Insider Activism*

Mitch Towner† Aazam Virani ‡

March 2017

Abstract

We show that inside shareholders use activist tactics to influence firm policies, which we term insider activism. We contrast insider activism with hedge fund activism and find that insider activists have larger stakes in the firm, employ more aggressive tactics, and are more likely to seek board representation or control. The targets of insider activism are smaller, have less institutional ownership, and spend more on R&D than hedge fund targets. Insider activist campaigns are less successful than hedge fund activist campaigns in meeting their objectives, but they are associated with improvements in value and operating performance. Our analysis therefore suggests that insider activism is an effective governance mechanism that plays a distinct and complementary role.

*We are grateful to Nick Gantchev, Hong Zhao and conference and seminar participants at the 2016 Arizona Junior Finance Conference and the University of New South Wales for helpful comments. We also thank Dennis Galinksy, Daniel Nikolic, Theodore Wolter, and Ye (Emma) Wang for research assistance.

†McClelland Hall, Room 315K, Eller College of Management, University of Arizona, 1130 E. Helen St., Tucson, AZ 85721, mitchtowner@email.arizona.edu.

‡McClelland Hall, Room 315F, Eller College of Management, University of Arizona, 1130 E. Helen St., Tucson, AZ 85721, avirani@email.arizona.edu

1 Introduction

Ever since the seminal work of Jensen and Meckling (1976), corporate governance has focused on the agency problems associated with the separation of ownership and control. Shareholder activism is one mechanism that has been increasingly used to address these issues. This typically entails institutional investors with arms-length relationships to firms, such as hedge funds, acquiring a concentrated stake, involving themselves more closely in the firm and prodding insiders to bring about value-enhancing corporate changes (e.g. Brav et al. (2008)).[1] Jensen (1989) attributes the emergence and effectiveness of such activist investors, in part, to the strong incentives they face from having substantial equity ownership. However, insiders such as founders, CEOs and directors themselves often hold sizable equity stakes in the firms they are affiliated with and the tactics available to activist investors are also available to insiders. In addition, they possess firm-specific expertise and potentially valuable private information. Therefore insiders have the incentive, ability and tools to engage in activist monitoring of other managers and insiders, but do they do so?

We find that insiders such as founders and current or former executives employ activist tactics to bring about corporate changes and term this insider activism. Insider activism has not seen academic scrutiny before and interesting questions on insider activism are thus yet to be answered. What types of insiders engage in activism? What are the objectives pursued by insider activists? What tactics do they employ? What firms do they target? How successful are insider activists and are their efforts value enhancing? How do insider activists differ in these dimensions from other activists? We shed light on these questions in our study by examining campaigns that involve insider activists and contrasting them with hedge fund activist campaigns.

Insider activists differ from hedge fund activists in several key ways. First, as individual investors, insider activists are likely to face capital constraints that prevent them from owning equity stakes firms that are as substantial as those held by hedge funds, particularly in larger firms. Second, insider activists are likely to have both longer holding periods for their stakes in target firms in the past, and a greater expected holding horizon in the future. Third, insider activists possess greater incentives to extract private benefits. Furthermore, as a result

[1] According to a recent article in the Economist, the total assets under management for hedge fund activists have increased from under \$35 billion in 2008 to over \$120 billion in 2014. "Activist Funds: An Investor Calls" February 7th, 2015

of their relationship with target firms, insiders are likely to possess private and potentially valuable information about their target firms, as well as industry-specific expertise and human capital that differs from that possessed by other activists. These characteristics suggest that potential differences exist between insider activists and other activists in the objectives they pursue, the tactics they employ, the firms they target, and their levels of success.

We focus on a sample of publicly-disclosed activist campaigns that we obtain from Factset's SharkWatch corporate activism database which are between 2000 and 2015. For the subset of campaigns that involve individual activists, we hand-collect data on the activists' relationships to the target firm through an extensive process. We read through the 13D and 14A SEC filings made in connection with the activist campaigns and the campaign synopses provided by Factset and supplement these with web searches on the individual activists involved. This allows us to identify and classify activists who have an existing or previous relationship with the firm. We find that 8.3% of 2139 campaigns in our sample involve activists who are either current or former CEOs, chairs, presidents, directors, founders or other employees of the target firm. Many of these campaigns involve several insider activists.

We find that insider activists are more likely to seek board representation or control of the board as a campaign objective than other activists. This is consistent with the view that insiders, who have a more long-term relationship with target firms, perceive a greater benefit from securing sustained influence over the firm. Hedge fund activists are in contrast more likely to seek specific changes to corporate policy, such as divesting under-performing assets or reducing cash holdings (Clifford, 2008), with the goal of selling their stake in the near term.

Next, we find that insider activists are more likely to employ aggressive tactics than other activists. A proxy fight is launched in 58.2% of the insider activist campaigns compared to 26.6% for hedge fund activist campaigns. This is consistent with insider activists having exhausted less confrontational tactics, which they are likely to have attempted in private before the resorting to a more aggressive campaign. Furthermore, insiders are more likely to contact other shareholders directly and propose binding proposals, whereas hedge fund activists are more likely to disclose behind the scenes discussions with management. Finally, given that insider activists are more likely to use campaigns to strengthen their influence over the firm, they are likely to experience stronger resistance from other insiders and members of management which may necessitate more aggressive tactics.

In addition, we find insider activists accrue larger stakes in their targets than hedge funds. We posit that a problem exists because insiders cannot offer other shareholders, whose support they require, a credible commitment to not extract private benefits if they are successful in extending their influence over the firm. This problem is mitigated if the insiders' stakes in the target firm are sufficiently high because their private cost of consuming private benefits increases with the size of their stake in the firm. Furthermore, to the extent that insiders are able to own larger stakes only in smaller firms because of the capital constraints they face, we expect the targets of insider activist campaigns to be smaller firms and find that this is the case. Finally, we find that hedge fund targets have higher institutional ownership, which is consistent with the extant literature that finds hedge fund activists rely on institutional investors support to sway management.

Furthermore, we find that targets of insider activist campaigns are undervalued and have experienced poor recent performance relative to a matched sample of firms, as well as the targets of hedge fund activist campaigns. This suggests that insider activism tends to emerge in extreme cases of underperformance. We also find that targets of insider activists have more R&D spending. Given that hedge funds tend to target firms with high institutional ownership (Brav et al., 2008) and insiders have firm-specific knowledge, this suggests that insider activists play a complementary role to hedge fund activism by using their comparative advantages and communicating with other shareholders.

Lastly, we find that announcement returns for insider activist campaigns are positive and comparable to the returns around hedge fund campaign announcements, though smaller for some types of campaigns. We also find that insider activist campaigns are less likely to meet their objectives across all campaign types. However, we do find that there are improvements in operating performance following insider activism. Taken together, our evidence suggests that insider activists may be less successful than hedge fund activists in some instances, but that despite this, they bring about improvements in value and performance.

Our paper contributes to the literature on shareholder activism. Most research has examined activism by arms-length investors such as hedge funds (e.g Brav et al. (2008), Klein and Zur (2009)) and pension funds (e.g. Carleton et al. (1998), Gillan and Starks (2000)). We show that insiders, as shareholders themselves, make use of the tactics used by other activists to monitor and discipline other insiders and bring about improvements in value and performance. We identify significant differences in the types of objectives, tactics and target firms of insider activists versus hedge fund activists. We also show that the types of firms targeted by insider activists are less likely to be targeted by hedge fund activists. Taken together, this suggests that insider activists play a distinct role in corporate governance that is a complement to hedge fund activism rather than a substitute.

Our paper is closely related to recent work by von Lilienfeld-Toal and Schnitzler (2015), who examine announcement returns around all 13D filings from 1985 through 2012, for different types of filers including insiders. They find that the identity of the filer is less important than the size of the stake and the effort the activist puts forth as proxied for by the length of the filing text. our thorough hand-classification process allows us to shed light on important aspects of the campaign such as the identities of the activists, the characteristics of the targets, the purpose of the campaign, the tactics employed, and the outcome, which is not feasible for their sample.

If the insider-led campaigns we observe materialize only after a series of less confrontational tactics have been attempted (e.g. Gantchev (2013)), this suggests that insider-led governance efforts are likely to be more frequent and pervasive than we observe. Insider activism may therefore represent the tip of a large iceberg that represents the active involvement of insiders in corporate governance.[2] Therefore, a broader implication of our paper is to add insider activism to the existing view of corporate governance, which encompasses board monitoring of managers (e.g. Adams et al. (2010)), compensation incentives (e.g. Jensen and Murphy (1990)), the market for corporate control (e.g. Jensen and Ruback (1983)), activist outside investors (e.g. Black (1998)), and regulation (e.g. Larcker et al. (2011)).

2 Activist Campaigns

Shareholder activism encompasses a variety of actions that shareholders undertake to bring about a change in the management or operations of a firm. These include expressing their view of the managements' performance by selling and purchasing shares, communicating their views directly to management, leading a proxy fight against the existing management team, or attempting to take complete control of the firm (Gillan and Starks, 2000). Activist

[2] von Lilienfeld-Toal and Schnitzler (2015) indeed document that there the number of 13D filings made by insiders dwarfs the number of campaigns that we observe.

campaigns can broadly classified into three types: other stockholder campaigns (public disclosure of contact with management), exempt solicitations, and proxy fights. A typical example of other stockholder campaigns includes a press release detailing a letter the activist sent to management with requests for corporate change. Exempt solicitations involve activists communicating with other shareholders of the company without soliciting proxies. This is considered to be a less costly form of activism than a proxy contest, but more expensive than publicly communicating its intent (Wilcox, 2011).

Proxy fights, consist of formally soliciting proxies to other shareholders in support of a resolution that is opposed by management and are accompanied by a Schedule 14A filing made with the SEC. These can be further split into three types: control contests, short-sale contests, and issue contests. A control contest is when the dissident attempts to receive a controlling board position. Short-sale contests request non-controlling board seats. Issue contest request operational changes by the target. The vast majority of proxy fights are either issue contests or short-sale contests.

Many activist campaigns commence with a Schedule 13D filing. An investor is required to file an initial 13D if the investor passes the 5% threshold of beneficial ownership in a publicly listed company and has plans to take an active role. Investors that cross the 5% threshold without any intention of taking an active role can file a shortened Schedule 13G. Activists have an obligation to submit 13D filings within 10 days of crossing the 5% threshold and the form includes details on the class of securities acquired, the identity of the activist blockholder, the source of funds, a description of their intent, the day they crossed the threshold, and the amount of securities they hold.

Hedge funds manage largely unregulated capital, have the ability to hold concentrated positions, can use financial leverage, and employ derivatives in their portfolios. They also face steep financial incentives and are less likely to be beholden to the management of firms. For these reasons, hedge funds are thought to be particularly effective activists compared to other types of investors (Boyson and Mooradian, 2011). Hedge funds are known to use a sequence of increasingly aggressive and costly tactics to bring about changes at firms they invest in (Gantchev, 2013). They typically start with a conversation with management, which can escalate to more formal communications via press releases and specific proposals if management is unresponsive. If they remain dissatisfied with the management' response they may initiate a proxy fight, litigation, or in some instances, attempt to take complete control of the company themselves.

Existing research (e.g. Brav et al. (2008), Klein and Zur (2009), (Clifford, 2008), and (Greenwood and Schor, 2009)) finds that hedge fund activists propose a wide variety of improvements including strategic, operational, and financial. The targets receive large positive and persistent abnormal announcement returns and acquiesce to requests the majority of the time, altering investment strategies and mitigating cash flow agency concerns. Figure 1 (a) plots the frequency of activist campaigns since 2000.[3] The number of campaigns has steadily increased with the exception of a drop-off following the financial crisis. In 2015 there were 421 campaigns launched, over twice as many as 10 years before. Over half (52%) of all campaigns include at least one hedge fund.

2.1 Insider Activism

In addition to activist campaigns initiated by institutional investors, there are a variety of campaigns that are launched by individual investors. We term an activist campaign as insider activism if one or more of the dissidents who initiated the campaign was an individual with an existing or a previous working relationship with the target firm without an institutional investor. We categorize such individuals according to the nature of their (non-mutually exclusive) relationships with the firm; namely CEO, chairman of the board, director, founder, president, and other employee (e.g. officer). We also distinguish between current insiders, whose relationship with firm existed at the time the campaign was initiated, and former insiders, whose relationship with the firm ceased to exist before the campaign was initiated. Many of these campaigns involve multiple individual insiders or individuals holding multiple relationships (e.g. a director who is a founder and a former CEO). For the majority of our analysis we collapse the data to a campaign-firm level.

Figure 1 (b) plots the annual frequency of activist campaigns launched by insider activists since 2000. In contrast to overall activism, the number of campaigns peaked around the financial crisis. Over half of all campaigns launched by insiders occur between 2006 and 2010. The line graph shows the percent of all activist campaigns

[3]These are campaigns according to FactSet. Prior to 2006, this was a comprehensive list of proxy fights. In 2006 they expanded their coverage to exempt solicitations and other campaigns.

that are launched by insiders. The decreasing relative frequency is both a function of the increase in hedge fund activism and a decrease in insider activism since the end of the financial crisis.

2.2 Example Campaigns

This section outlines two examples of what we classify as insider activism.

One example of an insider activist campaign is one launched by three individuals with ties to LCA-Vision, Inc launched in 2008. Stephen Joffe, founder and former chairman and CEO, Craig Joffe, former interim CEO, and Alan Buckey, former CFO, combined forces to create the LCA-Vision Full Value Committee. On November 5, 2008 they filed a 13D disclosing an ownership stake of 11% and their intent to talk with management about ways to increase shareholder value. They met with the current chairman of the board on November 13th and issued a press release on November 19th, unhappy with the fact that there has been no response to their concerns. They disclosed sending another letter to management on November 21st, saying they would do whatever it takes to increase shareholder value, to which the company responded with the adoption of a 20% poison pill. On December 4th, the committee sent another letter requesting board representation and a special shareholder meeting about the poison pill, which was rejected. On December 17th the dissidents threatened a proxy fight and the company responded by establishing a rule of 90-120 days requirement for a meeting proposal. On January 16th, 2009 the dissidents proposed a replacement slate for the board of directors and after failing to get support from Glass-Lewis Co. they withdrew the slate on March 26th.

A second example is a campaign launched against Cascade Financial Corporation on March 2nd, 2010. A current director, Craig Skotdal, filed a 13D requesting that the company nominate himself and three other individuals to the board of directors at the upcoming meeting. He owned 6.4% of the company and when combined with the other nominees the group owned 11.5% of shares outstanding. The board consisted of 12 total seats of which 4 were up for election in 2010. On April 29th, 2010 the dissidents agreed to remove their alternative slate and support managements nominations. In exchange, the company agreed to expand the board from 12 to 15 and include the 3 members of the group that were currently not members of the board.

2.3 Hypothesis Development

We contrast insider activism with hedge fund activism, which a widely discussed and studied form of activism. Although the types of objectives and tactics used by insider activists are similar to those of hedge fund activists, there are important differences between insider activists and hedge fund activists. We highlight four such differences. First, insider activists are likely to have less access to capital than hedge funds. Second, by definition, insider activists have existing relationships over a length of time with their target firms, whereas, hedge funds typically accumulate shares of the target immediately before launching the campaign with the goal of liquidating their stakes relatively soon. Therefore, insider activists have a longer investment horizon. Third, insider activists who, by virtue of their close relationship with the target firms along with non-pecuniary incentives, generally possess a greater ability to extract private benefits. Finally, as a result of their relationship with target firms, insiders are more likely to possess private industry- and/or firm-specific expertise and human capital that differs from that possessed by hedge fund activists.

These characteristics of insider activists suggest that differences may exist between insider activist campaigns and hedge fund activist campaigns in the relative frequency of campaign objectives, the use of specific tactics, types of firms targeted, and outcomes of the campaigns. We now motivate our hypotheses along each of these dimensions.

Campaign Objectives

The longer investment horizon that insider activists have in their target firms suggests that they may receive a greater benefit from having a sustained stronger influence over the firm, in order to make numerous corporate changes over the long-term. Furthermore, insider activists motivated by private benefits may seek to extend their influence over the firm in order to secure and increase their access to these private benefits. Therefore, insider activists are likely to use their campaigns to extend their influence over the firm. Meanwhile, hedge fund activists have relatively stronger financial incentives and are more likely to be satisfied with improving corporate policies to increase shareholder value within a relatively shorter horizon. Accordingly, we expect the objective of campaigns involving insider activism to be more oriented toward gaining board representation and securing board control than campaigns not involving insiders.

Hypothesis 1: The objectives of activist campaigns involving insiders are more likely to be board representation or board control.

Tactics

Activism often follows a sequence in which an activist chooses a more aggressive tactic following the failure of more friendly approaches (Gantchev, 2013). For instance, activists such as hedge funds often begin by initiating a dialogue with management and may issue a press release disclosing this conversation (Becht et al., 2010), and then resort to more confrontational tactics only if this fails. Insider activists, by virtue of their relationship with the firm, are likely to also have informally communicated with other insiders, yet they are less likely to disclose these conversations. Insider activists are therefore more likely to be observed in our data only when they resort to more aggressive tactics that become publicized.

Furthermore, to the extent that insider activists use campaigns to strengthen their influence over the firm by obtaining board representation and securing board control, they are likely to experience stronger resistance from other insiders and members of management. This could necessitate more aggressive tactics from the insider activists. We expect that campaigns involving insiders more likely to involve an aggressive tactics such as proxy fights and lawsuits. In addition, we expect insider to be more likely to communicate directly with shareholders and propose binding proposals, whereas hedge funds may be more likely to work exclusively with management.

Hypothesis 2: Insider activists are more likely to launch proxy fights and to use aggressive tactics.

Target Firms

On one hand, we expect insider activists to hold smaller stakes in target firms than hedge fund activists because as smaller investors they have less access to capital. On the other hand, insiders may have already accrued a large stake as part of their compensation over time. In addition, insider shareholder activists may be unable to credibly commit not to opportunistically extract private benefits at the expense of other investors whose support they may require, following a successful effort to strengthen their influence at the firm (e.g. Corum and Levit (2017)). This suggests that insider activists are less likely to receive the support of other investors than arms-length activists like hedge funds. However, because the cost of extracting private benefits to insiders is increasing in their ownership in the target firm, the commitment problem may be alleviated for insider activists with sufficiently high ownership. This suggests that insider activists require higher ownership stakes than other activists. Furthermore, to the extent that insiders are likely to have larger stakes in smaller firms, we also expect insider activists to target smaller firms.

Hypothesis 3: Insider activists have larger stakes in smaller target firms.

If, as we previously conjectured, insider activism is observed in our data when the activists resort to more aggressive and publicized tactics only after less confrontational tactics have failed, we expect to observe insider activism in more severe cases of underperformance. In other words, if one views insider activism as drastic action, it is more likely to emerge in relatively extreme situations, which suggests that insider activist targets are more likely to be undervalued firms with poor recent performance compared to other firms, as well as to other activist targets. On this note, we also conjecture that insider activism may be less likely to arise when there is greater monitoring by other investors such as institutions. Finally, if insiders possess greater firm and/or industry-specific information than other investors, we expect insiders to have a comparative advantage in leading campaigns in firms with a greater information asymmetry, such as small firms and firms that engage in more R&D activity.

Hypothesis 4: Insider activists target worse-performing and more opaque firms with less institutional ownership.

Outcome

On one hand, insider activists might be less successful because they have ulterior non-pecuniary motives, which other shareholders recognize, resulting in lower support and lower campaign success. Furthermore, if insider activists campaign objectives are viewed as more ambitious (e.g. securing board control), they are more likely to experience difficulty in leading a successful campaign. On the other hand, factors such as valuable private information, expertise and firm-specific human capital favor insider activists. This could aid campaign success rates and result in larger announcement returns and improvements in operating performance. In addition, insiders may have existing connections, relationships, and familiarity with other investors. This may help them to gather the support necessary to lead a successful campaign. While we state a directional prediction, we note the tension in this hypothesis.

Hypothesis 5: **Success rates are lower for insider activist campaigns than hedge fund campaigns.**

3 Data

We obtain all activist campaigns from Factset's SharkWatch corporate activism database announced between January 1, 2000 and December 31, 2015 for which we are able to obtain data on the total assets and book-to-market of target firms from Compustat.[4] We find 1962 activist campaigns that include hedge funds and meet the above criteria.

We identify 508 campaigns flagged by SharkWatch as involving an activist identified as an individual person. For each of these campaigns we gather further information by reading through the campaign synopses and, where applicable, through the associated 13D filings and 14A filings. We supplement these information sources by also conducting Google searches on the activists and firms. For each individual activist, we obtain information on any existing or prior relationships between the individual and the target firm. After the various filters, we have a total of 177 campaigns in our sample that involve at least one dissident with an insider activist.[5]

Table 1 details the frequency of insider campaigns based on the relationship to the firm. These categories are not-mutually exclusive because some individuals have had multiple roles in the firm and some campaigns include multiple individuals with relationships to the target. The most common insider relationship occurring in over half

[4]The database contains data on all proxy fights against U.S.-incorporated companies announced since January 1, 2001 and all other non-proxy fight activism against U.S.-incorporated companies announced since January 1, 2006.

[5]There were 6 consecutive years where a former director for American Express requested board representation. We do not view these as independent campaigns and therefore only include the first of these campaigns.

the campaigns is a director. This is the only category with more current insiders than former insiders. For the other categories there are four to six times more former insiders than current insiders. The remaining frequencies by group range from a high of 43.4% (CEOs) to a low of 12.1% (Other officers).

Factset classifies the primary campaign type into 13 different categories. These include Board Representation, a request for one or more non-controlling board seats and Board Control, an attempt to acquire enough board seats to result in a majority of board seats. In addition, there are a variety of categories to vote for or against management/shareholder proposals, along with votes in favor or against a proposed merger or unsolicited/hostile acquisition. Finally, the most common category by far is to maximize shareholder value, which consists of a variety of requests including increasing payouts, a review of strategic alternatives, or spinning off assets of the company.

We supplement these classifications with our own hand-classified categories that are more closely aligned with the extant literature (e.g. Brav et al. (2008)), to ensure we are studying their stated objectives, and to take account for that fact that campaigns can list multiple objectives.[6] We focus on five general categories: general value, board representation, board control, sale-related, and governance proposals. Additional sub-categories and a breakdown of these (non-mutually exclusive) objectives by hedge fund and insider activists are reported in Table 2.

Consistent with our first hypothesis, insider activists are more likely to request board representation, board control, and attempt an unsolicited/hostile acquisition. Hedge fund activist campaigns only have these objectives 43.6% of the time while insider activists have these objectives 70% of the time. Insiders are also significantly more likely to request governance changes, while they are less likely to make operational, strategic or general undervaluation proposals.

