(0.002)
PP&E	-0.281***	-0.278***	-0.277***	-0.277***
	(0.061)	(0.061)	(0.061)	(0.061)
Market/Book	0.015***	0.015***	0.015***	0.015***
	(0.003)	(0.003)	(0.003)	(0.003)
Book ETR	0.000	0.001	0.001	0.001
	(0.006)	(0.006)	(0.006)	(0.006)
N. Analysts	-0.001	-0.001	-0.001	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)
Constant	-0.595***	-0.480***	-0.480***	-0.481***
	(0.191)	(0.180)	(0.182)	(0.181)
Obs.	5,105	5,105	5,105	5,105
Adjusted R-squared	0.056	0.054	0.053	0.053
F	11.424	12.042	10.912	11.074
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes

Table 5 – Profitability (ROE) following activist campaigns – Arellano-Bond estimator

This table uses the Arellano-Bond estimator to overcome endogeneity issues. The estimator considers 3 years of the lagged dependent variable to control for the long-term rolling-over effect on performance. The dependent variable is the firm's ROE. The GMM approach is therefore performed, and the symbols *, **, and *** represent significant levels of 10%, 5%, and 1%, respectively.

	(1) All Period	(2) t=0	(3) t=1	(4) t=2
Activism	-0.049***			
	(0.011)			
Activism × T0		-0.019*		
		(0.011)		
Activism × T1			0.002	
			(0.011)	
Activism × T2				-0.006
				(0.011)
ROE (t-1)	0.179***	0.197***	0.198***	0.197***
	(0.025)	(0.025)	(0.025)	(0.025)
ROE (t-2)	0.014	0.023	0.023	0.022
	(0.02)	(0.02)	(0.02)	(0.02)
ROE (t-3)	-0.041**	-0.031*	-0.031*	-0.031*
	(0.018)	(0.018)	(0.018)	(0.018)
Size	0.112***	0.105***	0.105***	0.105***
	(0.014)	(0.015)	(0.015)	(0.015)
D/E	-0.068***	-0.069***	-0.069***	-0.069***
	(0.006)	(0.006)	(0.006)	(0.006)
EBITDA m	0.005*	0.006*	0.006*	0.006**
	(0.003)	(0.003)	(0.003)	(0.003)
PP&E	-0.549***	-0.544***	-0.543***	-0.543***
	(0.084)	(0.085)	(0.085)	(0.085)
Market/Book	0.017***	0.016***	0.016***	0.016***
	(0.002)	(0.002)	(0.002)	(0.002)
Book ETR	0.005	0.006	0.006	0.006
	(0.004)	(0.004)	(0.004)	(0.004)
N. Analysts	-0.007***	-0.007***	-0.007***	-0.007***
	(0.002)	(0.002)	(0.002)	(0.002)
Constant	-2.035***	-1.914***	-1.91***	-1.912***
	(0.299)	(0.300)	(0.300)	(0.300)
Obs.	3,449	3,449	3,449	3,449
Sargan test	381.3	391.6	391.4	390.6

Table 6 – Profitability (ROE) following activist campaigns – restricted sample

This table presents a restricted sample as a robustness analysis. The sample is confined to the period t-2 to t+2, restricting the variability in the outcome variable for the years before and after the activist campaign. Thus, the sample is restricted to 5 observations for each of the 320 firms targeted by activist campaigns. The dependent variable is the firm's ROE. Robust standard errors are in brackets, and the symbols *, **, and *** represent significant levels of 10%, 5%, and 1%, respectively.

