

# Quasi-Insider Shareholder Activism: Corporate Governance at the Periphery of Control

## Internet Appendix

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The Internet Appendix includes analysis and results of robustness tests that are referenced in the main text and a detailed description of the data and data cleaning process.

## 1 Description of 13D Panel Data

We begin by writing a script to download all 40,856 initial 13D's (amendments are excluded) between 2000 and 2016. We determine which of these 13D's were potentially filed by individuals by searching and omitting files if the filer name contains any of the following strings: LLC, L.L.C, CORP, INC, LP, L.P, LLP, PARTNERS, GROUP, TRUST, PLC, P.L.C., S.A., S.P.A, INVESTMNET, ESTATE, BANK, CAPITAL, Mutual, PENSION, HOLDINGS, HOLDING, FOUNDATION, ASSOCIATION, INTERNATIONAL, DEVELOP, MANAGE, TECHNOLOG, LABORAT, RETIREMENT, COMMUNICATION, VENTURE, ENERGY, INVESTOR, COLLEGE, PHARMAC, ADVISER, EQUITY, ELECTRIC, SECURITY, CONSULTANT, COMMERCIAL, CREDIT, GOVERNMENT, SOCIETY, COMPANY, COMPANIES, CORPORATION, COOPERATIVE, CONSTRUCTION, CONCEPTS, GESELLSCHAFT, INDUSTR, SERVICE, SYSTEM, MORGAN STANLEY, and RESOURCE. This process leaves 18,276 13D's potentially filed by individuals.

At this point we use GVKEYs to get an exact match between the company and Capital IQ's People Intelligence Database and do a fuzzy match between the filer name and individuals within that company on Capital IQ. We hand check these matches and find 6,995 13D's filed by 6,022 unique filer-company pairs that work or worked for the firm according to Capital IQ. For these 6,022 filer-company pairs we write another script to pull all 13D, 13G, and amendments for both filings to construct a panel of all 13D/G activity.

**Table B1: Summary Statistics**

This table reports summary statistics on characteristics of firms targeted by hedge fund and quasi-insider activists. The sample consists of targets of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider; an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members are not included) of the firm (see Table 3). The sample is restricted to campaigns for which data on firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 87 quasi-insider and 1962 hedge fund activist campaigns. The table reports summary statistics for targets of quasi-insider activists, hedge fund activists and other Compustat firms excluding targets of quasi-insider or hedge fund activists. \*\*\*, \*\*, \* indicate statistical significance at the 1%, 5% and 10% levels for Wilcoxon signed-rank tests (medians) that compare quasi-insider activist targets to hedge fund activist targets and other Compustat firms. All variables are defined in Table A1.

	N	Mean	Median	SD	Other Median	HF Median
Total Assets	87	32550.52	119.68	161659.10	420.99***	432.49***
Market Cap	87	6268.72	117.99	28016.80	277.61***	244.02***
Tobin's Q	87	2.81	1.34	5.95	1.30	1.22
Market-to-Book Equity	87	-1.48	1.33	36.26	1.65**	1.38
Cash	87	0.25	0.16	0.26	0.09**	0.12
R&D	87	0.13	0.00	0.46	0.00	0.00
ROA	87	-0.51	-0.03	1.55	0.02***	0.01***
Sales Growth	80	0.00	0.01	0.48	0.08***	0.03***
Debt	87	0.33	0.16	0.97	0.17	0.15
Dividend Yield	87	0.01	0.00	0.03	0.00	0.00
Payout	71	0.52	0.00	3.26	0.00*	0.00
Stock Return	66	-0.16	-0.20	0.46	-0.05***	-0.13*
Institutional Ownership	71	0.40	0.37	0.33	0.36	0.67***
Amihud Illiquidity	66	0.60	0.19	0.79	0.13	0.11***
Business Segment Sales HHI	74	0.84	1.00	0.25	1.00	1.00
Analyst Coverage	87	2.91	0.00	4.99	1.00*	3.00***
Dissident Percent Ownership	83	0.15	0.11	0.13		0.08***
Dissident Dollar Ownership	83	503.41	9.46	2825.31		17.47***

**Table B2:** Targeted Regressions

This table reports marginal effects of a multinomial probit regressions with the dependent variable of interest equal to one if the firm is the target of a quasi-insider activist campaign in the following fiscal year. The omitted category is firms that were not targeted. All variables are defined in Table A1. All columns include year fixed effects. Standard errors are reported in parentheses. \*\*\*, \*\*, and \* denote statistical significance at the 1%, 5%, and 10% levels.

	(1)	(2)
Hedge Fund Targets		
Log(Market Cap)	-0.00540 (0.00613)	
Tobin's q	-0.0371 (0.0243)	-0.127*** (0.0219)
ROA	0.0704** (0.0306)	-0.0238 (0.0160)
Sales Growth	-0.000399 (0.000959)	-0.000593 (0.00127)
Book Leverage	0.0735* (0.0397)	-0.0677 (0.0787)
Dividend Yield	-1.048** (0.451)	-0.972** (0.496)
R&D	0.285** (0.119)	0.530*** (0.151)
Stock Return		-0.0401 (0.0296)
Analyst Coverage		0.00764*** (0.00217)
Amihud Illiquidity		-0.0226 (0.0198)
Institutional Own %		0.694*** (0.0541)
Quasi-Insider Targets		
Log(Market Cap)	-0.0900*** (0.0206)	
Tobin's q	-0.00127 (0.00468)	-0.0752** (0.0376)
ROA	-0.0113** (0.00469)	-0.0212** (0.00839)
Sale Growth	-0.0129*** (0.00319)	-0.0132*** (0.00452)
Book Leverage	-0.174 (0.130)	-0.134 (0.203)
Dividend Yieldfield	-0.648* (0.385)	-0.834** (0.369)
R&D	-0.0138 (0.254)	-0.355 (0.386)
Stock Return		-0.302*** (0.108)
Analyst Coverage		-0.0128 (0.00845)
Amihud Illiquidity		0.0169 (0.0264)
Institutional Own %		0.0588 (0.160)
<i>N</i>	105698	85565

**Table B3: Frequency of Campaign Tactics and Objectives**

This table summarizes the type of campaigns employed by hedge fund and quasi-insider activists (Panel A) and the objectives of the activists (Panel B). The type of campaign is classified by FactSet, including whether they made a press release, made contact with other shareholders, or made a formal proxy request. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings. 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 up two distinct main objectives. Campaigns with more than two main objectives are classified as General Value. The sample consists of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members are not included) of the firm (see Table 3). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 87 quasi-insider and 1962 hedge fund activist campaigns.

<b>Panel A: Campaign Type</b>				
	<b>Quasi-Insiders</b>		<b>Hedge Funds</b>	
	N	%	N	%
Exempt Solicitation	5	5.8%	24	1.2%
Other Stockholder Campaign	44	50.6%	1417	72.2%
Proxy Fight	38	43.7%	521	26.6%

<b>Panel B: Campaign Objectives</b>					
		<b>Quasi-Insiders</b>		<b>Hedge Funds</b>	
		N	%	N	%
General Value	Maximize Value	22	25.3%	295	15.0%
	Capital Structure	0	0.0%	196	10.0%
	Stop Sale	3	3.5%	198	10.1%
Board Representation	Board Representation	32	36.8%	629	32.1%
Board Control	Board Control	17	19.5%	152	7.7%
Sale Related	Sale to 3rd Party	6	6.9%	276	14.1%
	Sale to Activist	9	10.3%	74	3.8%
	Restructure Business	5	5.8%	152	7.7%
Governance	Oust CEO/Chair	4	4.6%	36	1.8%
	Compensation	3	3.5%	26	1.3%
	Governance	11	12.6%	87	4.4%
	Board Proposal	1	1.2%	97	4.9%
Total		87		1962	

**Table B4: Campaign Announcement CARs**

This table reports mean cumulative abnormal returns for the (-1,+1) and (-10,+1) windows around the date of the campaign announcement (see Table A1). The sample consists of firms that are targets of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members are not included) of the firm (see Table 3). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign. The sample is further restricted to firms for which data are available on returns in CRSP, resulting in 66 quasi-insider and 1787 hedge fund activist campaigns. Panel A reports mean CARs for quasi-insider and hedge fund activist campaigns. Differences between the mean CARs for quasi-insider and hedge fund campaigns are also reported. Panel B reports mean CARs for quasi-insider campaigns split by control and takeover related objectives, and activist ownership stakes above and below 10%. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings (see Panel B of Table 4). Control-related objectives include obtaining board representation, board control, or seeking the sale of the target firm to the activist. Takeover-related objectives consist of seeking the sale of the target firm to the activist. Ownership is the dissident ownership as defined in Table A1.  $p$ -values for quasi-insiders and hedge funds are for  $t$ -tests comparing the means to zero.  $p$ -values for differences are for  $t$ -tests comparing means to each other.

<b>Panel A: Quasi-Insider vs. Hedge Fund Campaign CARs</b>					
	N	CAR(-1,+1)		CAR(-10,+1)	
		Mean	$p$ -value	Mean	$p$ -value
Quasi-Insiders	66	0.022	0.04	0.030	0.05
Hedge Funds	1787	0.034	0.00	0.045	0.00
Difference		-0.013	0.24	-0.015	0.30

  

<b>Panel B: Quasi-Insider CARs by Campaign Characteristics</b>					
	N	CAR(-1,+1)		CAR(-10,+1)	
		Mean	$p$ -value	Mean	$p$ -value
Quasi-Insiders:					
Control-related	42	0.024	0.11	0.034	0.09
Non-control-related	24	0.017	0.18	0.023	0.32
Difference		0.007	0.73	0.012	0.69
Takeover-related	12	0.048	0.29	0.056	0.18
Non-takeover-related	54	0.016	0.07	0.024	0.13
Difference		0.033	0.48	0.032	0.46
Ownership > 10%	49	0.045	0.00	0.065	0.00
Ownership ≤ 10%	41	0.021	0.07	0.031	0.09
Difference		0.024	1.00	0.034	0.22

**Table B5: Frequency of Success**

This table reports data on the success of activist campaigns for hedge fund and quasi-insider activists. The sample consists of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, which we define as an individual investor who is a former officer, employee, or director of the firm (see Table 3). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 87 quasi-insider and 1962 hedge fund activist campaigns. A campaign is classified by hand as being successful if the activist achieves at least one of its stated objectives, according to information in the FactSet synopses and press reports. Success rates are reported for all campaigns as well as separately by objective. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings (see Table 4). Success rates are also reported separately for quasi-insiders and hedge funds. Difference is the difference between the success rates for quasi-insider and hedge fund activists. p-values are for t-tests that compare the success rates for quasi-insider and hedge fund campaigns.

	Quasi-Insiders			Hedge Funds			Difference	
	N	N Successful	% Successful	N	N Successful	% Successful	% Successful	p-value
All	87	35	40.2%	1962	1045	53.3%	-13.0%	0.017
By objective:								
General Value	25	6	24.0%	479	199	43.1%	-19.1%	0.058
Board Representation	32	14	43.8%	629	416	66.1%	-22.4%	0.010
Board Control	17	7	41.2%	152	107	70.4%	-29.2%	0.015
Sale Related	18	8	44.4%	673	350	54.6%	-10.1%	0.398
Governance	19	11	57.9%	216	109	50.5%	7.4%	0.536

**Table B6: Factset Objectives**

This table summarizes the type of objectives of the activists based on Factset’s variable ”primary campaign type”. The sample consists of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 3). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 122 quasi-insider and 1962 hedge fund activist campaigns.

Campaign Objectives		Quasi-Insiders		Hedge Funds	
		N	%	N	%
General Value	Maximize Value	29	23.8%	773	39.4%
Board Representation	Board Representation	29	23.8%	581	29.6%
Board Control	Board Control	30	24.6%	156	8.0%
Sale Related	Hostile/Unsolicited Acquisition	12	9.8%	33	1.7%
	Vote/Activism Against a Merger	3	2.5%	176	9.0%
	Public Short Position/Bear Raid	0	0.0%	29	1.5%
Other	Remove Director(s), No Dissident Nominee	2	1.6%	9	0.5%
	Remove Officer(s)	1	0.8%	9	0.5%
	Enhance Corporate Governance	6	4.9%	54	2.8%
	Support Dissident Group in Proxy Fight	2	1.6%	33	1.7%
	Vote Against a Management Proposal	4	3.3%	40	2.0%
	Vote For a Stockholder Proposal	4	3.3%	53	2.7%
Total		122		1962	



**Table B7:** Campaign Announcement CARs for Hedge Funds and Value Maximization Campaigns

This table reports mean cumulative abnormal returns for the (-1,+1) and (-10,+1) windows around the date of the campaign announcement (see Table A1). The sample consists of firms that are targets of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members are not included) of the firm (see Table 3). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign. The sample is further restricted to firms for which data are available on returns in CRSP, resulting in 94 quasi-insider and 1787 hedge fund activist campaigns. Panel A reports mean CARs for hedge fund campaigns split by control and takeover related objectives, and activist ownership stakes above and below 10%. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings (see Panel B of Table 4). Control-related objectives include obtaining board representation, board control, or seeking the sale of the target firm to the activist. Takeover-related objectives consist of seeking the sale of the target firm to the activist. Ownership is the dissident ownership as defined in Table A1. Panel B reports mean CARs for quasi-insider and hedge fund campaigns split by whether or not FactSet classifies the campaign objective as general value maximization.  $p$ -values for quasi-insiders and hedge funds are for  $t$ -tests comparing the means to zero.  $p$ -values for differences are for  $t$ -tests comparing means to each other.

<b>Panel A: Hedge Fund CARs by Campaign Characteristics</b>					
	N	CAR(-1,+1)		CAR(-10,+1)	
		Mean	$p$ -value	Mean	$p$ -value
Hedge Funds:					
Control-related	768	0.038	0.00	0.046	0.00
Non-control-related	1019	0.032	0.00	0.045	0.00
Difference		0.006	0.05	0.000	0.95
Takeover-related					
Non-takeover-related	323	0.057	0.00	0.070	0.00
Difference	1464	0.029	0.00	0.040	0.00
		0.028	0.00	0.030	0.00
Ownership > 10%					
Ownership ≤ 10%	419	0.039	0.00	0.045	0.00
Difference	1219	0.035	0.00	0.048	0.00
		0.004	0.34	-0.004	0.56
<b>Panel B: Campaign CARs by Maximize Value Objective</b>					
	N	CAR(-1,+1)		CAR(-10,+1)	
		Mean	$p$ -value	Mean	$p$ -value
Quasi-Insiders:					
Maximize Value Objective	23	0.030	0.17	0.044	0.13
Non-maximize Value Objective	71	0.032	0.00	0.044	0.01
Difference		-0.002	0.92	0.000	1.00
Hedge Funds					
Maximize Value Objective	691	0.038	0.00	0.047	0.00
Non-maximize Value Objective	1096	0.032	0.00	0.045	0.00
Difference		0.006	0.04	0.003	0.62