Table 3 breaks down the frequency of activist campaigns according to the target firm's Fama-French 12 industry. Both insider and hedge fund activists are likely to target companies in Business Equipment and Financials. Insiders are more likely to target companies in Health and less likely to target firms in Manufacturing and Shops.

[6]We restrict our focus to the two most pertinent objectives. In some cases, activists will list 5 or 6 concerns and we consider this to be a general request to maximize shareholder value.

This may suggest a bigger role for insiders in industries characterized by greater information asymmetry, consistent with insiders having more firm-specific expertise.

Panel A of Table 4 breaks down the type of campaign by activist identity and shows that insider activist campaigns are more likely to take the form of a proxy fight (58.2% of campaigns) than hedge fund activists (26.6% of campaigns). Insider activists are also significantly more likely to pursue corporate control contests, the most aggressive type of campaign. Sharkwatch reports a more detailed classification campaign tactics which we report in Panel B. This classification indicates that insider activists are significantly more likely to send letters to other shareholders and propose binding proposals and offers, whereas hedge fund activists are more likely to threaten further action or disclose they have been discussing issues with management.

For each activist target, we obtain accounting data for the campaign target firms from Compustat, return data from CRSP, and institutional ownership 13F data from Thomson Reuters. We correct for known errors in the holdings data.[7] All variables used are described in Appendix A.

In subsequent analysis, we compare insider and hedge funds activist targets to each other as well as to sample of matched firms that are not activist targets. Specifically, for each activist target firm, we select a firm in the same Fama-French 12 industry and year that is the has the closest market-to-book ratio out of the 10 firms that are closest in total assets (5 smaller and 5 larger). We implement this in a two-step procedure. First, we match only the campaign targets for which we have both institutional ownership data and stock returns over the prior year with other companies that have data for both of these variables. We then match the remaining campaign targets with the universe of Compustat firms without restricting matches to companies that have institutional ownership and stock return data. This enables us to compare firms at the broadest level possible (Compustat only) and further condition on other variables of interest, like stock returns and institutional ownership when necessary.

[7]See Zykaj et al. (2016), Blume and Keim (2011), and Gutierrez and Kelley (2009) for discussion of issues associated with the Thomson Reuters/WRDS 13(f) data.

4 Empirical Results

4.1 Targeting

In this section, we examine the characteristics of activist targets. Table 5 reports summary statistics for insider activist targets (Panel A), hedge fund activist targets (Panel B), and a sample of firms matched on size, industry, and book-to-market (last two columns of Panels A and B, respectively). Asterisks in Panel A indicate statistically significant differences between insider activists and the matched sample of firms. Asterisks on the hedge fund summary statistics in Panel B indicate statistically significant differences between hedge fund and insider activists. Finally, asterisks on the final two columns of Panel B indicate statistically significant differences between hedge fund activists and the matched sample of firms.

Comparing insider activist targets to their matched firms and to hedge fund activist targets, several salient differences emerge. We find that insider activists own 16% of the shares of their average target, while hedge fund activists only own 9%. A further difference in ownership structure is evident with hedge funds targeting firms with significantly higher institutional ownership (61% vs. 41% on average). Consistent with these ownership differences, the median insider activist target is one third the size of the median hedge fund target. These results are all consistent with our third hypothesis.

In addition, insider activists have worse recent performance than their matched sample and hedge fund targets, as measured by both ROA and stock returns. Finally, insider activist targets have more R&D spending then hedge fund activists on average, which is consistent with insiders having firm-specific information about opaque firms and our fourth hypothesis. Other firm traits are not statistically significant across groups. Hedge fund activists have more statistically significant differences with their matched sample than insider targets do with their matched sample, perhaps as a result of greater statistical power given the larger number of observations. Specifically, hedge fund targets have more cash, lower payouts, worse recent performance, more R&D, and more institutional ownership than their matched sample of firms.

We find that insider campaigns are significantly shorter than hedge fund campaigns. This may be a result of the more aggressive tactics they employ, which results in quicker resolutions. Alternatively, there may also be a longer-standing dispute between insider activists and firms that takes place in private before the campaign is publicly announced (e.g. Gantchev (2013)). This is also consistent with subsequent analysis that we present, finding that there is greater abnormal trading volume around hedge fund campaign announcements than insider campaign announcements (Panels A and B of Table 3).[8]

We extend this analysis to a multivariate framework with probit regressions where the dependent variable is equal to one if the firm was targeted by an activist campaign in the following year. The results are reported in Table 6. The samples in models (1) and (4) consist of insider activist targets and their matched sample of firms; in models (2) and (5) the sample consists of hedge fund activists targets and their matches; in models (3) and (6), the sample consists of insider and hedge fund activist targets. Models (1)-(3) only include firm characteristics from Compustat as control variables, while the models (4)-(6) include stock returns and institutional ownership as additional independent variables of interest, limiting the sample to firms for which the data are available.

Both hedge funds and insiders target firms have poor recent performance as measured by ROA. Hedge fund targets also hold more cash, have more debt, and have more institutional ownership relative to their matched firms, consistent with findings in the existing literature. Comparing insider to hedge fund activists (models (3) and (6)), we find insider targets have are more poorly-performing as measured by both ROA and stock returns, are smaller in size, have less institutional ownership, and more R&D spending. These results mirror our univariate findings, third and fourth hypotheses. The results of this section broadly suggest that insider activists target firms that differ from hedge fund activist targets in several key ways.

4.2 Abnormal Returns and Share Turnover

In this section, we examine the market reaction to initial 13D filings and the announcement of insider and other activist campaigns to test our hypothesis that insider activism is less successful than hedge fund activism.

[8] In analysis that we do not tabulate, we examine the accumulation of shares by insider activists reported in the Thompson Reuters Insider Trading Database. We are able to link activists from 124 insider campaigns to the database and do not find any abnormal increase in the accumulation of shares by insiders prior to the campaign. We interpret this as being consistent with insiders having held their stakes for a longer time period in contrast to hedge funds.

About 78% of activist campaigns in our sample begin with a 13D filing, which is when the activist group discloses that it has acquired a stake exceeding 5% with active intent. The existing literature has focused on market reactions around 13D filing dates (e.g. Brav et al. (2008); von Lilienfeld-Toal and Schnitzler (2015)). The announcement date recorded for the campaign represents the date on which the activist takes a publicly-disclosed action to commence the campaign, and coincides with the 13D filing date for 47% of the campaigns (21% for insider activists and 48% for hedge funds). At this date, information about the specific objectives of the activist is typically revealed. As both dates are associated with new information, we expect to observe a market reaction around them. Furthermore, if value-enhancing changes are expected from the activists, we expect positive abnormal returns.

Figures 2 and 3 plot the cumulative abnormal returns (CARs) as well as the abnormal turnover (see Table A1 for definitions) over the 41 day period centered around any initial 13D filing and campaign announcement date recorded in FactSet. In both figures, Figures (a) plot CARs and abnormal turnover for hedge fund targets and figures (b) for insider targets, while (c) and (d) break down the CARs for hedge fund and insider targets by the campaign objective (see Table 2).

Figure 2 (a) and (b) show that both insider and hedge fund targets exhibit large (9 and 7%) CARs over the 41 days around the initial 13D filing. These results are broadly consistent with what Brav et al. (2008) and Klein and Zur (2009) have reported for hedge fund activists, which point to the market expecting value improvements from hedge fund activist campaigns on average. Both groups of target firms exhibit a run-up prior to the filing date, with insider targets having a run-up starting earlier at day -20, while hedge fund targets' run-up begins at day -10. The longer/earlier run-up potentially accounts for insider targets having larger total CARs on average.

Hedge fund targets have greater abnormal turnover in the days preceding the 13D, consistent with insider already having a large stake in the firm, while hedge funds are acquiring shares to get to the 5% threshold. However, as Brav et al. (2008) point out, several explanations may be consistent with this pattern of abnormal turnover. Panel (c) shows that the CARs for hedge funds exhibit a similar pattern regardless of their objective, with the largest returns associated with Sale-Related campaigns, Panel (d) paints a different picture for insider targets, where CARs vary more significantly across the objectives, with General Value and Sale-Related campaigns having the largest CARs.

Similarly, Figure 3 (a) and (b) shows that both hedge funds and insider activist targets exhibit positive abnormal returns around the campaign announcement on average. For hedge fund targets the run-up is similar to 13D filing dates whereas there is no signficant run-up for insider targets. Hedge fund targets also exhibit larger CARs (6% versus 4%) and more abnormal turnover than insider targets on average.

Figure 3 (c) shows again that hedge fund activist targets receive a similar pattern across all objective types, with sale-related and board control campaigns having the largest abnormal returns. Figures 3 (d) indicates that the CARs for insider targets again vary widely with the campaign objective. The positive CARs in Figure 3 (b) appear to be driven solely by sale-related campaigns, which have the largest returns around the campaign announcement and exhibit a significant run-up prior. Besides this, only campaigns aimed at obtaining board representation show some evidence of positive abnormal returns, and campaigns with an objective of general value maximization in fact exhibit negative abnormal returns following the announcement. This suggests that the market does not expect as much value improvement from insider-activist campaigns. Alternatively, if news about the ongoing efforts of insider activists already exists prior to the announcement as we find in Figure 2, the information content of the campaign announcement is likely to be less significant.

We also examine the CARs using multivariate analysis. Table 8 reports the results from OLS regressions with the dependent variable equal to the CARs in the (-1,+5) and (-10,+10) windows around the initial 13D filings, in models (1)-(3) and (4)-(6) respectively. Models (1) and (4) include an insider activist indicator, objective indicators, their interactions, and the activists' group stake. Models (2) and (5) add a firm size, Tobin's q, cash, ROA, and debt as controls. In models (3) and (6) we restrict the sample to campaigns that take the form of proxy fight. Given that insiders are more likely to launch proxy fights, this facilitates a comparison between campaigns of the same level of aggression.

In general, there is no clear evidence that the CARs vary significantly across objectives. Contrasting Figures 2 (a) and (b) suggests that this is driven by hedge fund targets. There are exceptions in some instances, with General Value (models (1)-(3)), Board Control (models (3), (4), and (6)), and Sale-Related (model (3)) campaigns exhibit higher CARs than other objectives. Neither the insider activist indicator, nor any of the interactions between the insider activist indicator and the objective indicators are statistically significant. In contrast to Figures 2 (c) and (d), this suggests that the reactions to insider activist campaign announcements are not significantly different from the reactions to hedge fund activist campaign announcements. None of the firm characteristics are statistically significant across the specifications, except Tobin's q which is negative and statistically significant in models (2) and (5), suggesting that CARs are higher for campaigns involving undervalued firms. Finally, the ownership stake of the dissident (activist) group is positive and statistically significant in models (1)-(2) and (4)-(5), suggesting that activists with larger ownership stakes are expected to be more successful. This is consistent with our view that the activists' ownership stake is an important factor in how insider activism arises.[9]

We repeat the analysis for CARs around campaign announcements and the results are reported in Table 9. The results are broadly similar to 13D filing CARs. The strongest conclusion we draw is that the CARs are increasing with the activists' ownership stake. Sale Related campaigns exhibit statistically significantly larger returns than other campaigns. In addition, poorly-performing firms and under-valued, as measured by ROA and Tobin's q respectively, exhibit larger CARs.

Taken together, the results from this section provide us with two broad conclusions. First, the abnormal returns around insider activist campaign announcements are positive and not inferior to the abnormal returns around hedge fund activist campaigns on average. Second, the ownership stake of the activist is an important determinant of the abnormal returns and potential success. To the extent that insiders have larger stakes, as we find, their ownership is an important factor in their campaigns.

4.3 Campaign Success

In this section, we further examine the success rates of insider and other activist campaigns. However, whereas in the previous section we focused on abnormal returns around the campaigns' commencement, here we focus on the outcome of the campaign. In particular, we examine the extent to which insider activists are able to achieve their stated campaign goals and compare this to hedge fund activists. To measure campaign success, we read

[9]In untabulated analysis, we also include an interaction of the insider activist indicator with activist ownership and find that the interaction is not statistically significant. This suggests that ownership is not more important for insider activists than hedge fund activists.

through the campaign notes provided by FactSet and also supplement this with web searches for news articles about the outcome of the campaign. We classify a campaign as being a successful if the firm implemented at least one of the activists' stated objectives.[10] Table 7 summarizes the success rates of hedge fund and insider activist campaigns and breaks this down by the category of the campaign objectives.

Hedge fund activists are on average successful in over half of their campaigns. They are most successful in campaigns aimed at securing control of the board (70.4%) and are least successful in campaigns aimed at general value maximization (41.5%). In contrast, insider activists are less successful than hedge funds regardless of campaign type. They are most successful in sale-related campaigns (47.5%) and campaigns aimed at securing board representation (51.7%) or control (46.0%) and similar to hedge fund activists, are least successful in general value maximization campaigns (28.6%).

We also extend this analysis to a multivariate setting to further examine how campaign success varies between hedge fund and insider activists. Our dependent variable of interest is an indicator of whether the campaign was successful as defined above. We pool insider and hedge fund activist campaigns and include as our explanatory variables an indicator for insider activist campaigns, indicators for each objective category, and we interact the insider activist indicator with each objective indicator. As in the previous section, we include specifications without firm characteristics (model (1)), with firm characteristics (model (2)), and then restrict the sample to campaigns involving proxy fights (model (3)). The marginal effects are reported in Table 10.

The coefficients on the indicators for board representation, board control, sale-related campaigns and governance campaigns are positive and statistically significant implying that they are more successful than general value maximize campaigns. Specifically, campaigns for board representation and control are about 30-35% more likely to be successful than other campaigns. The coefficients on the interaction of the insider indicator with board control indicator are negative and statistically significant implying that insiders are less effective than hedge funds in running these types of campaigns. Lastly, the interaction between insider and sale related campaigns is negative and statistically significant in the column restricted to proxy fights, which means insiders aren't as effective in sale-related proxy fights.

[10] In analysis that we do not tabulate for brevity, we find similar results if we define success as the firm implementing all of the activists' stated objectives.

We also find that the coefficient on Tobin's q is negative and statistically significant, while the coefficient on size is positive and statistically significant when we include all campaigns in model (2). This suggests that activist campaigns are more effective for lower-value and larger firms. The coefficients on the other firm characteristics are not statistically significant. Taken together, the evidence in this section suggests that insider activists may be ultimately less successful than other activists, particularly when seeking board control. This may be a result of insiders being more ambitious in seeking board control more frequently. Second, consistent with our analysis of announcement abnormal returns, we find that the activist group's ownership is an important determinant of campaign success.

4.4 Operating Performance

Finally, we examine the operating performance and other financial characteristics of the target firms before and after the activist campaigns as an alternative test of our fifth hypothesis. Our primary measure of operating performance is Return-on-Assets (ROA), which we use to examine whether the activist campaigns are associated with improvements in operating performance. The ROA is adjusted by the annual median ROA of firms within the same 4-digit SIC industry and winsorized at the 95$^{\text{th}}$ percentile every year. Figure 4 (a) plots the average ROA for targets of hedge fund and insider activist campaigns over the period beginning 3 years before and ending 3 years after the fiscal year of the announcement of the campaign.[11]

The broken line, which plots the average ROA for targets of hedge fund activists, shows that over the two years leading up to the campaign the ROA drops moderately. It remains flat over the year after the campaign before it begins to increase and by the end of the third fiscal year after the campaign, the average ROA is close to its level 3 years before the campaign. The solid line, which plots the average ROA for targets of insider activists displays a broadly similar pattern. Consistent with earlier discussion suggesting that insider activists target more poorly performing firms, the average ROA is visibly lower for insider activists targets than for hedge fund targets both before and after the year of the campaign. Furthermore, the drop in the average ROA for insider activist targets leading up to the campaign year is much more significant. While the ROA recovers significantly starting

[11]To avoid survivorship bias, the samples in this section are restricted to firms for which data are available for the 3 years following the year of the campaign, though the graphs are similar if we do not impose this restriction.

from the year after the campaign, 3 years later it remains well below its level 3 years before the campaign on average.

Examing how the ROA trend varies by campaign objective shows that a broadly similar pattern across objectives for hedge fund targets (Figure 4 (b)). In contrast, for insider activist targets (Figure 4 (c)), the pattern seen in Figure 4 (a) is explained by campaigns with the objective of securing control of the board. The ROA continues to decrease on average for insider campaigns related to selling the target whereas the patterns for the other objectives appear to be less significant.

In sum, while insider activist campaigns are associated with improvements in operating performance on average, this is driven largely by campaigns with the objective of securing board control. In such campaigns, the decline in operating performance preceding the announcement is larger than for campaigns with other objectives, perhaps explaining why the drastic action of taking control of the board is attempted.

We also examine how other operating characteristics evolve before and after insider and hedge fund activist campaigns. Figure 5 plots graphs of average Tobin's q (a), payouts (b), capital expenditure (c) and leverage (d). As before, each characteristic is adjusted by the annual median of firms within the same 4-digit SIC industry winsorized at the 95$^{\text{th}}$ percentile every year.[12]

Figure 5 (a) shows broadly similar patterns in the average Tobin's q for targets of hedge fund and insider activist campaigns, which drops significantly in the period leading up to a campaign and then recovers following the campaign. Interpreting Tobin's q as the value of target firms, the data therefore indicate that both hedge fund and insider activist campaigns are associated with subsequent improvements in the valuation of target firms following a decrease prior to the campaign. This suggests that despite the absence of significant abnormal returns around insider activist campaign announcements for most objectives, the campaigns are potentially associated with improvements in firm value.

Figure 5 (b) also shows broadly similar patterns in the average payout rate for targets of hedge fund and insider activist campaigns, which on average decreases significantly in the two years leading up to the campaign

[12] We do not break down the characteristics by campaign objective because we find the patterns described below to be broadly similar across the campaign objectives.

and then recovers most significantly in the year following the campaign on average. Figure 5 (c) shows that investment, as measured by capital expenditure, decreases on average in the period leading up to the campaigns and continues to decrease following the campaigns, for both hedge funds and insider activists.

Finally, Figure 5 (d) shows that while leverage for targets of hedge fund activists remains relatively flat on average (and larger than the industry median), for insider activist targets, leverage decreases in the period prior to the campaign on average, and then shows an inconsistent pattern following the year of the campaign.

Taken together, the graphs in Figure 5 show some broadly similar patterns in the operating characteristics (with the exception of leverage) of the targets of hedge fund and insider activists before and after the campaigns. This suggests that insider activists play a similar role to hedge fund activists in bringing about corporate changes. However, evidence from our previous sections also indicates that there are differences in the types of firms targeted by hedge fund and insider activists. This suggests therefore, that rather than being a substitute for hedge fund activism, insider activism plays a complementary role.

5 Conclusion

We document that inside investors employ tactics similar to those used by other activist investors to bring about changes in firm policies. Because hedge fund activism is a widely discussed and studied form of activism, we contrast the activities of insider activists with hedge fund activists. Insider activists are more likely to seek to strengthen their influence over the firms and employ more aggressive tactics in order to accomplish this. This suggests that insiders play an active role in corporate governance, though in doing so, they are less successful than hedge fund activists in meeting their stated objectives. However, insider activists play a potentially complementary role to hedge fund activists because they target different types of firms and are associated with improvements in value and performance.

Our study brings to light the role that insiders play in governing each other. However, like other activists, insider activists are likely to first attempt to achieve their goals through less confrontational and less costly means in private. The governance efforts that we observe in the form of insider activist campaigns are therefore likely to represent a possible minority of instances where such efforts have failed and then spilled over into the public domain, a tip of a large iceberg. Our study is thus likely to underestimate the true extent of insider-led governance efforts and further research is needed to understand what takes place in the private domain.

References

Adams, R. B., Hermalin, B. E., and Weisbach, M. S. (2010). The role of boards of directors in corporate governance: A conceptual framework and survey. *Journal of Economic Literature*, 48(1):58–107.

Becht, M., Franks, J., Mayer, C., and Rossi, S. (2010). Returns to shareholder activism: Evidence from a clinical study of the hermes uk focus fund. *Review of Financial Studies*, 23(3):3093–3129.

Berle, A. and Means, G. (1932). The modern corporate and private property. *McMillian, New York, NY.*

Black, B. S. (1998). Shareholder activism and corporate governance in the united states. *The New Palgrave Dictionary of Economics and the Law*, 3:459–465.

Blume, M. E. and Keim, D. B. (2011). Changing institutional preferences for stocks: Direct and indirect evidence. *Available at SSRN 1788186*.

Boyson, N. M. and Mooradian, R. M. (2011). Corporate governance and hedge fund activism. *Review of Derivatives Research*, 14(2):169–204.

Brav, A., Jiang, W., Partnoy, F., and Thomas, R. (2008). Hedge fund activism, corporate governance, and firm performance. *The Journal of Finance*, 63(4):1729–1775.

Carleton, W. T., Nelson, J. M., and Weisbach, M. S. (1998). The influence of institutions on corporate governance through private negotiations: Evidence from tiaa-cref. *The Journal of Finance*, 53(4):1335–1362.

Clifford, C. P. (2008). Value creation or destruction? hedge funds as shareholder activists. *Journal of Corporate Finance*, 14(4):323–336.

Corum, A. A. and Levit, D. (2017). Corporate control activism. *University of Pennsylvania Working Paper*.

Gantchev, N. (2013). The costs of shareholder activism: Evidence from a sequential decision model. *Journal of Financial Economics*, 107(3):610–631.

Gillan, S. L. and Starks, L. T. (2000). Corporate governance proposals and shareholder activism: The role of institutional investors. *Journal of financial Economics*, 57(2):275–305.

Greenwood, R. and Schor, M. (2009). Investor activism and takeovers. *Journal of Financial Economics*, 92(3):362–375.

Gutierrez, R. C. and Kelley, E. K. (2009). Institutional herding and future stock returns. *Available at SSRN 1107523*.

Jensen, M. C. (1989). Eclipse of the public corporation. *Harvard Business Review*.

Jensen, M. C. and Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4):305–360.

Jensen, M. C. and Murphy, K. J. (1990). Performance pay and top-management incentives. *Journal of Political Economy*, pages 225–264.

Jensen, M. C. and Ruback, R. S. (1983). The market for corporate control: The scientific evidence. *Journal of Financial Economics*, 11(1):5–50.

Klein, A. and Zur, E. (2009). Entrepreneurial shareholder activism: Hedge funds and other private investors. *The Journal of Finance*, 64(1):187–229.

Larcker, D. F., Ormazabal, G., and Taylor, D. J. (2011). The market reaction to corporate governance regulation. *Journal of Financial Economics*, 101(2):431–448.

McCahery, J. A., Sautner, Z., and Starks, L. T. (2016). Behind the scenes: The corporate governance preferences of institutional investors. *The Journal of Finance*.

von Lilienfeld-Toal, U. and Schnitzler, J. (2015). What matters for investor activism: An investigation of activists incentives vs. activist types. Technical report, mimeo.

Wilcox, J. C. (2011). Comply-and-explain: Should directors have a duty to inform. *Law & Contemp. Probs.*, 74:149.

Zykaj, B. B., Sias, R. W., and Turtle, H. J. (2016). What drives hedge fund return clustering: Contagion or model misspecification. *Journal of Financial and Quantitative Analysis forthcoming*.

Appendices

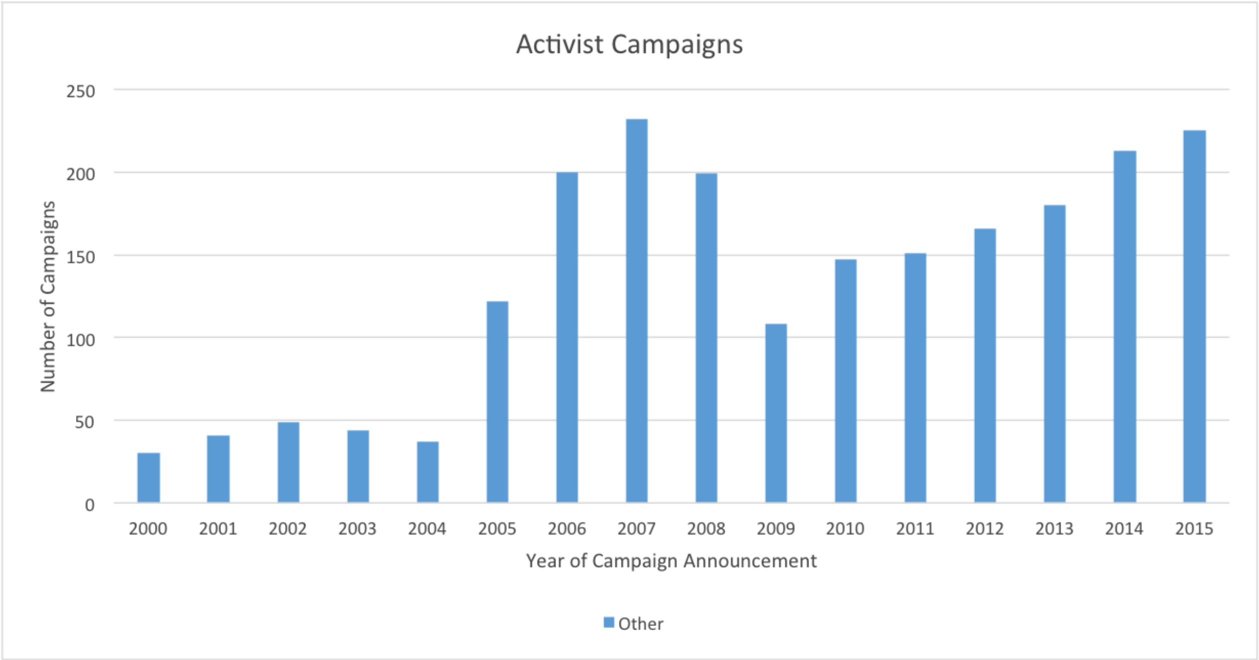
A Variable Definitions

Table A1: Variable Definitions
This table contains the definitions and descriptions of the variables used in the paper.

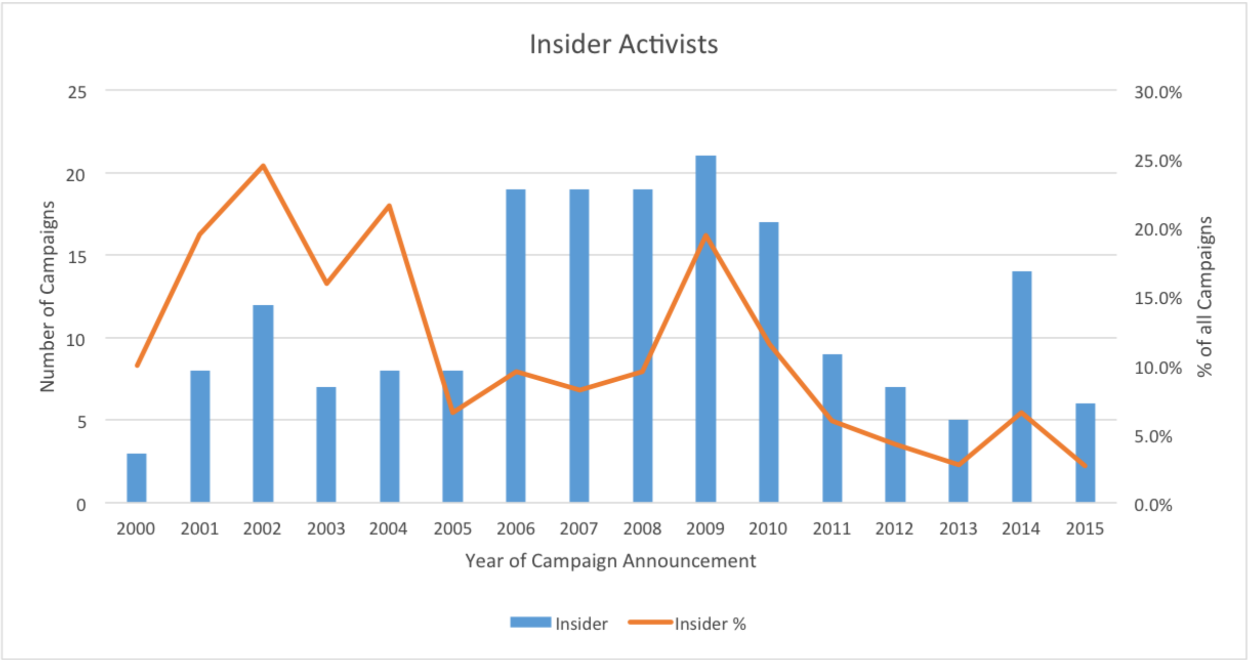
Variable	Definition
Cash	The target firm's cash and short-term investments divided by total assets (Source: Compustat).
Debt	The sum of the target firm's long-term debt and debt in current liabilities divided by total assets (Source: Compustat).
Dissident Ownership	The fraction of the target company's shares collectively owned by all the activists involved at the time that the campaign was announced (Source: Factset).
Dividend Yield	The sum of the target firm's common and preferred dividends divided by the sum of the market value of common and preferred equity (Source: Compustat).
Log(Mkt Cap)	The log of market capitalization of the target firm at the end of the fiscal year before the campaign (Source: Compustat).
Payout	The target firm's total dividends divided by income before extraordinary items (Source: Compustat).
R&D	The target firm's research and development expenses divided by total assets; set equal to zero when missing (Source: Compustat).
ROA	The target firm's net income divided by total assets, return-on-assets (Source: Compustat).
CAR(-i,+j)	The cumulative abnormal return from day -i to day +j relative to the campaign announcement computed using event study methodology with the market model (Source: CRSP).
Abnormal Turnover	Daily turnover is calculated as daily trading volume divided by shares outstanding. Abnormal daily turnover in the event period is measured relative to the average daily turnover for that firm during the (-100,-40) period relative to the event date (Source: CRSP).
Tobin's q	Total assets minus the book value of equity plus the market value of equity scaled by total assets (Sourrce: Compustat).
Campaign Length	Difference between the end date of the campaign date and the announcement date (Source: Factset).
Stock Return	The cumulative return in the year prior to the announcement of the campaign (Source: CRSP).
Institutional Ownership	The percent of shares held by institutions that file with a 13-F (Source: Thompson Reuters).

Figure 1: Activism Frequency

Panel A reports hedge fund activism frequency by year for activist campaigns as reported by Factset. Panel B reports activism frequency by year for insider activists. The orange line indicates the fraction of activist campaigns that are launched by insider activists each year.



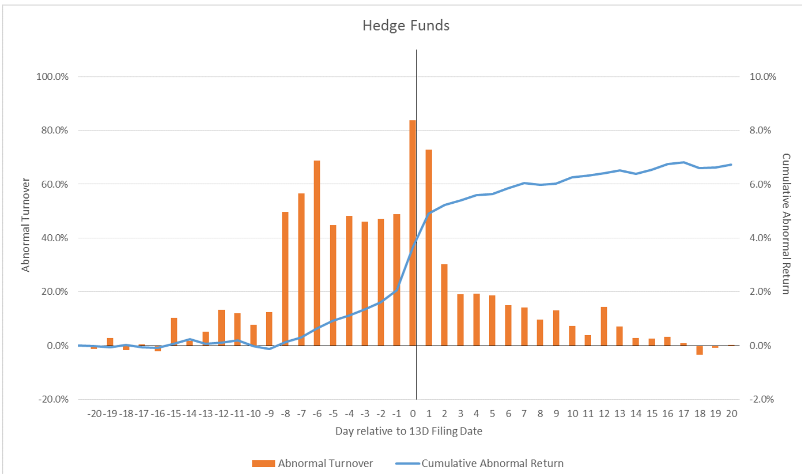
(a) All Activist Campaigns



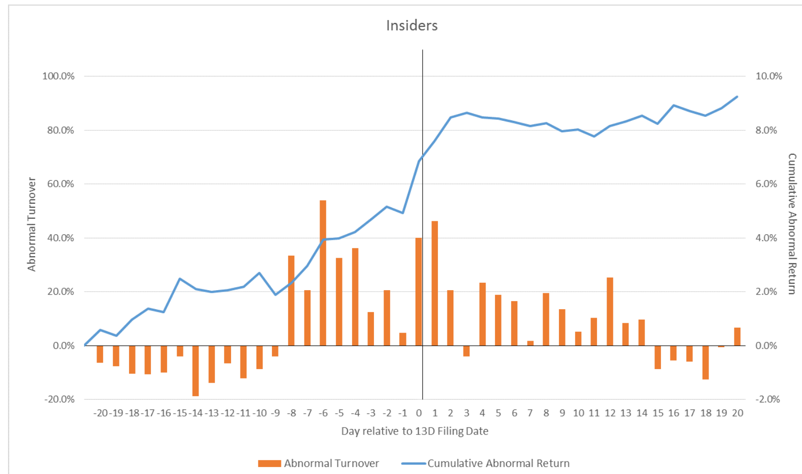
(b) Insider Activist Campaigns

Figure 2: 13D Filing CARs and Abnormal Turnover

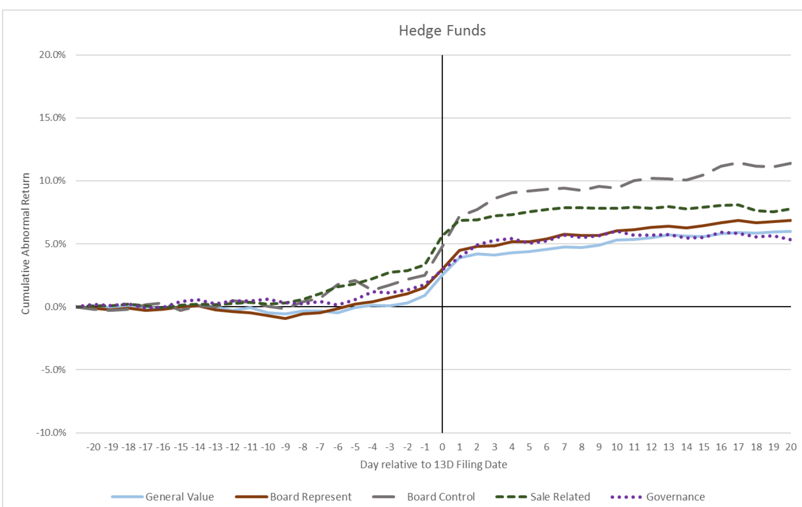
This figure plots the cumulative abnormal returns (CARs) and abnormal turnover around the 13D filing dates for hedge fund and insider activist campaigns, starting 20 days before and ending 20 days after the announcement date. Figure (a) focuses on hedge fund campaigns and (b) focuses on insider campaigns. Figures (c) and (d) plot the CARs separately by the campaign objective (see Table 2) for hedge fund and insider activist campaigns.



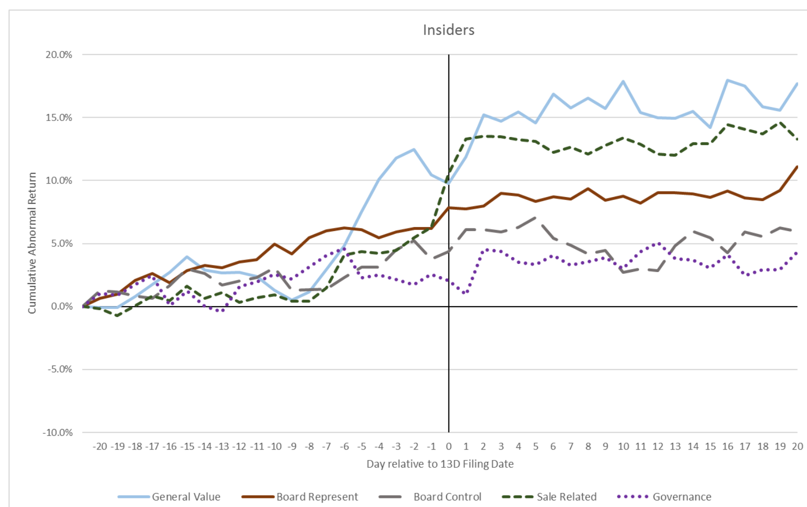
(a) Hedge Funds



(b) Insiders



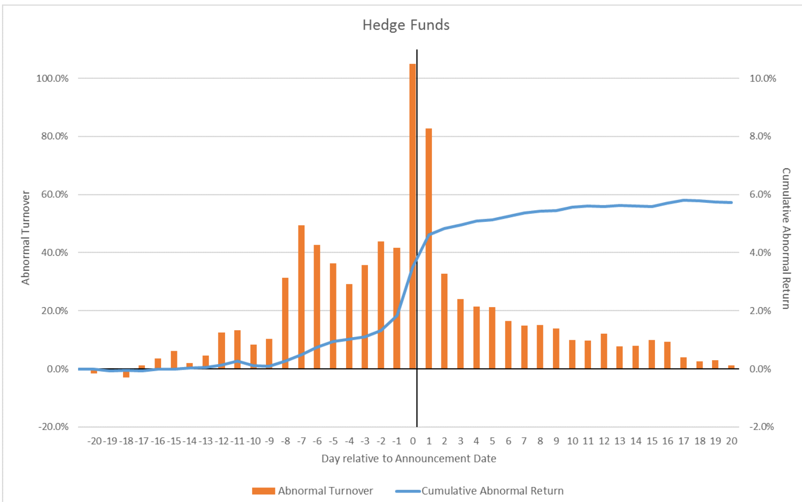
(c) Hedge Funds by Objective



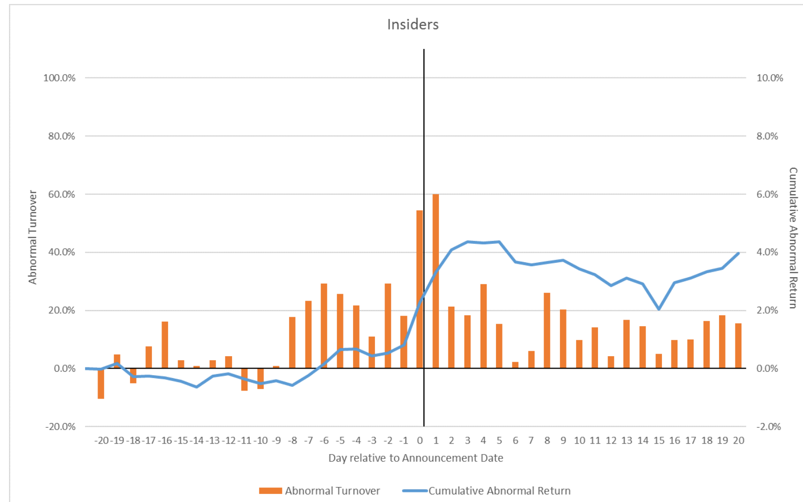
(d) Insiders by Objective

Figure 3: Campaign Announcement CARs and Abnormal Turnover

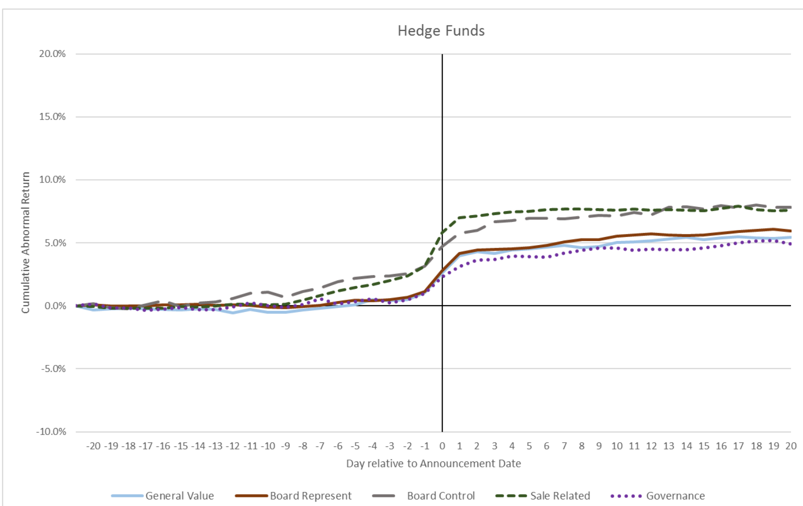
This figure plots the cumulative abnormal returns (CARs) and abnormal turnover around the announcement date for hedge fund and insider activist campaigns, starting 20 days before and ending 20 days after the announcement date. Figure (a) focuses on hedge fund campaigns and (b) focuses on insider campaigns. Figures (c) and (d) plot the CARs separately by the campaign objective (see Table 2) for hedge fund and insider activist campaigns.



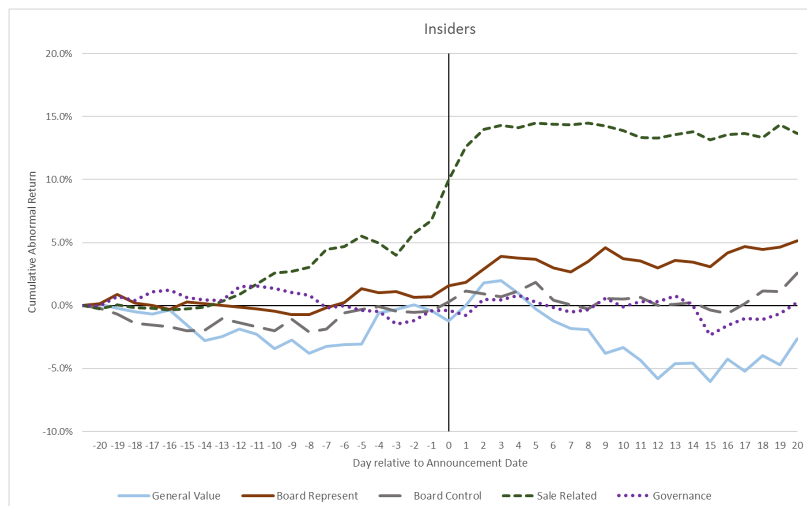
(a) Hedge Funds



(b) Insiders



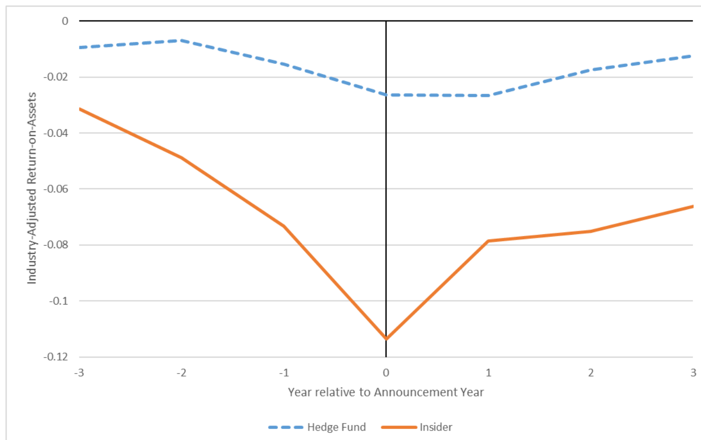
(c) Hedge Funds by Objective



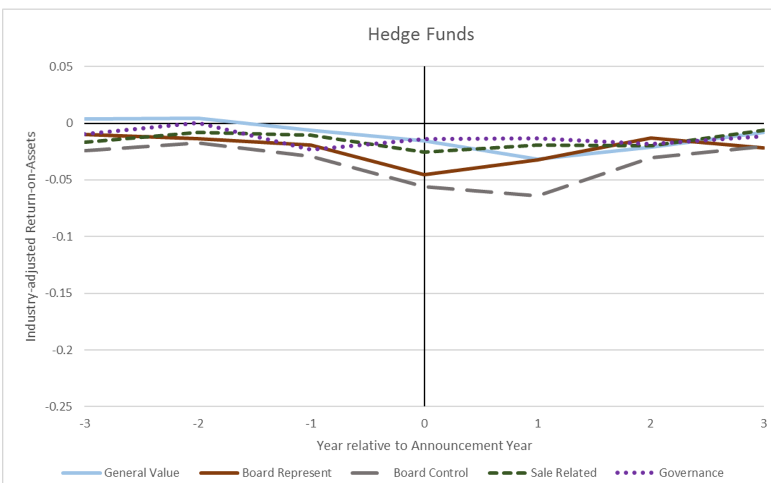
(d) Insiders by Objective

Figure 4: Operating Performance

This figure plots the average Return-on-Assets (ROA; see Appendix for definition) around the hedge fund and insider activist campaigns, starting 3 years before and ending 3 years after the fiscal year during which the campaign was announced. The ROA is adjusted annually by the median ROA of firms in the same 4-digit SIC industry and winsorized at the 95th percentile every year. Figures (b) and (c) plot the ROA separately by the campaign objective (see Table 2) for hedge fund and insider activist campaigns.



(a) Insiders vs. Hedge Funds

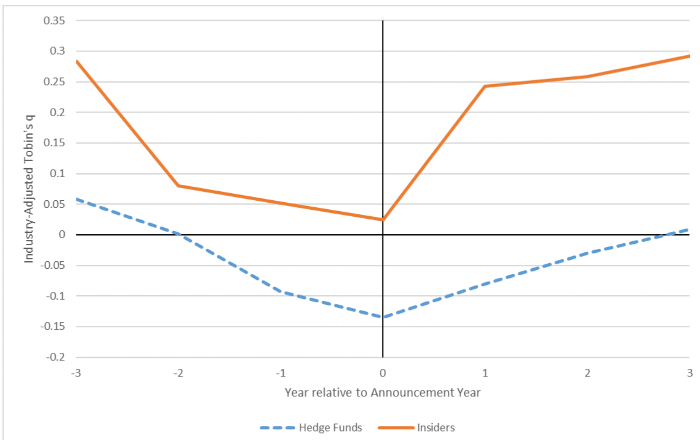


(b) Hedge Funds by Objective

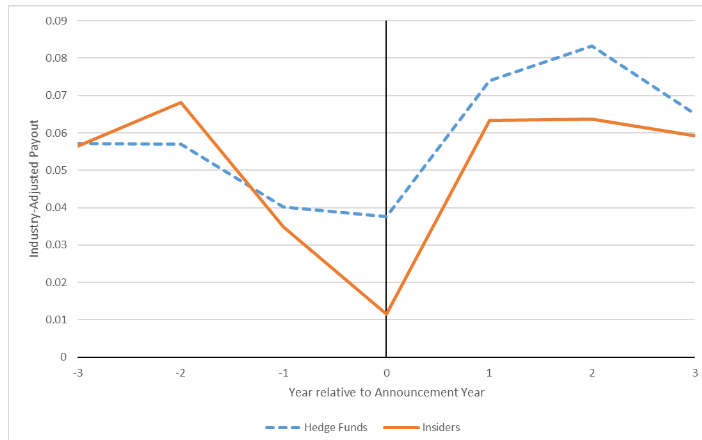
(c) Insiders by Objective

Figure 5: Other Operating Characteristics

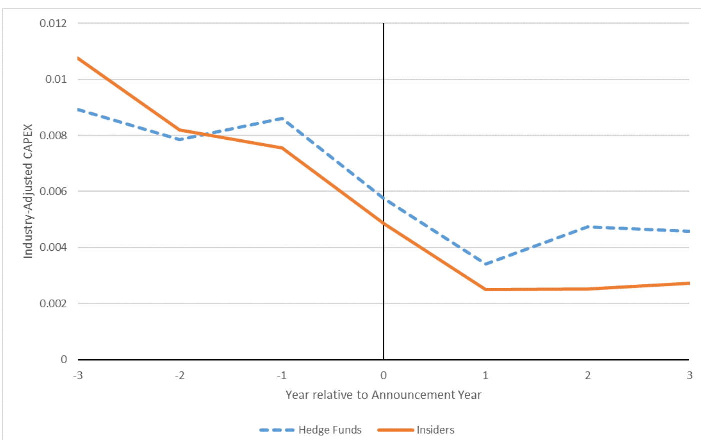
This figure plots Tobin's q (a), payouts (b), CAPEX (c) and Leverage (d; see Appendix for definitions) around the hedge fund and insider activist campaigns, starting 3 years before and ending 3 years after the fiscal year during which the campaign was announced. All variables adjusted annually by the median values for firms in the same 4-digit SIC industry and are winsorized at the 95$^{\text{th}}$ percentile every year.



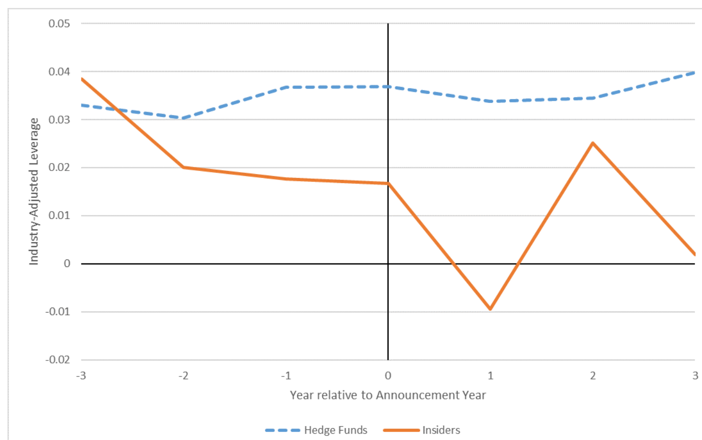
(a) Tobin's q



(b) Payout



(c) CAPEX



(d) Leverage

Table 1: Insider Activists' Relationships with Target Firms

This table summarizes the relationships of insider activists with the target firms. The relationship classifications are not mutually exclusive because insiders may have multiple roles with the company or a campaign may include multiple insiders. These frequencies are further split into those that are have a current relationship with the company at the time of the campaign's announcement (Current) and those that previously had a relationship with the firm (Former).

	All		**Current**		**Former**	
	N	% of Insider Campaigns	N	%	N	%
CEO	79	44.6%	11	6.2%	68	38.4%
Chair	70	39.5%	15	8.5%	55	31.1%
President	33	18.6%	6	3.4%	27	15.3%
Director	100	56.5%	54	30.5%	50	28.2%
Officer	22	12.4%	0	0.0%	22	12.4%
Founder	56	31.6%	26	14.7%	31	17.5%
Other	27	15.3%	13	7.3%	15	8.5%
	177					

Table 2: Frequency of Campaign Objective

This table summarizes the objectives of hedge fund and insider activist campaigns that we classify by hand. The first column indicates the category of the objective and the second column indicates the specific objective. These are not mutually exclusive because a campaign can have multiple objectives.

		Hedge Funds		**Insiders**	
		N	%	N	%
General Value	Maximize Value	295	15.0%	21	11.9%
	Capital Structure	196	10.0%	0	0.0%
Board Representation	Board Representation	629	32.1%	60	33.9%
Board Control	Board Control	152	7.7%	50	28.2%
Sale Related	Sale to 3rd Party	276	14.1%	11	6.2%
	Sale to Activist	74	3.8%	14	7.9%
	Restructure Business	152	7.7%	6	3.4%
	Stop Sale	198	10.1%	10	5.6%
Governance	Oust CEO/Chair	36	1.8%	10	5.6%
	Compensation	26	1.3%	8	4.5%
	Governance	87	4.4%	28	15.8%
	Board Proposal	97	4.9%	1	0.6%
	Total	1962		177	

Table 3: Industry Breakdown

This table summarizes the industries to which firms targeted by hedge fund and insider activists belong. The industry classification used is the Fama-French 12 industries.

Fama-French industry code (12 industries)	**Hedge Funds**		**Insiders**	
	N	%	N	%
1 Non Durables	77	3.9%	9	5.1%
2 Durables	45	2.3%	4	2.3%
3 Manufacturing	151	7.7%	4	2.3%
4 Energy	77	3.9%	6	3.4%
3 Chemicals	42	2.1%	4	2.3%
6 Business Equipment	435	22.2%	38	21.5%
7 Telecoms	83	4.2%	5	2.8%
8 Utilities	12	0.6%	2	1.1%
9 Shops	262	13.4%	10	5.6%
10 Health	212	10.8%	31	17.5%
11 Money	315	16.1%	35	19.8%
12 Other	251	12.8%	29	16.4%
Total	1962		177	

Table 4: Frequency of Campaign Tactics

This table summarizes the type of campaigns and the tactics employed by hedge fund and insider activists. Panel A reports the type of campaign led by the dissident as classified by FactSet, including whether they made a press release, made contact with other shareholders, or made a formal proxy request. Panel B reports the tactics employed by the activists as classified by FactSet

Panel A: Campaign Type

	Hedge Funds		**Insiders**	
	N	%	N	%
Exempt Solicitation	24	1.2%	8	4.5%
Other Stockholder Campaign	1417	72.2%	66	37.3%
Proxy Fight	521	26.6%	103	58.2%

Panel B: Campaign Tactics

	Hedge Funds		**Insiders**	
	N	%	N	%
Call Special meeting	37	1.9%	11	6.2%
Hostile Offer	26	1.3%	4	2.3%
Lawsuit	114	5.8%	24	13.6%
Letter to Stockholder	300	15.3%	78	44.1%
Nominate Slate of Directors	517	26.4%	95	53.7%
Propose Binding Proposal	72	3.7%	19	10.7%
Propose Precatory Proposal	110	5.6%	17	9.6%
Public Disclosed Letter to Board	1078	54.9%	80	45.2%
Take Action by Written Consent	29	1.5%	17	9.6%
Tender Offer Launched	16	0.8%	1	0.6%
Tender Offer Stake Only	2	0.1%	0	0.0%
Threaten Proxy Fight	170	8.7%	8	4.5%
Unsolicited Offer	81	4.1%	15	8.5%

Table 5: Summary Statistics by Activist Type

This table reports summary statistics for firm characteristics. Panel A contains summary statistics for targets of insider activists and a sample of firms matched on industry, size and book-to-market. ***, **, * indicate statistical significance at the 1%, 5% and 10% levels for t-tests (mean) and Wilcoxon signed-rank tests (medians) that compare insider activist targets to the matched firms. Panel B contains summary statistics for targets of hedge fund activists and a sample of firms matched on industry, size and book-to-market. ***, **, * indicate statistical significance at the 1%, 5% and 10% levels for t-tests (mean) and Wilcoxon signed-rank tests (medians) that compare insider activist targets to the hedge fund activist targets (means and medians for hedge fund targets), and that compare hedge fund activist targets to their matched firms (means and medians for matched firms). All variables are defined in Appendix A.

Panel A: Insider Activists

	Insider Activist Targets				**Matched Firms**	
	N	Mean	Median	Std. Dev	Mean	Median
Market Cap	177	4037.872	82.19	21943.000	3125.078	100.930
Tobin's Q	177	2.212	1.145	4.291	1.831	1.107
Cash	177	0.237	0.133	0.254	0.222	0.128
R&D	177	0.099	0.000	0.345	0.064	0.000
ROA	177	-0.253	-0.016	0.792	-0.108**	0.01***
Debt	177	0.216	0.136	0.284	0.271	0.148
Dividend Yield	177	0.012	0.000	0.023	0.020	0.000
Payout	177	0.552	0.000	9.638	0.139	0.000**
Stock Return	110	-0.106	-0.098	0.461	0.087**	0.006*
Institutional Ownership	114	0.410	0.425	0.291	0.447	0.410
Dissident Ownership	167	0.161	0.114	1.343		
Campaign Length	175	139.560	75.000	180.070		

Panel B: Hedge Fund Activists

	Hedge Fund Activist Targets				**Matched Firms**	
	N	Mean	Median	Std. Dev	Mean	Median
Market Cap	1962	4051.314	244.018***	28542.510	3313.027	280.688
Tobin's Q	1962	1.671*	1.216	3.724	1.581	1.209
Cash	1962	0.213	0.120	0.231	0.189***	0.106***
R&D	1962	0.054***	0.000	0.191	0.043*	0.000**
ROA	1962	-0.052***	0.007***	0.353	-0.033	0.022***
Debt	1962	0.232	0.154	0.290	0.208***	0.142
Dividend Yield	1962	0.012	0.000*	0.054	0.015*	0.000***
Payout	1962	0.139	0.000	3.730	0.382	0.000***
Stock Return	1697	0.075*	-0.008**	0.938	0.127*	0.036***
Institutional Ownership	1757	0.612***	0.647***	0.267	0.514***	0.530***
Dissident Ownership	1806	0.093***	0.081***	0.670		
Campaign Length	1802	182.483**	110.000***	236.777		

Table 6: Targeted Regressions

This table reports marginal effects of probit regressions with the dependent variable of interest equal to one if the firm was targeted by an activist campaign in the following fiscal year. The first three columns only include compustat variables to ensure we have the entire sample. The last three columns include the returns from the previous year and percent of institutional ownership reducing the sample. Columns 1 and 3 compare insider activist targets with the matched sample of firms. Columns 2 and 5 compare hedge fund activist targets with a matched sample of firms. Columns 3 and 6 compare insider activist targets to hedge fund activist targets with the dependent variable equal to one for insider activist campaigns. t-statistics are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels.

	(1) Insiders vs. Matches	(2) Hedge Funds vs. Matches	(3) Insiders vs. Hedge Funds	(4) Insiders vs. Matches	(5) Hedge Funds vs. Matches	(6) Insiders vs. Hedge Funds
Log(Market Cap)	-0.001	-0.004	-0.015***	0.019	-0.037***	0.006
	(-0.06)	(-0.84)	(-4.84)	(0.74)	(-6.59)	(1.61)
Tobin's q	0.000	-0.002	-0.001	0.025	0.003	0.005
	(0.02)	(-0.70)	(-0.27)	(0.77)	(0.37)	(1.58)
Cash	-0.043	0.148***	-0.01	-0.158	0.124***	-0.03
	(-0.36)	(3.70)	(-0.42)	(-0.88)	(2.76)	(-1.13)
R&D	-0.115	0.062	-0.081**	-0.225	-0.180**	-0.086**
	(-0.49)	(0.96)	(-2.29)	(-0.45)	(-2.04)	(-1.97)
ROA	-0.167**	0.023	-0.078***	-0.312**	-0.140***	-0.04*
	(-2.32)	(0.63)	(-3.88)	(-2.01)	(-2.62)	(-1.83)
Debt	-0.095	0.125***	-0.021	0.092	0.095***	-0.002
	(-1.56)	(3.96)	(-0.95)	(0.66)	(2.59)	(-0.13)
Dividend Yield	-0.992*	-0.006	-0.007	2.502	-0.025	-0.064
	(-1.70)	(-1.08)	(-0.05)	(1.29)	(-0.13)	(-0.56)
Stock Return				-0.078	-0.014	-0.047***
				(-1.14)	(-1.42)	(-3.52)
Institutional Ownership				-0.219	0.420***	-0.165***
				(-1.48)	(12.15)	(-6.34)
Observations	352	3917	2130	217	3296	1790
Adjusted R^2	0.023	0.006	0.051	0.067	0.037	0.104

Table 7: Frequency of Success

This table reports summary statistics on the success of activist campaigns for hedge fund and insider activists. A campaign is defined as being successful if the activist achieves at least one of its stated objectives.

	Hedge Funds			**Insiders**		
	N	N Successful	% Successful	N	N Successful	% Successful
Governance	216	109	50.5%	43	17	39.5%
General Value	479	199	41.5%	21	6	28.6%
Sale Related	673	350	52.0%	40	19	47.5%
Board Representation	629	416	66.1%	60	31	51.7%
Board Control	152	107	70.4%	50	23	46.0%

Table 8: 13D CAR Regressions

This table reports coefficients from OLS regressions with the dependent variable equal to the cumulative abnormal return from (-1,+5) (first three columns) and (-10,+10) (last three columns) around the date of the initial 13D filing. The first and fourth column focus on the identify of the dissident, the objective, and the interaction. The second and fifth column adds firm characteristics and the third and sixth column focuses on proxy fight campaigns. Variable definitions for firm characteristics are detailed in the Appendix. Variable definitions for campaign objective categories are defined in Table 2. t-statistics are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels.

	CAR(-1,+5)			**CAR(-10,+10)**		
	(1)	(2)	(3)	(4)	(5)	(6)
Insider	-0.062	-0.064	-0.078	-0.068	-0.065	-0.02
	(-1.39)	(-1.44)	(-1.55)	(-1.25)	(-1.19)	(-0.24)
General Value	0.027*	0.026*	0.087***	0.027	0.026	0.062
	(1.84)	(1.81)	(2.64)	(1.51)	(1.48)	(1.18)
Governance	-0.002	-0.002	-0.005	-0.003	-0.005	0.045
	(-0.10)	(-0.09)	(-0.18)	(-0.16)	(-0.27)	(1.05)
Sale Related	0.017	0.017	0.031*	0.023	0.023	0.018
	(1.31)	(1.27)	(1.94)	(1.44)	(1.42)	(0.71)
Board Control	0.027	0.022	0.047**	0.043*	0.038	0.077**
	(1.40)	(1.14)	(1.97)	(1.81)	(1.60)	(2.03)
Board Represent	0.007	0.006	0.021	0.012	0.01	0.04
	(0.51)	(0.40)	(0.90)	(0.69)	(0.58)	(1.07)
Insider × Board Control	-0.0555	-0.051	-0.024	-0.078	-0.077	-0.111
	(-1.07)	(-0.99)	(-0.48)	(-1.25)	(-1.23)	(-1.40)
Insider × Board Represent	0.019	0.023	0.05	0.016	0.011	-0.013
	(0.42)	(0.49)	(1.02)	(0.28)	(0.19)	(-0.17)
Insider × Governance	0.013	0.032	0.062	-0.019	0.005	-0.019
	(0.30)	(0.74)	(1.47)	(-0.35)	(0.10)	(-0.29)
Insider × General Value	0.0111	0.006	0.042	0.099	0.091	0.158
	(0.19)	(0.10)	(0.52)	(1.43)	(1.30)	(1.22)
Insider × Sale Related	0.044	0.043	0.05	0.067	0.061	0.056
	(0.99)	(0.96)	(1.16)	(1.21)	(1.11)	(0.81)
Dissident Group Ownership	0.034***	0.039***	0.005	0.042***	0.047***	0.006
	(5.48)	(6.09)	(0.72)	(5.52)	(5.85)	(0.57)
Log(Market Cap)		0.005**	-0.002		0.001	-0.01**
		(2.29)	(-0.67)		(0.49)	(-2.28)
Tobin's q		-0.008***	0.008		-0.01***	0.006
		(-2.73)	(1.59)		(-2.77)	(0.72)
Cash		0.044**	-0.016		0.021	-0.012
		(2.27)	(-0.73)		(0.87)	(-0.35)
ROA		-0.017	0.096***		-0.001	0.107***
		(-1.13)	(4.01)		(-0.06)	(2.79)
Debt		-0.027*	-0.041**		-0.026	-0.031
		(-1.66)	(-2.04)		(-1.30)	(-0.96)
N	1743	1743	540	1743	1743	540
Adjusted R^2	0.021	0.028	0.081	0.023	0.029	0.034

Table 9: Campaign Announcement CAR Regressions

This table reports coefficients from OLS regressions with the dependent variable equal to the cumulative abnormal return from (-1,+5) (first three columns) and (-10,+10) (last three columns) around the date of campaign announcement. The first and fourth column focus on the identify of the dissident, the objective, and the interaction. The second and fifth column adds firm characteristics and the third and sixth column focuses on proxy fight campaigns. Variable definitions for firm characteristics are detailed in the Appendix. Variable definitions for campaign objective categories are defined in Table 2. t-statistics are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels.

	CAR(-1,+5)			**CAR(-10,+10)**		
	(1)	(2)	(3)	(4)	(5)	(6)
Insider	0.003	0.001	-0.042	-0.036	-0.034	-0.083
	(0.06)	(0.03)	(-0.79)	(-0.64)	(-0.59)	(-1.03)
General Value	0.024	0.023	0.047	0.022	0.024	-0.011
	(1.58)	(1.57)	(1.31)	(1.16)	(1.26)	(-0.20)
Governance	-0.002	-0.001	0.002	-0.008	-0.009	0.045
	(-0.09)	(-0.08)	(0.07)	(-0.39)	(-0.45)	(1.01)
Sale Related	0.026*	0.026**	0.03*	0.036**	0.038**	0.024
	(1.96)	(1.97)	(1.74)	(2.17)	(2.29)	(0.93)
Board Control	0.005	0.001	0.007	0.014	0.009	0.021
	(0.26)	(0.02)	(0.29)	(0.57)	(0.38)	(0.54)
Board Represent	0.004	0.004	0.008	0.007	0.007	0.006
	(0.30)	(0.26)	(0.29)	(0.35)	(0.37)	(0.16)
Insider x Board Control	-0.097*	-0.091*	-0.032	-0.047	-0.046	0.019
	(-1.83)	(-1.74)	(-0.59)	(-0.71)	(-0.70)	(0.24)
Insider × Board Represent	-0.006	-0.001	0.04	0.027	0.024	0.074
	(-0.13)	(-0.01)	(0.77)	(0.46)	(0.41)	(0.95)
Insider × Governance	-0.033	-0.014	0.024	-0.07	-0.046	-0.064
	(-0.74)	(-0.30)	(0.51)	(-1.24)	(-0.81)	(-0.93)
Insider × General Value	-0.056	-0.063	-0.035	-0.048	-0.061	0.281**
	(-0.98)	(-1.12)	(-0.39)	(-0.67)	(-0.86)	(2.13)
Insider × Sale Related	0.009	0.003	-0.043	0.075	0.064	0.034
	(0.20)	(0.06)	(-0.96)	(1.30)	(1.11)	(0.51)
Dissident Group Ownership	0.043***	0.049***	0.017**	0.04***	0.044***	0.001
	(6.80)	(7.47)	(2.38)	(4.99)	(5.40)	(0.04)
Log(Market Cap)		0.007***	0.003		0.005	-0.005
		(2.92)	(0.83)		(1.53)	(-1.13)
Tobin's q		-0.014***	-0.004		-0.017***	-0.009
		(-4.50)	(-0.69)		(-4.48)	(-1.14)
Cash		0.052***	0.008		0.039	0.013
		(2.61)	(0.35)		(1.56)	(0.36)
ROA		-0.043***	0.043		-0.061***	0.085**
		(-2.96)	(1.65)		(-3.30)	(2.21)
Debt		-0.02	-0.019		-0.035*	-0.026
		(-1.19)	(-0.87)		(-1.70)	(-0.79)
N	1767	1767	548	1767	1767	548
Adjusted R^2	0.031	0.044	0.023	0.023	0.034	0.013

Table 10: Success Regressions

This table reports marginal effects from probit regressions with the dependent variable equal to one if the campaign was successful and zero otherwise. The first column focuses on the identify of the dissident, the objective, and the interaction. The second column adds firm characteristics and the third column focuses on campaigns that were Proxy Fights. Variable definitions for firm characteristics are detailed in the Appendix. Variable definitions for campaign objective categories are defined in Table 2. t-statistics are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels.

	Succesful Campaign		
	(1)	(2)	(3)
Insider	-0.024	-0.027	0.227
	(-0.22)	(-0.25)	(1.18)
General Value	-0.02	-0.024	0.081
	(-0.50)	(-0.62)	(0.52)
Governance	0.071	0.075*	0.287**
	(1.63)	(1.71)	(2.13)
Sale Related	0.102***	0.096***	0.068
	(2.87)	(2.70)	(0.90)
Board Control	0.292***	0.290***	0.334***
	(5.54)	(5.49)	(2.98)
Board Representation	0.251***	0.247***	0.264**
	(6.57)	(6.44)	(2.39)
Insider × Board Control	-0.245*	-0.222*	-0.499**
	(-1.95)	(-1.77)	(-2.55)
Insider × Board Representation	-0.114	-0.071	-0.188
	(-1.03)	(-0.64)	(-0.98)
Insider × Governance	-0.088	-0.086	-0.595***
	(-0.81)	(-0.80)	(-3.06)
Insider × General Value	-0.068	-0.066	-0.186
	(-0.50)	(-0.48)	(-0.58)
Insider × Sale Related	-0.071	-0.076	-0.339**
	(-0.64)	(-0.69)	(-1.98)
Dissident Group Ownership	0.035**	0.052***	0.104***
	(2.35)	(3.35)	(3.65)
Log(Market Cap)		0.023***	0.013
		(3.83)	(1.13)
Tobin's q		-0.019**	-0.018
		(-2.41)	(-1.02)
Cash		0.032	-0.106
		(0.63)	(-1.17)
ROA		-0.038	-0.078
		(-1.09)	(-1.22)
Debt		0.003	-0.092
		(0.06)	(-0.98)
N	1973	1973	601
Adjusted R^2	0.045	0.052	0.055