ROE	(1) All Period	(2) t=0	(3) t=1	(4) t=2
Activism	-0.023**			
	(0.012)			
Activism × T0		-0.019*		
		(0.010)		
Activism × T1			-0.010	
			(0.012)	
Activism × T2				-0.005
				(0.013)
Size	0.072*	0.069*	0.070*	0.070*
	(0.039)	(0.038)	(0.039)	(0.039)
D/E	-0.026*	-0.027*	-0.027*	-0.027*
	(0.014)	(0.014)	(0.014)	(0.014)
EBITDA m	-0.002	-0.002	-0.002	-0.002
	(0.001)	(0.001)	(0.001)	(0.001)
PP&E	-0.649***	-0.655***	-0.650***	-0.649***
	(0.143)	(0.143)	(0.143)	(0.143)
Market/Book	0.020***	0.019**	0.019**	0.020***
	(0.008)	(0.007)	(0.008)	(0.007)
Book ETR	0.010	0.011	0.011	0.011
	(0.010)	(0.010)	(0.010)	(0.010)
N. Analysts	0.000	0.001	0.001	0.001
	(0.003)	(0.003)	(0.003)	(0.003)
Constant	-1.319	-1.270	-1.284	-1.286
	(0.809)	(0.800)	(0.804)	(0.805)
Obs.	1,600	1,600	1,600	1,600
Adjusted R-squared	0.074	0.072	0.070	0.070
F	5.628	5.717	5.207	5.192
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes

Table 7 – Profitability (ROA) following activist campaigns – restricted sample

This table complements the previous analyses by introducing a different variable to capture the firm's level of profitability – ROA. The sample is confined to the period of t-2 to t+2, restricting the variability in the outcome variable for one year before and two years after the activist campaign. Thus, the sample is restricted to 5 observations for each of the 320 firms. The dependent variable is, therefore, the firm's ROA. Robust standard errors are in brackets, and the symbols *, **, and *** represent significant levels of 10%, 5%, and 1%, respectively.

	(1) All Period	(2) t=0	(3) t=1	(4) t=2
Activism	-0.012**			
	(0.006)			
Activism × T0		-0.013**		
		(0.006)		
Activism × T1			-0.005	
			(0.006)	
Activism × T2				0.001
				(0.007)
Size	0.057***	0.055***	0.055***	0.055***
	(0.018)	(0.018)	(0.018)	(0.018)
D/E	-0.011***	-0.011***	-0.011***	-0.011***
	(0.004)	(0.004)	(0.004)	(0.004)
EBITDA m	-0.002	-0.002	-0.002	-0.002
	(0.001)	(0.001)	(0.001)	(0.001)
PP&E	-0.377***	-0.380***	-0.377***	-0.378***
	(0.081)	(0.081)	(0.082)	(0.082)
Market/Book	0.008***	0.007***	0.007***	0.007***
	(0.002)	(0.002)	(0.002)	(0.002)
Book ETR	0.002	0.002	0.002	0.002
	(0.005)	(0.005)	(0.005)	(0.005)
N. Analysts	0.001	0.001	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.001)
Constant	-1.079***	-1.053***	-1.061***	-1.057***
	(0.373)	(0.370)	(0.372)	(0.372)
Obs.	1,600	1,600	1,600	1,600
Adjusted R-squared	0.077	0.077	0.074	0.073
F	6.198	6.752	5.579	5.578
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes

Table 8 – Profitability (ROE) and type of demand by activist campaigns – full sample

This table presents the results for the type of demand by activist shareholders. The interactions with the Activism variable account for the main types of demands set by activist shareholders in their campaigns, as follows: *Board Control* refers to the aim of activist shareholders to control the board of directors; *Board Representation* refers to campaigns with the primary aim of seeking board representation; *Force Sale* and *Oppose Sale* refer to demands to force or constrain the transactions of the target firm; *Hostile Acquisition* aims to persuade the target firm to engage in hostile acquisitions; *Seek Alternatives* concerns actions of dialogue with management for the benefit of shareholders with the objective of delivering greater value; *Shareholder Rights* focus on the ability to grant the right to demand a special general meeting, independent auditing, and other activities; *Spinoff* is the demand for target firms to sell themselves or to spin off units, and; *Strategic Direction* demands a shift in strategic direction. The dependent variable is the firm's ROE. Robust standard errors are in brackets, and the symbols *, **, and *** represent significant levels of 10%, 5%, and 1%, respectively.

	(1) All Period	(2) All Period	(3) All Period	(4) All Period	(5) All Period	(6) All Period	(7) All Period	(8) All Period	(9) All Period	(10) All Period
Activism	-0.023**	-0.051***	-0.031***	-0.029***	-0.029***	-0.026**	-0.027***	-0.029***	-0.026***	-0.043***
	(0.010)	(0.011)	(0.009)	(0.009)	(0.009)	(0.011)	(0.010)	(0.009)	(0.009)	(0.012)
Activism × Board Control	-0.065**									-0.045*
	(0.026)									(0.027)
Activism × Board Representation		0.055***								0.048**
		(0.018)								(0.019)
Activism × Force Sale			0.072							
			(0.070)							
Activism × Hostile Acquisition				-0.019						
				(0.053)						
Activism × Oppose Sale					-0.038					
					(0.108)					
Activism × Seek Alternatives						-0.013				
						(0.019)				
Activism × Shareholder Rights							-0.011			
							(0.023)			
Activism × Spinoff								-0.021		
								(0.047)		
Activism × Strategic Direction									-0.120***	
									(0.042)	
Obs.	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105
Adjusted R-squared	0.058	0.060	0.057	0.056	0.056	0.056	0.056	0.056	0.059	0.061
F	11.106	11.375	10.299	10.146	10.109	10.241	10.137	10.181	11.566	10.682
Other Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table 9 – Profitability (ROA) and type of demand by activist campaigns – full sample

This table presents the results for the type of demand by activist shareholders. The interactions with the Activism variable account for the main types of demands set by activist shareholders in their campaigns, as follows: *Board Control* refers to the aim of activist shareholders to control the board of directors; *Board Representation* refers to campaigns with the primary aim of seeking board representation; *Force Sale* and *Oppose Sale* refer to demands to force or constrain the transactions of the target firm; *Hostile Acquisition* aims to persuade the target firm to engage in hostile acquisitions; *Seek Alternatives* concerns actions of dialogue with management for the benefit of shareholders with the objective of delivering greater value; *Shareholder Rights* focus on the ability to grant the right to demand a special general meeting, independent auditing, and other activities; *Spinoff* is a demand on target firms to sell themselves or to spin off units, and; *Strategic Direction* demands a shift in strategic direction. The dependent variable is the firm's ROA. Robust standard errors are in brackets, and the symbols *, **, and *** represent significant levels of 10%, 5%, and 1%, respectively.

	(1) All Period	(2) All Period	(3) All Period	(4) All Period	(5) All Period	(6) All Period	(7) All Period	(8) All Period	(9) All Period	(10) All Period
Activism	-0.014***	-0.029***	-0.019***	-0.018***	-0.017***	-0.017***	-0.014**	-0.017***	-0.016***	-0.024***
	(0.005)	(0.006)	(0.005)	(0.005)	(0.005)	(0.006)	(0.005)	(0.005)	(0.005)	(0.006)
Activism × Board Control	-0.037**									-0.027
	(0.017)									(0.017)
Activism × Board Representation		0.029***								0.025**
		(0.010)								(0.01)
Activism × Force Sale			0.064							
			(0.047)							
Activism × Hostile Acquisition				0.033						
				(0.030)						
Activism × Oppose Sale					-0.024					
					(0.056)					
Activism × Seek Alternatives						-0.002				
						(0.010)				
Activism × Shareholder Rights							-0.023**			
							(0.011)			
Activism × Spinoff								-0.013		
								(0.024)		
Activism × Strategic Direction									-0.056***	
									(0.021)	
Obs.	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105
Adjusted R-squared	0.063	0.065	0.062	0.061	0.061	0.061	0.062	0.061	0.062	0.064
F	11.374	12.092	11.151	11.202	11.070	11.085	11.240	11.085	12.060	10.951
Other Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes