Version: May 2013

The Real Effects of Hedge Fund Activism:
Productivity, Asset Allocation, and Industry Concentration

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The authors have benefited from comments from and discussions with Lucian Bebchuk, Christa Bouwman, Simon Gervais, Sandy Klasa, April Klein, Dalida Kadyrzhanova, Vikram Nanda, Michael Raith, Adriano Rampini, and seminar and conference participants at Arizona State University, the University of Amsterdam, Boston College, Cornell, Duke, Drexel, Emory, Erasmus, Fordham, Fudan, HEC Paris, INSEAD, Interdisciplinary Center at Herzlyia, London Business School, Oregon, Rotterdam School of Management, Rutgers, SAIF, Tel Aviv University, Temple, the University of Washington, Yale, the Annual Corporate Governance Conference at Drexel University, Western Finance Association Annual Meeting, the International Conference on Corporate Governance at Tsinghua University, the Annual Financial Intermediation Society Conference, Jackson Hole Finance Conference, the SFS Finance Cavalcade, and the Annual Conference on Corporate Finance at Washington University in St. Louis. We also thank Jin Xu and Yinghua Li for help with data collection at an early stage of the paper and Bryan Oh for excellent research assistance. Alon Brav can be reached at phone: (919) 660-2908, email: brav@duke.edu. Wei Jiang can be reached at phone: (212) 854-9002, email: wj2006@columbia.edu. Hyunseob Kim can be reached at phone: (607) 255-8335, email: hk722@cornell.edu. Kim gratefully acknowledges financial support from the Kwanjeong Educational Foundation. Any opinions and conclusions expressed herein are those of the author(s) and do not necessarily represent the views of the U.S. Census Bureau. All results have been reviewed to ensure that no confidential information is disclosed.

This is a pre-copyedited, author-produced PDF of an article published in the Review of Financial Studies following peer review. The version of record, Brav, Alon, Wei Jiang, and Hyunseob Kim. "The Real Effects of Hedge Fund Activism: Productivity, Asset Allocation, and Labor Outcomes." <i>Review of Financial Studies</i> 28 (October 2015): 2723-2769, is available online at: http://dx.doi.org/10.1093/rfs/hhv037.

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Abstract

This paper studies the long-term effect of hedge fund activism on the productivity of target firms using plant-level information from the U.S. Census Bureau. A typical target firm improves its production efficiency within three years after the intervention, and this improvement is pronounced in industries with low concentration. By following plants that were sold post-intervention we also find that efficient capital redeployment is an important channel via which activists create value. We further find that employees of target firms experience a reduction in work hours and stagnation in wages despite an increase in labor productivity. Additional tests refute alternative explanations that attribute the improvement to management's voluntary reform, industry consolidation shocks, and hedge funds' stock picking. The overall evidence is consistent with a real long-term effect of hedge fund intervention on target firms' fundamentals.

JEL Classification: G12, G23, G34
Keywords: Hedge fund activism, Governance, Productivity, Capital Reallocation, Employment

1. Introduction

A growing literature on hedge fund activism identifies a significant positive stock price reaction for targeted companies with the announcement of activism. The range of short-term price reaction is highly consistent across different studies and different markets.[1] A subset of this literature also documents a significant improvement in operating performance in the period following interventions by hedge funds. We validate and summarize this pattern using return on assets (ROA) as the performance measure with our sample of close to 2,000 activism events in the U.S. from 1994 to 2007. Figure 1 plots the target firms' average ROA in excess of that of a control group (in the same three-digit SIC industry and year, and adjusted for firm size and age) from three years before to three years after the public announcement of activism. There is a clear "V" shape pattern centered on the year of targeting, and the level in the third year post targeting is significantly higher than that during the year of intervention or the year beforehand.

[1] Average event returns range from five to ten percent. See Brav, Jiang, Partnoy, and Thomas (2008), Klein and Zur (2009), Clifford (2008), Greenwood and Schor (2009) for U.S. companies; and Becht, Franks, Mayer, and Rossi (2009), Becht, Franks, and Grant (2010) for non-U.S. markets.

While the evidence regarding both stock returns and firm operating performance speaks favorably for the impact of hedge funds activism, several important related questions have not been addressed to this date. First, existent research has not explicitly identified the underlying sources of value creation by hedge fund activists. As a result, little is known about the precise mechanism via which activists are able to improve efficiency and increase shareholder value. In fact, opponents of hedge fund activism often blame hedge fund activists as "short-term focused" and "financial engineering oriented," denying any meaningful real and long-term impact.[2] Moreover, performance measurements at the firm level, such as ROA, do not reveal the underlying channels of improvement; that is, they cannot isolate gains from production efficiency of existing assets from those due to capital reallocation such as the divestiture of underperforming assets and refocusing.

Second, previous research, which is based on databases (such as Compustat) that cover only public companies at the firm level, cannot address the potential survivorship bias in the post-intervention period. Within two years of activists' intervention close to 26% of companies targeted by activists disappear from the Compustat database (because they were either acquired or delisted), almost twice the normal attrition rate of the Compustat universe. As a result, researchers have not been able to assess the post-targeting performance based on an unbiased sample or to trace out the performance of the underlying assets subsequent to ownership changes.

The limitation of previous research is due both to the novelty of the topic, and hence the lack of a large sample of post-intervention data, and the reliance on firm-level information of public companies. This paper addresses these important impediments by exploring the longitudinal data of manufacturing establishments (i.e., plants) from the Census of Manufacturers (CMF) and the Annual Survey of Manufacturers (ASM) databases maintained by the U.S. Census Bureau. By matching these plant observations to hedge fund activism events from 1994 to 2007, we examine the dynamics of production efficiency for firms targeted by activists, measured by total factor productivity (TFP), and assess the relative importance of the gains in efficiency among assets in place and those due to reallocation of target firms' plants.

The following key findings on the long-term real effect of hedge fund activism arise from our analyses. First, the productivity of plants owned by firms targeted by activists evolves in a pattern similar to the dynamics of ROA shown in Figure 1 around the year of the intervention. Three years prior to the intervention, the productivity of target firms' plants is slightly higher than their control plants with similar size and age in a given industry and year. Target firms' productivity deteriorates thereafter to a level

[2] See, for example, "Hedge Fund Activists Set for Comeback," *Financial Times,* December 8, 2009.

similar to that of the control plants when intervention occurs, but then rebounds within three years post-intervention to a level higher than that observed pre-activism. Second, we find that the improvement in production efficiency associated with hedge fund activism is more pronounced in less concentrated—presumably more competitive—industries.

Third, one channel through which activists create value is by facilitating efficient reallocation of corporate assets. Focusing on the subsample of plants that were sold after the hedge funds' intervention, we find that these plants exhibit lower productivity compared to plants in the control sample prior to the sale but then experience a greater improvement in the hands of the new owners. Moreover, the improvement is significantly greater than that of plants that are sold without the involvement of hedge funds. This evidence suggests that the hedge funds' presence is necessary for the matching of plants to new owners who can operate the underperforming plants more efficiently. An industry with more players (or potential buyers and sellers) offers better chances for a good match, justifying the greater improvement of target firms in less concentrated industries.

Fourth, we do not find that workers of target firms benefit from hedge fund activism. While their productivity improves significantly, we observe an (insignificant) decline in work hours and stagnation in wages. Moreover, the increase in labor productivity is only significant in highly unionized industries. This result suggests that hedge fund activists improve the efficiency of target firms with entrenched labor via stricter monitoring of workers (Pagano and Volpin, 2004). The improvement in labor productivity coupled with relatively stable wages indicates that workers do not fully capture the value of productivity improvements, but instead relinquish most of the surplus to (equity) investors.

The combined evidence so far refutes the assertion that the effects of hedge fund activism are purely financial (such as extracting payouts to shareholders through leverage) as argued by some policy makers and the popular press. Moreover, the plant observations in our Census data survive changes in ownership (i.e., plant sales) or firm delisting from the exchanges, and are thus not subject to a potential selection due to both asset sale and firm attrition. Hence, our estimates of higher plant productivity for the targets of hedge fund activism are more accurate than performance analyses based on the Compustat data.

An important question remains: Given the nonrandom selection of target firms by hedge funds, to what extent are the documented effects causal? Some unobservable and omitted plant or firm characteristics may be correlated with both the decision to intervene and the targets' future performance. It may also be argued that activists are able to anticipate significant industry-level shocks to the structure of the product market and the implications of such changes on target firms. The observed improvement in target firm's performance post-intervention may therefore just reflect the consequences of these shocks independent of the presence of the activists.

We believe that these concerns are justified although it is important to emphasize that the growing literature on activism has shown that many of the changes associated with hedge fund activism are unlikely to have occurred absent activists' actions (see the review in Section 6.1). Activists tend to hold on to a concentrated equity stake in the target firm until the resolution of their goals, a holding period that averages close to two years (see Brav et al. (2008)). It is hard to argue that activists would willingly hold undiversified positions and be subject to costly engagements (Gantchev (2012)) that typically evolve into shareholder proposals and proxy contests if these were not necessary means to achieve their goals. We nevertheless conduct additional tests to identify the effects from hedge fund intervention, vis-à-vis several counterfactuals.

We first consider the alternative hypothesis that hedge funds select companies where management was about to implement changes even without influence or pressure from the hedge funds. To this end, we focus on the subsample of openly confrontational events where the hostile nature of hedge fund activism is proof of management's resistance and it would therefore be difficult to attribute post-intervention changes to management's voluntary and planned reform. A second specific alternative hypothesis is that hedge funds are sophisticated stock pickers selecting target firms that are best positioned to benefit from an industry shock. We refute this alternative explanation by examining the performance of plants that belong to target firms' non-primary business segments.

To address the possibility that hedge funds merely engage in stock picking rather than adding value through intervention, we resort to a legal feature in ownership disclosure as the source of identification. Specifically, we compare the performance of firms for which hedge funds switched from a 13G to a 13D filing,[3] which indicates no change in ownership but a change from a passive to an activist stance. The 199 such cases in the sample provide an ideal setting to test the incremental effect of intervention over stock picking. The significant performance improvement of these firms after the hedge funds' decision to switch their filing—combined with results from the other identification tests—suggests that the performance improvement among target firms would not have occurred had the hedge funds been mere passive investors.

The findings of our study should be broadly interpreted as the real effects of active monitoring by informed outside shareholders. Recent work has extended the analysis to general outside blockholders (Becker, Cronqvist, and Fahlenbrach (2011); Clifford and Lindsey (2013)) to identify their effect on firm performance mostly via the governance channel. Based on their incentive structure, investment strategies,

[3] A shareholder who acquires more than 5% beneficial ownership is required to disclose in the Schedule 13D within 10 days of crossing 5% if it intends to influence control. If the investment intention is purely passive, the disclosure requirement is a less stringent 13G form. Section 6.3 provides a more detailed discussion of these filing requirements with the SEC.

and extent of regulation, we expect hedge funds to be among the most effective activists.[4] Moreover, productivity gains, often with the help of restructuring activities, have been documented among takeover and private equity transaction targets (Maksimovic, Phillips, and Prabhala (2011); Li (2013); Davis, Haltiwanger, Jarmin, Lerner, and Miranda (2011)). The fact that a form of non-control based shareholder monitoring attains the same outcome indicates that activist hedge funds occupy an important middle ground between internal (via boards) and external governance by corporate raiders.

The paper proceeds as follows. Section 2 presents the construction of the data and the sample used in the analysis. In particular, we describe how we form our measure of production efficiency and match the Census data to the hedge fund activism event data. Section 3 presents the main results on the real effect of activism on the productivity of plants owned by the target firms. Another focus of this section is the interactive effect of industry concentration with corporate governance in the form of hedge fund activism. In Section 4 we document the extent to which hedge fund activists create value through efficient reallocation of target firms' assets by examining the dynamics of productivity of plants sold post-activism. This section also examines the extent to which the estimate of the real effect of activism based on Compustat is biased due to sample attrition from the database. Section 5 provides novel evidence on labor-related productivity and wage changes associated with hedge fund activism. Section 6 runs a battery of identification tests. We conclude in Section 7.

2. Data and Key Variables

2.1 Data Sources and Sample Construction

2.1.1 Plant-level data

We obtain data on manufacturing establishments (i.e., plants) from two types of databases maintained by the U.S. Census Bureau. The first data source includes the Census of Manufacturers (CMF) and the Annual Survey of Manufacturers (ASM) that provide plant-level information, based on which we construct measures of productivity and industry concentration. The CMF covers all manufacturing plants in the U.S. for years ending '2' or '7' (the "Census years"), resulting in roughly 300,000 plants in each census. The ASM covers about 50,000 plants for the "non-Census years." Plants with more than 250 employees are always included in the ASM, while those with fewer employees are sampled randomly with the probability increasing in size. Both sources provide operating information at the plant level including total value of shipments, capital stock and investment, labor hours, and material and energy

[4] For a more detailed argument see Brav, Jiang, and Kim (2010).

costs. Even though it is called a "Survey," reporting is mandatory if selected and misreporting is subject to legal penalty and fines.

The CMF and ASM data have a few critical advantages over standard firm-level databases of public firms such as Compustat. First, since these databases cover plants owned by private firms as well as public firms, they allow us to track the performance of target firms even if they disappear from Compustat due to acquisitions or delistings. Since such events tend to occur more often among firms targeted by hedge fund activists, this feature of the Census data minimizes the potential attrition bias in estimating the effect of activism. Second, accurate estimation of productivity as well as industry benchmarking requires a reasonable uniformity of production functions, a property that applies to plants well but not necessarily at the firm level. Thus, the CMF and ASM data allow us to identify the gain in efficiency in the production process associated with activism which is beyond the reach of analyses relying on databases of publicly traded companies.

The second data source is the Longitudinal Business Database (LBD) from which we obtain unique longitudinal identifiers for plants and information on ownership changes. The LBD tracks more than five million (both manufacturing and non-manufacturing) establishments every year, essentially covering the entire U.S. economy. The variables available in the database include the number of employees, annual payroll, industry classifications, geographical location, and ownership status.

We focus on manufacturing plant-year observations in the CMF and ASM from 1990 to 2009 (the last year of the data coverage). The starting year is determined by the sample period of the hedge fund activism database (1994-2007) and the fact that we examine plant performance beginning three years prior to the intervention. We exclude 'miscellaneous manufacturing industries' (i.e., three-digit SIC=399) as this category does not represent a group of plants that share a common production function. We also require each plant observation to have the variables necessary to estimate total factor productivity (TFP), including the SIC codes,[5] total value of shipments, production worker equivalent hours, beginning-year capital stock, and material and energy costs. Appendix A provides details on the construction of these variables, including adjustments for changes in prices of inputs and outputs, and depreciation. This sample selection procedure yields 787,758 plant-years in our sample. Henceforth, we will refer to the collection of sources described in this section the "Census data."

[5] The ASM and CMF provide SIC codes until 2002 and provide NAICS codes only thereafter. We follow Giroud (2011) and impute the SIC code after 2002.

2.1.2. Hedge fund activism data

The database of hedge fund activism events, covering the period of 1994-2007, is an extended sample used in Brav, Jiang, and Kim (2010) based on the same sample selection criteria. These events are identified mainly through Schedule 13D fillings to the SEC in which hedge funds disclose stock ownership exceeding 5% with an intention to influence corporate control. We also conduct news searches to identify activist events targeted at mid- to large-cap companies (above $1 billion) with ownership stake between 2% and 5%. We collect detailed information on key aspects of each event from the initial and amended 13D filings via the SEC's EDGAR system and by news searches.

The target firm-year pairs are then matched to (potentially multiple) plant-year observations in the Census data using a bridge file created by the Census Bureau. Panel A of Table 1 shows that for 368 (out of a total of 1,987) activism events from 1994 to 2007 we are able to find at least one matched plant-year in the Census data with adequate information for estimating TFP, resulting in 14,923 plant-year observations in total. This match rate is somewhat lower than those typically reported in previous research due to two factors. First, close to 70% of the hedge fund activism targets in our sample are in non-manufacturing sectors. (So are all publicly listed companies in the U.S.) In fact, the match rate is much higher at 44% for activism target firms in the manufacturing sector (based on the Compustat SIC code). Second, activism targets tend to be smaller than sample firms examined in previous research using the Census data (e.g., LBO and M&A targets).[6]

[Insert Table 1 here.]

Both the full sample of events and those matched to the Census data are more concentrated in the 2000s compared to the 1990s, reflecting the rise of activist intervention as an investment strategy among hedge funds from the early 2000s. Out of 368 activist events matched to the Census data, 245 took place in or after year 2000. The number of plant-year observations maintains a similar proportion.

Given that not all targets of hedge fund activists are matched to the Census files, it is necessary to examine if the matched activism events are representative of the entire sample to ensure that our findings have general implications beyond the manufacturing industry. The distributions of stated objectives and success rates (including partial successes) of the full sample and matched sample, reported in Table 1 Panel B, indicate that the matched events appear to be nearly identical to the full sample of events along these two important dimensions. For example, the success rates (i.e., the proportion of events in which hedge funds attained, at least partially, their stated goals) for both samples are roughly two-thirds.

[6] For comparison, Lichtenberg and Siegel (1990) report a matching rate of about 50% for their LBO target firms with the Census data. Note that target firms classified as "non-manufacturing" based on the SIC code from Compustat might own manufacturing establishments, and thus could also be matched to the Census data.

2.2 Key Variables

2.2.1 Productivity

Our main measure of plant performance is total factor productivity (TFP), which is defined as the difference between the actual and predicted output given inputs. In order to compute the predicted output for each plant, we follow the literature (e.g., Lichtenberg and Siegel (1990); Lichtenberg (1992); Schoar (2002); Bertrand and Mullainathan (2003); and Giroud (2011)) and estimate a log-linear Cobb-Douglas production function using Ordinary Least Squares (OLS) regressions by three-digit SIC industry and year:

$$\ln(Y_{ijt}) = \alpha_{jt} + \beta_{jt}^{K}\ln(K_{ijt}) + \beta_{jt}^{L}\ln(L_{ijt}) + \beta_{jt}^{M}\ln(M_{ijt}) + \varepsilon_{ijt}, \tag{1}$$

where α_{jt} is an industry-year specific intercept, Y_{ijt} is output, K_{ijt} is net capital stock, L_{ijt} is labor input, M_{ijt} represents material costs. ε_{ijt} is the residual and the estimate of the TFP for plant *i*, in industry *j* in year *t*. The coefficients in (1) carry *(j,t)* subscripts, which allow for factor intensities that are industry-year specific. In addition, given that TFP is the estimated residual of the industry-year specific regressions, we can interpret the TFP of a given plant as a relative productivity rank of the plant within a given industry and year. Finally, following Maksimovic, Phillips, and Yang (2013), we "standardize" the TFP measure from (1) by dividing it by its cross-sectional standard deviation for a given industry-year. Essentially, this adjustment accounts for differences in the precision of TFP estimates among industry-years. As expected, using the non-standardized measure yields qualitatively similar but noisier results.[7]

Though equation (1) is the common method adopted in the finance literature to analyze productivity at the micro-unit level, it is subject to the criticism that the estimated TFP is a regression residual and could therefore be contaminated if ε_{ijt} in equation (1) is positively correlated with one or more inputs. The current state-of-the-art remedy to this issue has been proposed by Levinsohn and Petrin (2003). It controls for unobserved shocks in productivity using an observable intermediate input (in this case, materials) based on the assumption that the intermediate inputs' demand function is monotonic in productivity as long as the market for the input is competitive. The Levinsohn and Petrin (2003) method, though econometrically more justifiable, comes with cost. It requires a long panel of plant-year observations to estimate production functions in equation (1) because it relies on estimated within-plant persistent productivity shocks. For reliable estimation of the parameters, we use 20 years of data for each

[7] Lichtenberg and Siegel (1990) point out that the measure of TFP could reflect pricing power as well as efficiency in less-than-perfectly competitive markets. As we show later, the gains in efficiency associated with activism are actually driven by target plants in less concentrated—presumably more competitive—industries where the measure for TFP is more accurate.

industry-year panel. As a result, the implementation of the method requires much more computing power while losing a substantial proportion of observations relative to OLS. For this reason, we apply the Levinsohn and Petrin (2003) method as a sensitivity check.

2.2.2 Industry concentration

Our main measure of the degree of product market concentration is the Herfindahl-Hirschman Index (HHI). Specifically, we compute the HHI using the Census data as follows:[8]

$$HHI_{jt} = \sum_{f=1}^{N_j} S_{fjt}^2, \tag{2}$$

where HHI_{jt} is the Herfindahl-Hirschman index for industry j in year t, and S^2_{fjt} is the squared market share of firm f in industry j in year t. Market shares are measured using total value of shipments aggregated at the firm level (i.e., sales), and industry is defined at the three-digit SIC level.

It is worth noting that the HHI measure constructed in our study includes both public and private firms. At the industry level, the correlation between the HHI measure herein and that constructed using the Compustat data alone is 0.17. The modest level of correlation indicates that using only public firm information does not capture the full reality of industry concentration.

2.2.3 Descriptive statistics

Table 2 reports the descriptive statistics comparing the characteristics of target plants with all Census plant-year observations used in our analyses and plant-year observations belonging to public firms (from Compustat).

[Insert Table 2 here.]

On average, plants owned by target firms from four years before to three years after a hedge fund's intervention have a total value of shipments (TVS) of \$78m and real net capital stock of \$41m (in 2005 dollars), which are slightly larger than the respective values for the full Census sample but considerably smaller than the average of plants affiliated with publicly traded firms. Since our main measure of production efficiency, standardized TFP, is constructed as the residual of a production function regression scaled by its standard deviation, it has a mean of zero and a standard deviation close to 1.00 by construction for the full sample.[9] In comparison, target plants have a positive mean TFP

[8] The CMF has a more comprehensive coverage but the ASM provides more consistent time series. We compute the HHI using the CMF data for comprehensiveness, and use a given Census year's HHI for two years before to two years after the Census year (Ali, Klasa, and Yeung, 2009). Our results are qualitatively robust if we construct the HHI using the ASM instead, and impute the Census year's value of the HHI for the latest non-Census year's HHI.
[9] Due to the winsorization at the 1% tails the standard deviation is slightly lower than 1.00.

indicating that they are more efficient than the average plant in the full sample. Similarly, target plants show a higher operating profit margin than the full sample of plants, on average (but not much different from the average of plants affiliated with public firms). Finally, the industry concentration measured by the HHI using the Census data for targeted plants is identical to that of plants of all public firms, indicating that hedge fund activists do not have a clear preference for more or less concentrated industries.

Next, we compare target firms in the latest year prior to intervention matched to the Census sample with all target firms and then all public firms (the Compustat universe) for the 1994-2007 period. The summary statistics are reported in Table 3. First, Census-matched target firms are similar to all target firms in terms of size (measured by market equity and book assets) and leverage. However, targets matched with the Census data tend to hold less cash, pay more dividends, have lower valuation ratios (i.e., q), lower sales growth rates, spend less on R&D, and are more profitable than the full sample of activism target firms. These characteristics suggest that firms that are matched to the Census databases generally have worse growth opportunities but enjoy better cash flows, typical signs of firms in mature industries. These differences are mostly due to the fact that close to 70% of the Census-matched firms are concentrated in the manufacturing sector. The comparison between target firms and the full Compustat Universe are consistent with the findings in Brav et al. (2008).

[Insert Table 3 here.]

3. Productivity and Product Market Concentration

3.1 Plant and Firm Productivity before and after Activists' Intervention

As a first step, we examine the impact of hedge fund activism on target firms' productivity at the plant level. Our main dependent variable is plant-level total factor productivity (TFP) computed as the estimated residual from a log-linear Cobb-Douglas production function regression at the SIC three-digit industry-year level as in equation (1).[10] Our TFP measure can be understood as the relative productivity rank of a plant within its industry-year. By construction, the TFP of an industry in a given year, averaged over all plants, is zero. The resulting regression specification is as follows:

$$y_{it} = \sum_{k=-3}^{3} \gamma_k d_{it}[t+k] + \lambda Control_{it} + \alpha_j + \alpha_t + \varepsilon_{it}. \quad (3)$$

The key independent variables in equation (3) are a set of year-plant dummy variables, *d[t-3],…, d[t+3],* corresponding to plant-year observations from three years before to three years after a firm, to

[10] Our main results are robust to a translog functional form, a less popular measure used in the literature.

which the plant belongs to, is targeted by a hedge fund activist. Moreover, we code the dummy variables $d[t+k]$, $0 \leq |k| \leq 3$ one if a given plant is owned by the target firm in year $t+k$. Hence, this specification analyzes the dynamics of performance of plants that remain in the hands of the target companies before and after hedge fund targeting. The effect of ownership changes on productivity is an important but separate question which we examine in Section 4.

The control variables include segment and firm size, measured by the log number of plants in a given industry segment of a given firm and the log number of all plants of a given firm, respectively. Plant age is defined as the number of years since a plant's birth identified by the flag for plant birth in the LBD, or its first appearance in the CMF or ASM database, whichever is the earliest. The starting year is censored in 1972 when the coverage of the Census databases begins. This set of control variables is standard among research that analyzes plant-level performance using the CMF and ASM data (e.g., Schoar (2002); Giroud (2011)). Finally the estimation takes into account firm/plant and year fixed effects (α_j and α_t). Industry fixed effects are not appropriate when the dependent variable, TFP, is already an industry-level residual.

Table 4 reports results from a variety of specifications to ensure robustness. In column (1), we do not include fixed effects but demean the control variables at the industry-year level so that they are commensurate with the dependent variable. Columns (2) and (3) adopt firm or plant fixed effects with the dependent variable being the normalized TFP. The dependent variable in column (4) is the non-standardized TFP to validate that our results are not driven by normalization of TFP scales. In column (5), the TFP measure is obtained using the Levinshon and Petrin (2003) GMM procedure to address the issue that the residuals and the inputs are potentially correlated in equation (1). Finally, column (6) reports results at the firm level by aggregating plants belonging to the same firm.

[Insert Table 4 here.]

We find that the productivity of target firms' plants prior to intervention is at par or higher than their control plants with similar size and age in a given industry and year. Plant productivity then deteriorates prior to intervention and then rebounds steadily afterwards. Formal tests, reported at the bottom of Table 4, indicate that the improvement in productivity from the year of targeting to three years afterwards is statistically significant at the 5% level throughout all specifications. And in half of specifications the improvement is significant beginning in year $t+2$. The economic magnitude of the improvement in plant-level TFP associated with activism is sizeable: a typical target plant experiences an increase in TFP of 7.7%-10.8% of the standard deviation from years t to $t+3$ using the first three specifications where the dependent variable is constructed to be of unit standard deviation. A formal test of the joint significance of deterioration before and improvement post intervention, which amounts to an *F* test for the joint inequality of coefficients on *d[t]* and *d[t-3]*, and that of coefficients on *d[t+3]* and *d[t]*, rejects joint equality at the 5% (10%) level for two (four) specifications.

Interestingly, both the pattern and the magnitude of the TFP dynamics around hedge fund intervention echo the findings of the improved ROA at target firms after the intervention shown in Figure 1. The three-year ROA improvement from the trough in year *t* is about 3 percentage points, which is about 10% of the standard deviation of ROA (with the same winsorization at the 1% extremes as we conducted on the TFP estimates) during our sample period. Moreover, this magnitude of the change in ROA is similar to that of the change in raw TFP from years *t* to *t+3* by 3.6%.

In addition, the positive coefficients on the targeting dummies in the specifications without firm/plant fixed effects suggest that plants owned by target firms are generally more productive than their industry-size-age matched peers. This evidence is consistent with Brav et al.'s (2008) finding that hedge funds tend to target mature firms with relatively strong business fundamentals but may be subject to agency problems of free cash flows. These firms experience a deterioration due to bad governance or mismanagement such as poor adaptation to market changes. The deterioration triggers the targeting by activists, and is more or less reversed within the 2-3 year period post targeting. The dynamics of plant-level productivity is hard evidence for changes in the fundamental value of firms associated with hedge fund targeting. In addition, it refutes the assertion that the positive returns to hedge fund activism can be attributed solely to financial gains (such as extracting payouts to shareholders through leverage).[11]

3.2. Interaction with Industry Concentration

A growing body of recent work highlights the interactive effects of industry concentration (often viewed as a proxy for product market competition) and corporate governance. Bauer, Braun, and Viehs (2010) show that the lack of industry competition in combination with managerial entrenchment increases the likelihood of activist shareholder proposals. Kadyrzhanova and Rhodes-Kropf's (2011) theoretical model concludes that industry concentration affects the trade-offs of governance for shareholders. Closely related to our work are papers by Giroud and Mueller (2010, 2011) showing that anti-takeover laws have a more negative impact on shareholder value in non-competitive industries; accordingly, takeover pressure and product market competition seem to work as substitutes. Chhaochharia, Grinstein, Grullon, and Michaely (2012) find another form of substitution documenting that firms in more concentrated industries benefit more from the Sarbanes Oxley Law in 2003 which was designed to enforce stricter internal governance.

[11] See, for example, "Democracy for investors has its limits," *International Herald Tribune*, February 27, 2013.

Hedge fund activism is distinct from the other two forms of governance discussed above in that it is a non-control driven (instead of takeover oriented) and market based (instead of internal) form of governance. A priori, its relation to product market competition is unclear. It is worth noting that the theory in this context is also ambiguous. While competition requires high effort to avert failure (Schmidt (1997)) and leads to strong managerial incentives because outcomes are more informative (Hart (2003)), it also reduces profits which make effort less attractive (Schmidt (1997); Raith (2003)). Moreover, these theoretical papers predict the relation between competition and incentives but do not offer a direct prediction on the interactive effects of competition and governance (shareholder monitoring in our context) on performance.

To address the question empirically, we conduct a regression analysis in the form of equation (3) but interact all regressors with *High_HHI* and *Low_HHI,* dummy variables for the SIC three-digit industries being in the top and bottom quartiles of the Herfindahl-Hirschman Index (HHI) as described in equation (2). The HHI is a direct measure for industry concentration used by a large literature as a proxy for product market competition.

$$\begin{aligned} y_{it} = High\_HHI \cdot (\textstyle\sum_{k=-3}^{3} \gamma_k^{High\,HHI} d_{it}[t+k] + \lambda^{High\,HHI} Control_{it}) + \\ Low\_HHI \cdot (\textstyle\sum_{k=-3}^{3} \gamma_k^{Low\,HHI} d_{it}[t+k] + \lambda^{Low\,HHI} Control_{it}) + \alpha_t + \varepsilon_{it} \end{aligned} \tag{4}$$

The two sets of coefficients $\{\gamma_k^{High\,HHI}, \lambda^{High\,HHI}\}$, $\{\gamma_k^{Low\,HHI}, \lambda^{Low\,HHI}\}$ are reported in Table 5.[12]

[Insert Table 5 here.]

The key message from Table 5 is that the post-intervention improvement in TFP is more pronounced among less concentrated industries. The magnitude of a change from year *t* to year *t*+3 is 2.8 times larger in the least concentrated industries compared to the most concentrated ones. If low concentration is related to more competition, this relation suggests that product market competition and outside shareholder monitoring are potential complements. Such a relation is confirmed by Aslan and Kumar (2013) who show that activist hedge funds are more effective in improving firm-level performance when the product market environment becomes more competitive (using import tariffs as an instrument).

One natural question that arises from this result is: why do hedge fund activists target firms in concentrated industries given that activism appears to lead to insignificant efficiency gains? In fact, and perhaps surprisingly, we find that hedge funds target firms in more or less concentrated industries with

[12] This regression is equivalent to running regression (3) separately on the top and bottom HHI quartile subsamples. We adopted the specification in (4) due to restrictions on data disclosure from the Census Bureau. The same regression specification is adopted for all subsample analyses in the rest of the paper.

roughly equal frequencies (see also Giroud and Mueller (2011) for similar evidence). One plausible explanation for this result is that hedge fund activists create value in different ways in dispersed versus concentrated industries. In particular, Raith's (2003) theoretical model shows that the benefit of improved efficiency (due to better governance or incentives) is higher in competitive industries in which the firm-level demand function is relatively elastic, and thus a marginal improvement in efficiency leads to a large increase in output and profits—a "business stealing effect." Therefore, activists might want to focus on improving productivity in these industries. In concentrated industries, however, the benefit of productivity gains is not as large due to relatively inelastic demand curves, whereas activist hedge funds can instead focus on allocational, financial, and governance-related improvements.

We provide two pieces of evidence that support this hypothesis. First, output expands in competitive industries but shrinks in concentrated industries post hedge fund intervention, consistent with the "business stealing" effect in competitive industries. Controlling for industry and year fixed effects, we find that output expands by about 13.6% among targeted plants in industries whose HHI is in the lowest quartile; in contrast, output shrinks by roughly 3.1% for targeted plants in industries in the top HHI quartile. The difference, however, is not significant. The same pattern is observed for all inputs: labor, capital, and materials all expand (shrink) in low (high) HHI industries. Aslan and Kumar (2013) provide one additional piece of conforming evidence: they find that firms tend to increase their market shares after being targeted by hedge fund activists, and the effect is stronger in low HHI industries.

Second, firm-level data from Compustat reveals that hedge funds are more likely to focus on fixing the free cash flow problems in concentrated industries where target firms tend to be more profitable (although they could be less productive). Table 6 shows that, in concentrated industries, hedge fund activism is associated with increases in leverage, dividend payout, and CEO turnover rates, and a decrease in capital expenditure post intervention compared to pre-targeting levels. Compare to the level at the year-end before targeting, the increase in leverage (CEO turnover) by the end of year $t+1$ is significant at the 5% (10%) level. Investment takes longer to scale down: by the end of the third year post targeting, capital expenditure (capex) decreases to a level that is significantly (at the 10% level) lower than that in the pre-targeting period. All these changes support the hypothesis that activists attempt to correct agency problems associated with free cash flows and entrenched management, and are fully consistent with the disciplinary effect of proxy contests documented by Fos (2012). Interestingly, the same effect is largely absent in non-concentrated industries where activists are more effective at improving real efficiency. None of the pre-post changes is significant at less than the 10% level. This contrast supports the view that activists optimally focus on other aspects of target firms than production efficiency, such as capital structure and corporate governance, in concentrated industries.

[Insert Table 6 here.]

Our findings also highlight the difference between hedge fund activism, a non-control driven form of external (or market-based) governance and two other forms of governance: control driven external governance (i.e., takeovers) analyzed by Giroud and Mueller (2010)) and internal governance through boards and compliance with regulations studied by Chhaochharia, Grinstein, Grullon, and Michaely (2012). Hedge fund activism interacts with product market competition in ways that are critically different from these alternative forms for the following reasons. First, takeover defenses (which underlie common governance measures) do not shield entrenched management from hedge fund activism because activists typically aim for strictly minority ownership. The inter-quartile range of hedge fund ownership in our sample is 5.3% to 8.8%, and in 95% of the cases the ownership stake is below 20%. Even when hedge fund activism escalates to proxy contests, activists tend to seek a short slate of board representation with rare exceptions. As a result, the most powerful takeover defenses such as poison pills and staggered boards are less of a constraint for activists. In fact, firms with more of these defenses stand a significantly higher chance of being targeted by hedge fund activists (Brav, Jiang, and Kim (2010)).

Second, hedge fund activism is also distinct from internal monitoring which laws like Sarbanes-Oxley were designed to promote. Hedge fund activists seek to invest in underperforming firms and hope to profit from the improvement which is different from activism by traditional institutional investors (e.g., pension funds) whose aim is to contain the damage to their portfolio firms that turn out to underperform. By being "offensive" rather than "defensive" activists, hedge funds accumulate the critical mass of their stakes within a short period of time, often within a quarter (Collin-Dufresne and Fos (2012); Gantchev and Jotikasthira (2012)). As a result, hedge fund activists monitor and influence firm decisions as outsiders, and their job is made easier in dispersed industries where a target firm has many peers to compare performance to and to share best practices with. The next section further shows that capital reallocation is an important way for activists to add value, and the strategy works better when there are more potential buyers and sellers of similar assets.

4. Capital Reallocation and Attrition Analyses

4.1. Gains Due to Reallocation of Assets: New Insights from the Census Data

To the extent that hedge fund activists help enhance the production efficiency of the targeted firms, an equally important question is whether such improvements are accomplished through improving the efficiency of assets in place or through capital reallocation, or both. In fact, efficient redeployment of capital is a commonly stated goal of activist hedge funds. In addition to about 20% of the events in which hedge funds explicitly demand the sales of the entire target company, in another 15% of the events the activists push for the divestiture of under-performing or non-core assets in order to strengthen the companies on their core line of business. The case of Pershing Square's engagement with Fortune Brands, described in Appendix B, also points to capital reallocation as an important mechanism for the value added by the activist hedge funds.

Prior literature has offered some indirect evidence on the extent of the gain from capital reallocation. For example, Brav et al. (2008) and Greenwood and Schor (2009) show that announcement returns of hedge fund activism are largest among events in which the stated goal is to push for the sale of the target. The scope of these previous findings, however, has been limited by data from CRSP/Compustat. First, performance measures computed using firm-level data (such as ROA) do not separate organic improvement (i.e., productivity gains of existing assets) from re-allocational gains (i.e., due to acquisition/disposition of better/worse performing assets). The Census data, which are recorded at the plant level and hence survive ownership changes and firm delistings, allow us to separate the two effects by tracing out the performance of plants that change ownership post targeting (i.e., are spun off).

Second, a Compustat firm will drop out of the database if it is acquired by another company (public or private), or is delisted (i.e., going private). Within two years after being targeted by hedge funds, 25.5% of the targets in our sample cease to be covered by Compustat, a rate that almost doubles the average attrition rate of a typical Compustat firm. Therefore, addressing the potential delisting bias is challenging, particularly given that the direction and magnitude of the bias are *a priori* unclear. Firm delisting is usually associated with negative reasons (Shumway (1997)). Accordingly, analyses based on the surviving sample tend to carry a positive bias. However, such an intuition might not apply to firms targeted by hedge fund activists since the attrition from the sample may actually represent a successful outcome for the following reasons. First, targeted companies on average have stronger fundamentals (higher productivity, ROA, and liquidity, as shown by the prior literature and Table 4 of this paper), and hence the subsequent attrition is less likely to be distress-related compared to firms delisted without the intervention of hedge fund activists. Moreover, the "sale of the company" objective category experiences the highest attrition rate (31.0%), where the ex post sale of a target firm reflects a successful execution of the stated goal of the hedge fund. Indeed, 70% of the target firms that disappear from Compustat within two years post intervention are acquired. Using trading liquidity as an instrument, Brav, Jiang, and Kim (2010) uncover a negative survivorship bias due to delisting from Compustat. That is, firms that will experience greater improvement in performance post intervention are also more likely to disappear from the Compustat database conditional on observable characteristics.

The Census data allow us to pin down the direction and magnitude of the attrition bias by following targeted plants regardless of the listing status of the firms they are affiliated with. The analyses that follow provide direct evidence consistent with a negative survivorship bias. That is, plants belonging to firms that were delisted from Compustat post targeting experience greater productivity gains than plants owned by firms that remain in the database on average.

4.2 Ownership Change of Target Firms' Plants

By focusing on plants that belong to targeted companies prior to activism but were later spun off we attempt to identify gains in efficiency via asset redeployment facilitated by the activists. In our sample, about 23% of the plants of the targeted companies were sold between the year of intervention and the third year post-intervention. The "sale rate" for non-targeted companies during a three year period is 13%. These numbers validate the stated goals of hedge funds in many activism events and generalize the anecdotes regarding hedge fund strategies. Consider, for example, Trian Fund Management's engagement with Wendy's/Arby's beginning in 2008. The hedge fund pushed Wendy's to jettison the underperforming sandwich chain and to revitalize the company's core menu in order to pose against rivals McDonald's and Burger King. Appendix B of this paper also provides a detailed description of Pershing Square's engagement with Fortune Brands and its role in the conglomerate's decision to spin off two of its peripheral segments.

To formally assess the impact of asset reallocation, we first analyze the determinants of a plant sale and, in particular, the impact of hedge fund intervention. In Table 7 Panel A, columns (1) and (2), we report results from probit regressions at the plant-year level where the dependent variable is a dummy variable for plant sale in a given year. The plant characteristics with the strongest effect on a plant sale are TFP and the centrality of the segment that the plant belongs to in the firm (as measured by the contribution of the segment to a firm's total shipments). As expected, both are significantly negatively associated with the probability of plant sale. Related to hedge fund activism, we find the following significant (at the 5% level) results: plants belonging to targeted firms are more likely to be sold after, but not before, the intervention. Moreover, the negative and significant sign on the interaction term *After* × *TFP* implies that low productivity plants are far more likely to be sold post intervention. Finally, the probability of being sold increases significantly post-targeting for plants in non-concentrated industries, but not for plants in concentrated industries. Panel A provides a clear message that hedge funds are associated with the sale of poorly performing plants and more so in non-concentrated industries.

[Insert Table 7 here.]

Next, we ask whether productivity improves among plants that were sold (and now in the hands of new owners). Panel B of Table 7 presents results that address this question. First, we re-run the regression presented in equation (3) but do not restrict the ownership of plants by the targeted companies in the three years before and after targeting. Instead, the dummy variable $d[t+k]$, $k = -3,\ldots,+3$, assumes the value of one as long as the plant is owned by the target company during the year of targeting (year t).[13] Column (1) shows that the post-targeting performance change for these broadly defined event plants is less impressive than those reported in Table 4 for plants owned by target firms from years t-3 to t+3. The key difference is due to the inclusion of plants that are sold over the two years subsequent to the intervention and is consistent with the fact that worse-performing plants are more likely to be sold after the hedge fund intervention (as shown in Panel A of Table 7).

A mere divestiture of a negative NPV business unit creates value for a firm; yet the efficiency gain argument in favor of hedge fund intervention could be further strengthened if the performance of plants that are sold post-intervention improves in the hands of new owners. To test this hypothesis, we re-run the TFP regression in equation (3) but redefine an event as the sale of a plant by a firm that was targeted by hedge fund activists in the year of activism or within two subsequent years (i.e., from t to t+2). The second column of Panel B shows that plants that are sold post-activism exhibit a "V"-shaped pattern of performance around their sale. In particular, those plants had productivity that is statistically equivalent to that of their industry-size-age benchmarked peers three years before their sale, but were sold right after their trough in terms of performance. Subsequently, the change in TFP from years t to t+3 amounts to 22% of a standard deviation in TFP of the peer group, which is statistically significant at the 10% level.

A question remains as to whether the TFP improvement subsequent to the sale of the plant is unique among targeted firms or is equally prevalent among plants sold in the absence of hedge fund intervention. The third column in Panel B addresses this issue through what is essentially a placebo test. When we examine all sales of plants that do not belong to firms ever targeted by hedge funds in our sample, we find that the improvement from years t to t+3 is 0.037 (statistically significant due to a much larger sample of plant sales), or one-sixth of the magnitude experienced by sales associated with hedge fund activism. The difference-in-difference, at 0.182, is short of being statistically significant (t-statistic = 1.56).

Finally, we examine the interaction between the change in performance subsequent to the plant sale and industry concentration, and assess its consistency with the discussion in Section 3.2. The

[13] In contrast, for the analysis in Table 4, we code the plant-year event dummy $d[t+k]$ as one if a given plant is owned by the target company in that year $t+k$.

increase in TFP documented in column (2) of Table 7 Panel B is most pronounced among the least concentrated industries (results not tabulated). For the subsample of industries whose HHI measures rank among the bottom quartile, the change in TFP from years t to $t+3$ is 0.443 (t-statistic = 3.32). The same figure for the top-quartile HHI industries is 0.112 (t-statistic = 0.72).

The results in Table 7 illustrate the relative importance of TFP improvement on the intensive margin (i.e., gain in efficiency for assets retained by the target firms post intervention) and that on the extensive margin (i.e., gain in efficiency due to assets matched to new owners). Hedge funds overall seem to be more effective on the extensive margin by facilitating asset reallocation. Such a role is natural given that hedge funds are outside investors who may not possess detailed knowledge about the inner operation of a firm, but may have a comparative advantage in sharing industry-wide best practices and in managing asset portfolios at the industry level. Moreover, industries with lower concentration have "thicker" markets for their assets, and thus offer better opportunities for asset redeployment (Gavazza (2011)).[14] Overall, this relation serves to explain why hedge fund activism appears to be a complement to product market competition as a form of corporate governance. It is worth noting that this explanation does not hinge on equating industry concentration to competition, which also sets this study apart from Giroud and Mueller (2010, 2011) and Chhaochharia, Grinstein, Grullon, and Michaely (2012).

4.3 Delisting from Compustat

Our Census sample includes plants belonging to 368 companies that were targeted by hedge funds between 1994 and 2007. Within this sample, 91 companies disappear from Compustat within two years after being targeted because they were sold, taken private, or liquidated. Among this sample we are able to follow 261 plants owned by 53 firms that are delisted from Compustat post-targeting. These additional observations from the Census data allow us to assess the sign as well as the magnitude of the attrition bias using the Compustat data. We will then discuss the remaining bias due to plant liquidation.

[Insert Table 8 here.]

In Table 8, we report results from regressions that interact the dummy variables $d[t+k]$, $-3 \leq k \leq 3$ with an indicator variable, *Attrition (Non-attrition),* which is set equal to one if a plant belongs to a company that is targeted by hedge funds and then delisted from (remains in) the Compustat database by the end of year $t+1$. On the right side of the table we report the t-tests for improvement in performance

[14] Williamson (1988) is among the first who pointed out that industry concentration (or competition) can be a good proxy for asset redeployability: "If the object is to find assets that have good redeployability in the aggregate then firms that are operating in mature (but not declining), competitively organized industries would appear to be good candidates." (p.587)

among the plants of companies remaining in and disappearing from the Compustat database. Interestingly, when we focus on the plants that belong to companies that were delisted from Compustat during the one-year post-targeting period (*Attrition = 1*), we find a positive improvement in two (three) years with the magnitude of 0.109 (0.239). The improvement from years *t* to *t+3* is significant at the 10% level. In comparison, the magnitude of improvement for remaining firms (*Non-attrition = 1*) is reduced to about half. The statistical significance for the improvement is higher for the remaining firms due to a much larger sample.

We thus find no support for the conventional positive survivorship bias. The relative magnitude actually suggests an unusual negative survivorship bias. That is, restricting estimation to the sample of target firms surviving in Compustat tends to *underestimate* the change in performance associated with hedge fund activism. This result is direct evidence supporting the findings in Brav, Jiang, and Kim (2010) using an instrumental variable approach, and good news to the existing literature using firm-level data: the performance (such as ROA) improvement documented therein is on the conservative side.

Needless to say, the Census data have its own attrition issues. About 16% of target plants and 27% of non-target plants that exist in our sample during the year of the targeting disappear within two years. There are two reasons for the attrition. First, "small" plants (with fewer than 250 employees) are not sampled every year in the ASM (but, all operating plants are sampled in the CMF for the years ending '2' and '7') so that they might disappear from the sample (possibly temporarily) though in fact in operation. This attrition is due to random sampling and therefore should not contribute to a bias in either direction. Second, the plants that are liquidated drop out of the sample simply because they cease to exist. A formal test, reported in Table 7 Panel A, columns 3 and 4, shows that there is no significant difference in the probability of plant closure for plants belonging to target firms after the intervention compared to before. If we believe that plant liquidation is more likely to be distress-related, then there is no evidence that the distress risk increases significantly post hedge fund intervention.

5. Employment, Labor Productivity, and Wages

In this section we explore the impact of hedge fund activism on the employees of target firms. We employ an empirical specification analogous to equation (3). In particular, our dependent variables include measures of employment, labor productivity, and worker wages. We measure labor productivity using output per labor hour and value added (i.e., sales – materials costs) per labor hour. All of the dependent variables are in log scales. The independent variables, described in Section 3.1, are the set of year-plant dummy variables corresponding to plant-year observations from three years before to three years after a firm, to which the plant belongs to, is targeted by a hedge fund activist. The remaining control variables include segment and firm size and plant age.

We report the regression results for these labor outcomes in Panel A of Table 9. Columns (1) to (3) show that the target plants in general experience a decline in employment and worker hours, relative to their peers in the same industry with similar size and age. Both the number of workers and hours per worker decrease post-activism, leading to 11% and 10% drop in total labor hours from years *t* to *t+2* and *t* to *t+3*, respectively. The decrease from years *t* to *t+2* is statistically significant at the 5% level. Such a pattern is similar to, but entails an even higher magnitude, than that documented by Davis et al. (2011) regarding declining employment at target establishments subsequent to private equity transactions.

Meanwhile, columns (4) and (5) show that labor productivity improves by 6.6% to 7.3% at the target plants three years post-activism. These estimates are statistically significant at the 10% level, and consistent with the improvements in total factor productivity (TFP) documented in Section 3. In contrast, the estimates in columns (6) and (7) indicate that worker wages do not keep up with the improved labor productivity – per hour wages are essentially flat and wages per worker decrease (insignificantly) by 1.2-1.6% three years after activism (due to the reduction in total work hours). These results indicate that the employees of target firms experience a de facto but implicit wage reduction: productivity-adjusted per hour wages decrease by 6.1% (= 6.6% - 0.5%) from years *t* to *t+3*.

[Insert Table 9 here.]

This evidence is consistent with empirical results in Bertrand and Mullainathan (2003) and Cronqvist et al. (2009). These papers document that when managers are entrenched or corporate governance is weak (proxied by anti-takeover laws or CEOs with control power), worker pay is abnormally high. They argue that compared to shareholders, corporate managers who have to directly bear the costs of monitoring and "dealing with" workers should have a stronger preference for pleasant relationships with labor, including unions. In particular, if the managers' cash-flow right (e.g., equity stake) is relatively low compared to their control right, then they would have an even stronger incentive to pay high wages to workers using the firm's cash flows while keeping the intensity of monitoring low (Pagano and Volpin (2004)).[15]

In the context of hedge fund activism, Panel A suggests that the managers of target firms might have paid their employees abnormally high wages relative to the latter's productivity in order to maintain a favorable social relation with them before the hedge funds' intervention. The positive coefficients on the

[15] In contrast, these results are inconsistent with the firm-specific human capital and implicit commitment stories *à la* Shleifer and Summers (1988) or an efficient wage hypothesis, both predicting a *decrease* in productivity after hedge fund targeting and a wage reduction.

dummies $d[t+k]$, $-3 \leq k \leq 0$ for measures of wages in columns (6) and (7), and the (insignificantly) negative coefficients on $d[t+k]$, $-3 \leq k \leq 0$ for measures of labor productivity in columns (4) and (5) support this hypothesis. (Of course, this interpretation is qualitative given that some of the dummy variables are not statistically significant at a conventional level). Our results are consistent with the idea that hedge fund activism is an effective governance mechanism to mitigate the "entrenched labor" problem due to managerial incentives. As suggested by Shleifer and Vishny (1986) and Pagano and Volpin (2004), activist investors who have significant cash-flow rights prefer intense monitoring to generous wages, which improves the profitability and productivity of target firms.

Next, in Panel B, we present evidence on the change in these labor outcomes separately for activism events in low and high unionization industries. Columns (4) and (5) of the panel show that both measures of labor productivity improve significantly in the highly unionized industries, while the increase is insignificant in industries with low unionization rates. This result further supports the prediction that hedge fund activists improve the efficiency of target firms with entrenched (unionized) labor, in part via stricter monitoring of workers.

Overall, results in this section suggest that target firm workers do not share in the improvements associated with hedge fund activism. They experience a decrease in work hours and stagnation in wages, while their productivity improves significantly. Moreover, the relative decrease in productivity-adjusted wages from above-par levels suggests that hedge fund activism facilitates a transfer of "labor rents" to shareholders which may account for part of the positive abnormal return at the announcement of hedge fund interventions.

6. Causality

6.1. Overview

The evidence reported so far is consistent with but does not "prove" a treatment effect by the hedge funds on the plants of the targeted companies. Before delving into the causality tests, we would like to highlight two different aspects of a treatment effect in our context. The first question is the following: If hedge fund activists were randomly assigned to target firms (i.e., if targeting per se is exogenous to future firm performance), would they have improved the performance? This question addresses the population average treatment effect. The second question asks: would the same changes have occurred in the absence of hedge funds' effort in the firms that they chose to target? This notion represents the treatment effect on the treated.

For the purpose of our research, as well as for relevant policy implications, we are primarily interested in the second notion of the treatment effect and do not attempt to take a stance on the first. We fully acknowledge that hedge funds do not target firms randomly, along both observable and unobservable dimensions. In fact, picking a target where hedge funds could have the biggest impact is an important part of the activist investing strategy, and no sensible policy should mandate random matching of targets to hedge fund activists. As a result, we are most interested in assessing the real effects from activism relative to passive investments. That is, the counterfactual is the outcome that would prevail had the hedge funds picked the same target firms but remained merely as passive investors.

Current research on hedge fund activism has already provided support for the view that hedge fund intervention, beyond stock picking, is necessary for the observed outcomes. Certain changes (notably a significant increase in CEO turnover rate as shown in Table 6) are natural results of confrontation, which are unlikely to have occurred but for the persistence of the activists. In our sample, activists tend to hold concentrated stakes in target firms for an average holding period of two years.[16] We observe an even longer duration of ownership by Pershing Square in Fortune Brands in the case described in Appendix B. Undiversified positions together with costly engagements, including proxy contests or public campaigns (Gantchev (2012)), cannot be justified by pure stock picking. Moreover, openly hostile activism generates higher announcement returns than non-confrontational ones. And activist stakes, which require the filing of a Schedule 13D, generate higher returns than the revelation of large passive stakes, which can be disclosed at a longer delay on Schedule 13G (see Klein and Zur (2009), Clifford (2008)).

We conduct several additional tests to complement the evidence summarized above. Each test addresses a particular alternative hypothesis to the possibility that the same changes would have occurred even if hedge funds were mere passive investors.

6.2. Specific Alternative Hypotheses

6.2.1. Voluntary reform by the target firm

The first alternative hypothesis is that hedge funds select companies where management was about to implement changes even without influence or pressure from the hedge funds. To assess this possibility, we focus on the subsample of openly confrontational events where the hostile nature of hedge fund activism, due to management's resistance to hedge fund agenda, is publicly known. We classify an

[16] The holding period is measured as the length of time between the filing of the initial Schedule 13D, and the last amendment to the 13D that indicates a drop of the stake below the 5% level. This measure provides a lower-bound for a hedge fund holding period of a significant stake.

event as one in which activists maintain a hostile stance if the activist's tactics involve actual or threatened proxy contests or law suits, or shareholder campaigns of confrontational nature (such as publicly denouncing the management and shareholder proposals aiming at the ousting of the CEO). These events account for about one quarter of our sample. Note that our classification algorithm is conservative: while we might miss events that were hostile behind closed doors, the selected subsample should consist exclusively of hostile events. Results are reported in the first two columns of Table 10 Panel A.

[Insert Table 10 here.]

Repeating the same regression as in Table 4 but restricting event observations to those involved in hostile events, column (1) reveals the same pattern of TFP: deterioration before and improvement after the intervention. For comparison purpose, coefficients associated with non-hostile events are shown in column (2). Interestingly, TFP improvement between years t and $t+3$ is comparable between hostile and non-hostile events (0.127 vs. 0.097) both of which are significant at the 10% level. For the hostile event subsample, it is difficult to attribute these changes to management's voluntary and planned reform, as we know that in these cases management resisted the actions demanded by the activists.

6.2.2. Industry shocks

The second alternative hypothesis posits that hedge funds are sophisticated stock pickers and target players that are best positioned to benefit from an industry shock (such as winners from consolidation). This hypothesis is highly pertinent in view of our finding that improvement in productivity tends to be more pronounced in less concentrated industries (and would therefore benefit more from consolidation). Under this hypothesis, however, the real effects associated with hedge fund activism should concentrate in plants belonging to the primary industries (which were the reason for targeting) but not in plants belonging to the target firms' non-primary industries.

The key subsample for this analysis consists of target firms that have plants in both the primary industry it belongs to and non-primary industries. Following Maksimovic and Phillips (2002), we define a three-digit SIC segment of a target firm as "core" ("peripheral") if the combined shipments of the industry segment is larger than or equal to (less) than 25% of total shipments of the firm. In columns (3) and (4) of Table 10 Panel A, we report the coefficients separately for events that involve plants that are part of the core segments of targeted firms, and those that are peripheral. We find that improvements in plants in non-primary industries are just as strong as their primary-industry counterparts. The three-year post intervention TFP improvement is 0.138 (*t*-statistic = 2.59) for peripheral plants and 0.087 (*t*-statistic = 1.90) for core plants, and the two numbers are not statistically different from each other. Therefore, riding-the-industry-shock alone cannot explain our main results about productivity improvement in targeted plants.

6.3. A General Alternative: Stock Selection vs. Intervention

It is difficult to exhaust all specific alternative explanations for our findings. We thus conduct a summary test that aims at separating hedge funds' stock picking from intervention. In our setting, a "treatment" is a public statement of hedge fund intervention, which necessarily builds on hedge funds' block holding. The challenge is therefore to separate hedge funds' skills in picking stocks and the anticipation of positive changes in the target firm from the hedge funds' intervention that causes or facilitates these changes. Such a separation can be derived from cases where activists' change their investment stance from passive to activist without material ownership changes in the target firm. It turns out that a legal feature in the SEC's ownership disclosure rules allows for such an identification.

Investors with beneficial ownership of more than 5% (but below 20%) for purely "investment purpose" without an intention to exert control are usually eligible to file a shorter form 13G (under Exchange Act Section 13(g) and Regulation 13D-G). To equate 13D (13G) filing to activist (passive) stance for identification purpose we must establish that (i) an investor who files a 13G cannot take actions that could be construed as influencing firm policies and control (including actively "communicating" with the management regarding firm strategies), and (ii) an investor with a passive stance does not want to file a 13D. It turns out that (i) is required by law and (ii) is incentive compatible. Regarding (ii), the 13G form not only requires less information disclosed but also allows for a longer delay in ownership disclosure.[17] Moreover, 13D filings entail more legal obligations.[18] As such, a true passive investor should not find it appealing to file a Schedule 13D.

On the surface, changes in firm performance subsequent to the hedge fund's filings of a Schedule 13D (which involves both stock picking and potential intervention) vs. post 13G filing (stock picking only), should allow us to filter out the treatment effect. However, hedge funds choose to take activist or passive positions in different firms which might not be comparable even if we control for all observable characteristics. Hence, our identification comes narrowly from the same hedge fund-firm paring, that is, when a hedge fund switches from a "G" to a "D." A switch is required by law if a formerly passive investor decides that it may now want to take actions to influence control. Importantly, a switch usually

[17] Passive blocks of more than 5% require disclosure in Schedule 13G within 45 days after the end of the calendar year.
[18] Such legal obligations include instant filing of an amendment if there is any "material" change in the action including ownership change of 1% or more in either direction.

does not come with significant ownership changes. The only major change at the switch is the investment stance from passivity to activism.

There are 299 events (out of the 2,000 or so events) in our sample where activism was initiated by activists' switch of 13G to 13D filings. Due the relatively small sample of switching events and the loss of event observations in matching to Census,[19] we conduct the test both at the plant level using the Census data and at the firm level using data from Compustat. Given that the previous sections establish that target plants' productivity follows similar patterns as target firms' ROA (Figure 1 and Table 4), and that the attrition of Compustat firms does not introduce a positive survivorship bias for target firms (Table 8), we believe the analysis of firm-level operating performance is informative about the performance of underlying business units.

We construct a new sample where a plant-year or firm-year observation is included if at least one of our 319 sample hedge funds have a 5% or more passive ownership disclosed in a Schedule 13G (the "G-stayers") and those observations where hedge funds have Schedule 13D filings that are switched from 13G (the "switchers"). A plant-year or firm-year data point becomes an "event" observation if during that year the 13G filing was switched to a 13D. We call the event "*G to D switch*." This sample encompasses 2,983 plant-year observations or 3,954 firm-year observations (including 199 event observations). We then run the following regression:

$$\Delta Performance_{i,t\rightarrow t+3} = \beta \cdot G\ to\ D\ switch_{i,t} + \gamma \cdot Control_{i,t} + \alpha_f + \alpha_t + \alpha_{SIC3} + \varepsilon_{i,t}, \qquad (5)$$

where $\Delta Performance_{i,t\rightarrow t+3}$ is the change in TFP or ROA during the three-year period post switch (if there is a "*G to D switch*" in year *t*) or just a three-year period (for non-events). $G\ to\ D\ switch_{i,t}$ is a dummy variable equal to one if in year *t* a hedge fund switched a 13G filing in firm *i* (or plant that belongs to firm *i*) to a 13D filing. $Control_{i,t}$ represents the same control variables used in previous plant-level regressions, or includes firm market cap and firm age in the CRSP database for firm-level regressions. α_f, α_t, and α_{SIC3} are hedge fund, year, and three-digit SIC industry fixed effects.

Results, reported in Table 10 Panel B, are encouraging despite the small sample of events that contribute to the identification. Compared to the "G-stayers," the "switchers" experience TFP changes amounting to 0.089-0.132 of a standard deviation and ROA change that is 2.5-3.3 percentage points higher during the three-year period post switch after controlling for year fixed effects. The second specification with fund fixed effect is particularly informative as it controls for fund-specific stock-picking ability. The key coefficients are significant at the 10% (5%) level using plant (firm) regressions.

[19] Recall that we are able to match about one-sixth of the activism event firms to the Census data.

If we further add industry fixed effects, the coefficients are rendered insignificant although the magnitude remains comparable. Due to the small number of switches in the sample, the loss of statistical power is expected with multiple layers of fixed effects.

Table 10 demonstrates that firm and plant performance improves after a passive hedge fund blockholder turns active. Given that the only change at the switching point is the activist stance and not ownership, we believe the test provides a clean identification of intervention beyond stock picking. Importantly, the coefficients on *G to D switch* are of comparable magnitude to the overall improvement in TFP and ROA of all target plants/firms (see the differences in the coefficients on *d[t+3]* and *d[t]* as reported in Table 4 and plotted in Figure 1), suggesting that the "treatment effect" (conditional on hedge fund stock picking) underlies the association between hedge fund targeting and firm performance improvement.

It is important to emphasize that we do not claim that the same improvement would arise if a *randomly* chosen 13G filer is forced to switch to 13D. Our results support a causal effect of intervention among the firms that the hedge funds choose to intervene. In other words, if the hedge funds were disallowed to engage in activism, then the improvement we observe would not have materialized even if the same hedge funds picked the same firms for the purpose of passive investment.

7. Conclusions

Using mostly plant-level observations from the U.S. Census Bureau, we show that hedge fund intervention is associated with productivity gains at the plants of the targeted companies and that this effect is stronger in less concentrated industries. We also measure the performance of plants that were sold subsequent to the intervention and find that they were among the worst performing plants at the time of divesture but later experience a substantial improvement in the hands of new owners relative to a matched sample. We find that employees of target firms experience a reduction in work hours and stagnation in wages while their productivity improves. These results support the view that hedge fund activists facilitate improvements in terms of both production efficiency of assets-in-place and capital re-allocation. Overall, the evidence provided in the paper highlights the real and fundamental effects brought about by hedge fund activists to their target firms.

Appendix A – Construction of Variables to Estimate the Production Function

This appendix describes the construction of variables required to estimate the production function described in Section 2.2 using variables in the CMF and ASM databases. Output is computed as the sum of total value of shipments (TVS) and the net increase in inventories of finished goods and works in progress. To account for industry-level changes in output price, we deflate output using the four-digit SIC level output price deflator from the NBER-CES manufacturing database constructed by Bartelsman, Becker, and Gray (2000).

Capital stock is constructed using a recursive perpetual inventory formula (Lichtenberg (1992); Kovneck and Phillips (1997)). First, we obtain the initial value of nominal capital stock for each plant when the plant is born (identified using the LBD) or first appears in the CMF or ASM. Second, we translate this initial *historical* value of *gross* capital stock into a *constant* value of *net* capital stock using a NAICS-based industry-level capital stock deflator from the Bureau of Economic Analysis (BEA). Third, we account for changes in the price of capital by deflating the computed real, net capital stock using the four-digit SIC level investment deflator from the NBER-CES manufacturing database. Fourth, beginning with the constructed initial net capital stock in constant dollars for each plant, we accumulate capital stock going forward using the following recursive formula:

$$K_{it} = K_{it-1} \times (1 - \delta_{it}) + I_{it}, \tag{A-1}$$

where K_{it} is net capital stock, δ_{it} is a two-digit SIC level depreciation rate from the BEA, and I_{it} is investment for plant i in year t. The measure of investment is deflated using the four-digit SIC level investment deflator from the NBER-CES manufacturing database. Before 1997, variables for investment were available separately for equipment and structure, and we thus construct capital stock separately for each category and then sum the two capital stock measures to obtain total capital stock. After 1997, only variables for total capital are available, and so we only construct total capital stock.

We use "production-worker equivalent hours" as our measure of labor input. Specifically, labor input is constructed as the total production worker hours times total wage bills divided by wage bills for production workers. The underlying assumption to construct this measure of labor hour is that the per-hour wage rates for production and non-production workers are similar. Lastly, material costs are computed as the costs of materials and parts plus the costs of fuel and electricity.

Appendix B: Case Study: ***Pershing Square Capital Management and Fortune Brands***

On October 8, 2010, Pershing Square filed a Schedule 13D with the SEC indicating that it owned 10.9% of Fortune Brands shares and that it also had exposure to cash-settled total return swaps arrangements increasing its economic exposure to a total of 11.3%. At the time Fortune Brands, a conglomerate, ran three divisions: a home and security business, a spirits business, and a golf related business. With scarce evidence for synergies across the divisions it was believed that the company would be worth more if one or two of the parts were sold or spun off.

On October 28, 2010, during the conference call for the third quarter earnings results, the CEO, Bruce Carbonari, said that the company was open to constructive talks with all shareholders including Pershing Square. He proceeded, however, to defend the conglomerate's business structure. Shortly afterwards the company reported that Credit Suisse and Centerview Partners were hired for the negotiations with Pershing Square.[20] It is important to note that since the filing of the Schedule 13D Pershing Square had kept private their plan for the firm as well as the negotiations with management.

In mid-November 2010, the *Wall Street Journal* reported that "Several parties could be interested in the different businesses of Fortune and some have expressed an interest already."[21] The article speculated on the identity of Fortune Brands' competitors who might want to acquire its spirits and golf assets and the possibility that the remaining home and security business could be sold to private equity firms. On December 8th, 2010, Fortune Brands said it would spin off its golf and home and security businesses and retain its higher growth spirits business to be renamed Beam Inc. By then the company's stock price had risen by 18% since the initial filing by Pershing Square.

In the ensuing period Pershing Square did not reduce its stake in Fortune Brands. In fact, on August 8, 2011, it was reported that it increased its direct ownership stake to 13.5% (and an economic exposure of 14.8% including the total return swaps). Pershing Square remained the largest shareholders of the spun-off building products business, named Fortune Brands Home and Security, and the spirits business, Beam. In the letter to investors later in November 2011, the fund described Beam's strong competitive position and high growth reflecting "a very scarce asset" with "many strategic alternatives available to the company, including a sale of the business, a merger with another spirits company, and the acquisition of other brands." The fund also described its holding in Fortune Brands Home and Security as an investment that is well-positioned to benefit from an improvement in the housing market.

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[20] The transcript of the earnings conference call is available at www.SeekingAlpha.com. See also the article in *Reuters*, "Fortune Brands' biggest foe: the Tax Man," October 29, 2010.
[21] "Fortune May Cooperate With Ackman," *Wall Street Journal* November 13, 2010.

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Figure 1: Target Firm Return on Assets (ROA) before and after Activists' Intervention

This figure plots the coefficients β_k , *k=-3,…, +3,* from the following regression at the firm (*i*) – year (*t*) level:

$$ROA_{i,t} = \sum_{k=-3}^{+3} \beta_k \; d[t+k]_{i,t} + \gamma \; Control_{i,t} + \alpha_{SIC3} + \alpha_t + \varepsilon_{i,t},$$

where $ROA_{i,t}$ is return on assets, defined as the ratio of earnings before interests and taxes to total assets. $d[t+k]_{i,t}$, $k = -3,\dots,+3$ is a dummy variable equal to one if firm *i* was or will be targeted by hedge funds in year *t+ j* years. $Control_{i,t}$ are control variables including the logarithm of firm market cap and firm age (proxied by the number of years since first appearance in CRSP). α_{SIC3} and α_t are three-digit SIC and year fixed effects. The solid line plots the coefficients on *d[t+k]* dummies which represent industry-year adjusted ROA. The dotted lines represent 95% confidence intervals.

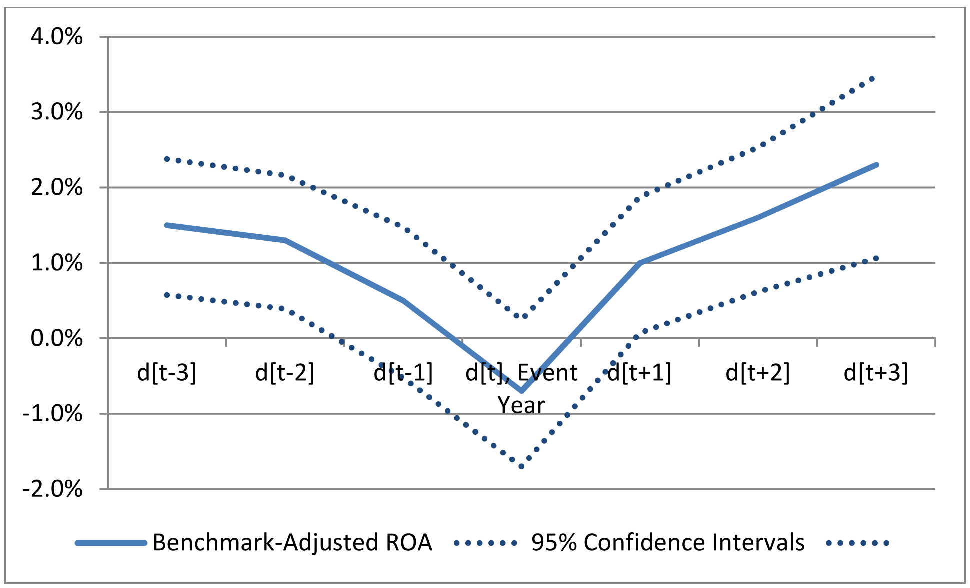

Table 1: Descriptive Statistics on the Census-matched Activism Events

Panel A provides the number of all hedge fund activism events and the events matched to the Census of Manufacturers (CMF) and Annual Survey of Manufacturers (ASM) databases from 1994 to 2007, separately for manufacturing and non-manufacturing target firms based on the Compustat SIC code. The panel also shows the number of plant-year observations for the Census-matched events. Panel B provides the distribution of activists' stated objectives, the percentage among the sample, and success rates for the Census-matched sample (columns 1-3) and the full sample (columns 4-6) of events from 1994 to 2007. Columns 1, 2 and 4, 5 report the number of events, and the percentage among all events, of each category. Columns 3 and 6 list the rate of success, including partial success. Percentages sum up to more than 100% since one event can have multiple objectives. However, the first category ("General") and the other four categories are mutually exclusive. An event is classified as successful if the hedge fund achieves its main stated goal and a partial success if the hedge fund and the company reach some settlement through negotiation that partially meets the fund's original goal.

Panel A: Sample Selection for Activism Events Matched to Census Data

Events	Num. of events	Num. of plant-years
1. All activism events	1987	-
a. Manufacturing targets	640	-
b. Non-manufacturing targets	1347	-
2. Matched to Census data with TFP	368	14923
a. Manufacturing targets	281	12631
b. Non-manufacturing targets	87	2292

Panel B: Summary of Activism Events by Stated Objective

	Census-matched			All		
Stated Objectives	N events (1)	% of Sample (2)	% Success (3)	N events (4)	% of Sample (5)	% Success (6)
1. General	237	64.4%	N/A	1212	61.0%	N/A
2. Capital Structure	51	13.9%	64.7%	263	13.2%	62.0%
3. Business Strategy	56	15.2%	58.9%	293	14.7%	58.4%
4. Sales of Target	61	16.6%	65.6%	375	18.9%	62.7%
5. Governance	119	32.3%	73.9%	631	31.8%	72.4%
Specific – Sum [2 to 5]	131	35.6%	64.9%	775	39.0%	65.0%
Total – Sum [1 to 5]	368	-	-	1987	-	-

Table 2: Summary Statistics on Plant Observations from the CMF and ASM Sample

This table presents descriptive statistics on the plant-year observations targeted by activists (column "Targets"), all plant-year observations used in the analysis (column "Universe"), and plant-year observations matched to public firms from Compustat (column "Universe-Public") from the CMF and ASM databases for the period 1990-2009. We require each observation in the samples to have all variables necessary to compute total factor productivity (TFP). "Total value of shipments" is TVS in the CMF and ASM databases and a measure of sales from plants in million dollars; "Capital stock" is the sum of real net stock of equipment and structures in 2005 constant million dollars. It is constructed using a perpetual inventory formula following the procedure described in Appendix A; "Total wage" is the sum of wages for production and non-production workers in million dollars; "Total employees" is the number of total employees; "Average wage" is computed as total wage divided by total employees (in thousand dollars); "Wage per hour (production workers) is total production worker wage divided by total production hour; "Plants per segment" is the number of plants in a given industry segment (defined at the three-digit SIC level) of a given firm; "Plants per firm" is the total number of plants of a given firm; "Plant age" is the number of years since a plant's birth which is proxied by the flag for plant birth in the LBD, or its first appearance in the CMF or ASM database, whichever is the earliest; "TFP (Standardized)" is total factor productivity computed by estimating a log-linear Cobb-Douglas production function by three-digit SIC industry and year, divided by its within-industry standard deviation; "Operating margin" is defined as (output – labor costs – material costs) / output; "HHI (Census)" is the Herfindahl–Hirschman Index computed at the three-digit SIC level using all observations with positive total value of shipments in the CMF database. "Num. industries (SIC3)" is the number of three-digit SIC industries represented in the sample; "Observations" is the number of plant or firm observations.

	Targets		Universe		Universe-Public	
	Mean	Stdev	Mean	Stdev	Mean	Stdev
Total value of shipment ($m)	78.17	142.81	74.15	340.50	145.32	529.62
Capital stock ($m) – real, net	40.61	102.37	39.33	193.95	83.16	318.49
Total wage ($m)	12.10	17.40	10.38	34.45	19.54	56.97
Total employees	265.00	324.00	226.00	545.00	385.00	872.00
Average wage ($000)	44.12	14.16	41.00	15.13	44.22	15.45
Wage per hour (production workers)	18.82	6.73	17.21	6.81	18.85	7.18
Plants per segment (SIC3)	9.23	12.57	6.52	13.56	12.43	18.02
Plants per firm	28.23	29.23	18.30	33.58	41.66	43.18
Plant age	23.30	8.99	19.93	8.99	20.77	8.55
TFP (Standardized)	0.086	0.908	0.001	0.900	0.112	0.934
Operating margin	0.247	0.271	0.229	0.278	0.240	0.312
HHI (Census)	0.038	0.045	0.030	0.039	0.038	0.044
Num. Industries (SIC3)	119	-	134	-	133	-
Observations (plant-year)	14,923	-	787,758	-	238,846	-
Observations (unique plant)	2,900	-	125,112	-	31,005	-
Observations (firm-year)	1,902	-	406,747	-	29,391	-
Observations (unique firm)	304	-	85,552	-	3,702	-

Table 3: Summary Statistics on Firm Observations from the Compustat Sample

This table presents descriptive statistics on targets of hedge fund activists matched to the Census plant-level data (column "Census Sample") and all target firms (column "All Target Firms"), benchmarked with the full sample of Compustat firms (column "Full Compustat Sample") for the event period 1994-2007. All variables are retrieved from years prior to the event year. "MV" is market capitalization in millions of dollars; "Assets" is total book value of assets in millions of dollars; Leverage is defined as debt/(debt + book value of equity); "Cash" is defined as (cash + cash equivalents)/assets; "Div Yld %" is dividend yield, defined as (common dividend + preferred dividends)/(market value of common stocks + book value of preferred); "q" is defined as (book value of debt + market value of equity)/(book value of debt + book value of equity); "Sales growth" is the growth rate of sales over the previous year; "Cash flow" is defined as (net income + depreciation and amortization)/lagged assets; "R&D" is R&D scaled by lagged assets; "Firm age" is the number of years since a firm's first appearance in Compustat; "HHI (Compustat)" is the Herfindahl-Hirschman index of industry competition defined as the industry-level (SIC3) squared sum of firm market shares measured by sales; "Capx %" is capital expenditures scaled by lagged assets; "Total Payout Yld %" is defined as the sum of common dividends and common share repurchases, scaled by the lagged market capitalization; "CEO Turnover" is equal to one if the name of the current CEO is different than that of previous year's CEO, and zero otherwise; "Altman (Ex. Leverage)" is Altman's Z-Score computed excluding the leverage ratio.

	Census Sample (#obs = 368)		All Target Firms (#obs = 1,575)		Full Compustat Sample	
	Mean	Stdev	Mean	Stdev	Mean	Stdev
MV	800.50	2071.36	657.81	1554.44	1677.3	5156.96
Assets	1090.27	2694.02	1128.22	3498.62	2555.98	8420.64
Leverage	0.288	0.251	0.26	0.259	0.284	0.298
Cash	0.109	0.149	0.173	0.219	0.18	0.231
Div Yld %	0.950	1.620	0.751	1.751	1.111	2.295
q	1.671	1.393	2.066	1.986	3.86	8.072
Sales Growth	0.082	0.296	0.242	0.905	0.261	0.711
Cash flow	0.044	0.165	0.009	0.238	-0.134	0.78
R&D	0.038	0.062	0.048	0.117	0.064	0.164
Firm Age	21.42	17.81	12.77	13.89	12.14	13.73
HHI (Compustat)	0.18	0.16	0.15	0.14	0.14	0.14
Capx %	5.01	4.96	5.54	7.06	5.78	7.55
Total Payout Yld %	2.34	4.54	2.21	4.62	2.18	4.29
CEO Turnover	0.21	0.41	0.13	0.34	0.09	0.29
Altman (Ex. Leverage)	1.52	1.67	-0.19	3.97	-1.55	5.33

Table 4: Hedge Fund Activism and Productivity

This table examines the impact of hedge fund activism on the productivity of plants owned by target firms from three years before to three years after the hedge fund's intervention. The dependent variable is a measure of productivity, the standardized total factor productivity (TFP), as defined in Table 2, in columns 1-3 and 6. In column 1, all control variables are demeaned at the industry-year level. Column 4 uses the nonstandardized TFP as dependent variable, and column 5 uses standardized TFP based on Levinsohn and Petrin (2003) GMM estimates of production functions. *d[t+k]* (*k=-3,…,+3*) is a dummy variable equal to one if the plant belongs to a firm that is targeted in year *t+k*. Year *t* is the event year. "log(plants per segment)," "log(plants per firm)" and "Plant age (/ 100)" are defined in Table 2. The unit of observation is the plant except for column 6, in which plant-level TFP is aggregated at the firm level using beginning-year capital stock as a weight and the number of plants per segment is the average across segments for a given firm. Year fixed effects are included in all regressions. Columns 2 and 3 include additionally firm and plant fixed effects, respectively. The *t*-statistics based on standard errors adjusted for sample clustering at the firm level are reported below the coefficient estimates. At the bottom of the table we report differences in the coefficients on the dummy variables before and after the event year and the associated *t*-statistics, as well as the statistics from an *F*-test for joint inequality.

	(1)	(2)	(3)	(4)	(5)	(6)
Unit	Plant	Plant	Plant	Plant	Plant	Firm
Dep. Var.	TFP	TFP	TFP	Raw TFP	LP TFP	TFP
d[t-3]	0.069	0.001	-0.012	0.007	0.052	0.125
	1.95	0.03	-0.62	0.60	1.66	2.51
d[t-2]	0.072	0.001	-0.013	0.007	0.083	0.069
	1.76	0.03	-0.50	0.49	1.85	1.47
d[t-1]	0.056	-0.026	-0.036	-0.001	0.056	0.074
	1.73	-0.84	-1.40	-0.11	1.77	1.60
d[t]	0.053	-0.032	-0.045	-0.001	0.035	0.020
	1.38	-0.94	-1.60	-0.04	0.93	0.42
d[t+1]	0.075	-0.028	-0.044	0.007	0.026	0.076
	2.01	-0.77	-1.45	0.52	0.62	1.53
d[t+2]	0.116	0.011	-0.005	0.020	0.097	0.151
	3.30	0.29	-0.16	1.48	2.66	2.91
d[t+3]	0.165	0.046	0.032	0.035	0.155	0.177
	4.15	1.30	1.06	2.62	3.80	2.72
log(plants per segment)	0.001	0.026	0.007	0.000	0.006	-0.018
	0.74	3.33	1.35	0.12	0.67	-1.47
log(plants per firm)	0.002	-0.062	0.004	0.021	0.045	0.066
	4.29	-6.12	1.11	9.01	9.39	7.45

	(1)	(2)	(3)	(4)	(5)	(6)
Unit	Plant	Plant	Plant	Plant	Plant	Firm
Dep. Var.	TFP	TFP	TFP	Raw TFP	LP TFP	TFP
Plant age (/100)	-0.005	-0.788	-	-0.207	-0.810	-0.446
	-14.05	-18.36	-	-15.52	-20.81	-13.83
Year fixed effects	N	Y	Y	Y	Y	Y
Firm fixed effects	N	Y	N	N	N	N
Plant fixed effects	N	N	Y	N	N	N
Observations	787758	787758	787758	787758	787758	407020
R-squared	1.14%	33.20%	55.29%	1.02%	1.09%	0.32%
Differences and t-statistics						
d[t] – d[t-3]	-0.014	-0.032	-0.033	-0.008	-0.017	-0.106
	0.49	1.05	1.23	0.69	0.49	1.82
d[t+2] – d[t]	0.056	0.042	0.040	0.020	0.062	0.131
	1.99	1.40	1.39	1.82	1.54	2.88
d[t+3] – d[t]	0.108	0.077	0.077	0.036	0.119	0.158
	3.08	2.24	2.21	2.69	2.48	2.57
F test						
(d[t] – d[t-3] = 0) & (d[t+3] – d[t]=0)	4.84	2.57	2.47	3.66	3.18	3.72
(p-value for F-test)	0.01	0.08	0.08	0.03	0.04	0.02

Table 5: Hedge Fund Activism, Industry Concentration, and Productivity

This table presents the interactive effect of hedge fund activism with product market concentration on the productivity of plants owned by target firms from the three years before to three years after the hedge fund's intervention. Our measure of industry concentration is the Herfindahl–Hirschman Index (HHI) defined in Table 2. We estimate the effect of hedge fund activism for industries with the HHI in the first quartile ("Low HHI") and for industries with the HHI in the fourth quartile ("High HHI"). TFP is estimated using the specification described in Table 2. All other independent variables are defined in Table 4. Industry fixed effects are excluded given that our computation of TFP already accounts for industry fixed effects. Year fixed effects are included in the regression. The *t*-statistics based on standard errors adjusted for sample clustering at the firm level are reported below the coefficient estimates. On the right-hand side of the table, labeled 'Differences and *t*-statistics,' we report differences in the coefficients before and after the event year and the associated *t*-statistics.

	(1)	(2)
Dep. Var.	TFP	
Sample	Low HHI	High HHI
d[t-3]	-0.108	-0.039
	-1.79	-0.72
d[t-2]	-0.018	-0.083
	-0.31	-1.68
d[t-1]	-0.088	-0.096
	-1.66	-2.20
d[t]	-0.081	-0.101
	-1.26	-1.71
d[t+1]	-0.095	0.006
	-1.10	0.11
d[t+2]	0.028	-0.004
	0.33	-0.07
d[t+3]	0.161	-0.014
	2.11	-0.22
log(plants per segment)	0.004	0.041
	0.28	3.33
log(plants per firm)	0.072	0.036
	9.40	4.85
Plant age (/100)	-0.453	-0.596
	-9.48	-10.38
Year fixed effects	Y	
Industry fixed effects	N	
Observations	787758	
R-squared	1.25%	

Differences and *t*-statistics:	(1)	(2)
	Low HHI	High HHI
d[t] – d[t-3]	0.027	-0.062
	0.37	1.33
d[t+2] – d[t]	0.109	0.097
	1.35	1.78
d[t+3] – d[t]	0.242	0.088
	3.08	1.39

Table 6: Hedge Fund Activism and Firm Policies

This table presents the effects of hedge fund activism on firm financial and governance policies. The dependent variables include *Leverage* (the ratio of net debt to total capital), *Capx* (the ratio of capital expenditure to total assets), *PayoutYld* (the ratio of total payouts including dividends and repurchases to the market value of equity), and *CEO Turnover* (a dummy variable equal to one if there is a CEO turnover during the firm-year). Regressions are conducted separately for firms in industries with the HHI in the first quartile ("Least concentrated") and those in the fourth quartile ("Most concentrated"). All regressions include industry and year fixed effects. The *t*-statistics based on standard errors adjusted for sample clustering at the firm level are reported below the coefficient estimates.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Least concentrated Industries				Most concentrated Industries			
Dependent variable	Leverage	Capx	PayoutYld	CEO Turnover	Leverage	Capx	Payout Yld	CEO Turnover
d[t-3]	0.017	-0.055	-0.254	-0.025	0.003	-0.511	0.259	0.023
	1.27	-0.18	-1.48	-0.66	0.25	-1.99	1.00	[0.64
d[t-2]	0.029	-0.023	-0.366	-0.007	0.013	0.035	-0.153	0.054
	2.29	-0.07	-2.16	-0.20	1.16	0.12	-0.70	1.56
d[t-1]	0.035	-0.268	0.081	0.027	0.005	-0.157	0.540	-0.004
	2.62	-0.97	0.39	0.70	0.46	-0.62	1.74	-0.13
d[t]	0.025	-0.440	0.328	0.032	0.021	-0.466	0.559	0.058
	1.99	-1.66	1.17	0.76	1.85	-1.93	1.83	1.65
d[t+1]	0.032	-0.239	0.440	0.049	0.036	-0.592	0.670	0.089
	2.34	-0.78	1.30	1.11	2.72	-2.18	1.80	2.22
d[t+2]	0.010	-0.535	-0.219	0.055	0.033	-0.728	-0.108	0.060
	0.68	-1.70	-0.74	1.01	2.28	-3.14	-0.33	1.81
d[t+3]	0.003	-0.321	-0.514	-0.069	0.019	-0.744	0.124	0.067
	0.17	-0.93	-1.70	-2.10	1.13	-2.62	0.34	1.66
ln(MV)	0.003	0.278	0.167	-0.011	-0.008	0.139	0.248	-0.003
	2.03	9.90	8.68	-4.53	-5.17	4.70	12.60	-1.08
Ln(Firm Age)	0.008	-0.435	0.331	-0.005	0.005	-0.429	0.351	-0.015
	3.33	-7.86	9.37	-1.15	1.57	-7.60	9.45	-3.57
Observations	38,356	30,729	38,099	9,514	30,434	29,986	30,302	9,416
R-squared	25.9%	39.9%	26.8%	2.5%	17.4%	21.6%	10.3%	6.8%

Table 7: Determinants of Plant Sales and Closures and Performance of Plants Sold After Activism

Panel A shows the determinants of plant sales (columns 1 and 2) and closures (columns 3 and 4) using probit regressions. "Segment share" is the ratio of a given industry's shipment to the firm's total shipments. "Before" is a dummy variable equal to one for event years *t-3* through *t-1*, and zero otherwise. "After" is a dummy variable equal to one for event years from *t* to *t+3*, and zero otherwise. "Competitive" ("Concentrated") is a dummy equal to one if the plant is in the first (fourth) quartile of the HHI distribution. Panel B, column 1 provides the evolution of productivity of plants owned by target firms in the year of activism regardless of their owners pre- or post-activism. In the column, "*d[t - k]*" ("*d[t + k]*") is a dummy variable equal to one for *k* years before (after) the targeting by an activist, and zero otherwise. Panel B, column 2 provides the productivity pattern of plants owned by target firms prior to activism and then sold to other firms within two years post-activism. In the column, "*d[t - k]" ("d[t + k]*") is a dummy variable equals to one for *k* years before (after) the sale of plants, and zero otherwise. "*d[t]*" is defined similarly. Panel B, column 3 provides the pattern of TFP for plants sold by firms not targeted by activists. All other independent variables are defined as in Table 4. Industry fixed effects are excluded given that our computation of TFP already accounts for industry fixed effects. Year fixed effects are included in all regressions. *t*-statistics based on standard errors adjusted for sample clustering at the firm level are reported below the coefficient estimates. At the bottom of each panel we report differences in the coefficients before and after the event year and the associated *t*-statistics.

Panel A: Determinants of Plant Sale and Closure

Unit Dep. Var.	(1) Plant Sale	(2) Plant Sale	(3) Plant Closure	(4) Plant Closure
TFP	-0.026	-0.025	-0.232	-0.232
	-5.58	-5.48	-41.89	-41.91
Segment share	-0.302	-0.294	-0.126	-0.124
	-13.5	-13.03	-9.52	-9.31
After	0.189	0.168	0.166	0.129
	2.61	1.9	3.9	2.58
Before	-0.107	-0.157	0.109	0.106
	-1.81	-2.06	2.67	2.13
After x TFP	-0.106	-0.106	0.030	0.031
	-2.45	-2.41	0.64	0.66
Before x TFP	0.007	0.010	-0.062	-0.062
	0.18	0.26	-1.17	-1.15
Competitive	-	-0.055	-	-0.018
	-	-4.35	-	-2.06
Concentrated	-	0.032	-	0.008
	-	2.45	-	0.92
After x Competitive	-	0.096	-	-0.102
	-	0.96	-	-1.22
Before x Competitive	-	0.081	-	0.084
	-	0.76	-	1.1
After x Concentrated	-	0.003	-	0.175
	-	0.03	-	1.83
Before x Concentrated	-	0.104	-	-0.049
	-	0.88	-	-0.55
Year fixed effects	Y	Y	Y	Y
Industry fixed effects	N	N	N	N
Observations	763,130	763,130	763,130	763,130

Pseudo-R2	1.47%	1.52%	2.94%	2.95%
After – Before	0.296	0.325	0.057	0.023
	3.04	2.63	1.10	0.37
After – Before [Competitive]	-	0.341	-	-0.163
	-	2.04	-	1.39
After – Before [Concentrated]	-	0.224	-	0.247
	-	1.49	-	2.58

Panel B: Productivity Change of Plants Owned by Targets in the Event Year and Sold Plants

	(1)	(2)	(3)
Sample	Targeted Plants	Sold Plants	Non-target Sold
Dep. Var.	TFP	TFP	TFP
d[t-3]	0.063	-0.038	-0.022
	1.91	-0.64	-2.4
d[t-2]	0.071	-0.094	-0.034
	1.97	-1.33	-3.49
d[t-1]	0.040	-0.197	-0.053
	1.16	-2.29	-5.22
d[t]	0.002	-0.089	-0.091
	0.06	-1.28	-8.7
d[t+1]	0.006	-0.072	-0.054
	0.16	-1.01	-5.87
d[t+2]	0.023	-0.028	-0.051
	0.64	-0.32	-5.78
d[t+3]	0.061	0.129	-0.054
	1.67	1.32	-5.72
log(plants per segment)	-0.001	-0.001	0.00
	-0.11	-0.13	-0.3
log(plants per firm)	0.056	0.056	0.06
	9.8	9.91	10.15
Plant age (/100)	-0.561	-0.559	-0.56
	-16.74	-16.71	-17.2
Year fixed effects	Y	Y	Y
Industry fixed effects	N	N	N
Observations	787,446	786,324	816,546
R-squared	1.14%	1.14%	1.13%
Differences and t-statistics:			
d[t] – d[t-3]	-0.061	-0.052	-0.069
	2.03	0.53	6.35
d[t+2] – d[t]	0.021	0.061	0.039
	0.74	0.57	3.93
d[t+3] – d[t]	0.059	0.219	0.037
	1.56	1.87	3.61

Table 8: Survivorship Bias due to Sample Attrition from Compustat

This table provides estimates of the extent to which firm attrition from the Compustat database induces biases in the measurement of the effect of hedge fund activism on target firms' performance. "Attrition" ("Non-attrition") is a dummy variable equal to one if the target firm that owns a plant disappears (does not disappear) from Compustat within one year post-activism, and zero otherwise. All variables are defined in Table 4. Year fixed effects are included in all regressions. The *t*-statistics based on standard errors adjusted for sample clustering at the firm level are reported below the coefficient estimates. On the right hand side of the table we report differences in the coefficients before and after the event year interacted with the attrition status, and the associated *t*-statistics.

	(1)
Unit	Plant
Dep. Var.	TFP
d[t-3] × Attrition	-0.059
	-0.93
d[t-2] × Attrition	-0.107
	-1.54
d[t-1] × Attrition	-0.060
	-0.75
d[t] × Attrition	-0.041
	-0.52
d[t+1] × Attrition	0.050
	0.39
d[t+2] × Attrition	0.067
	0.36
d[t+3] × Attrition	0.198
	1.36
d[t-3] × Non-attrition	0.029
	0.76
d[t-2] × Non-attrition	0.041
	0.92
d[t-1] × Non-attrition	0.017
	0.50
d[t] × Non-attrition	0.008
	0.19
d[t+1] × Non-attrition	0.013
	0.34
d[t+2] × Non-attrition	0.058
	1.61
d[t+3] × Non-attrition	0.103
	2.57
log(plants per segment)	-0.001
	-0.11
log(plants per firm)	0.056
	9.81
Plant age (/100)	-0.561
	-16.74

Differences and t-statistics	
Year fixed effects	Y
Industry fixed effects	N
Observations	787758
R-squared	1.14%
(d[t] – d[t-3]) × Attrition	0.018
	0.28
(d[t+2] – d[t]) × Attrition	0.109
	0.77
(d[t+3] – d[t]) × Attrition	0.239
	1.86
(d[t] – d[t-3]) × Non-attrition	-0.021
	0.66
(d[t+2] – d[t]) × Non-attrition	0.050
	1.61
(d[t+3] – d[t]) × Non-attrition	0.095
	2.52

Table 9: Outcomes for Employees of Target Firms

This table examines the impact of hedge fund activism on outcomes for employees of plants owned by target firms from three years before to three years after the hedge funds' intervention. All dependent variables in this table are in log scale. Panel A estimates the average effects for all targeted plants, and Panel B estimates separately for high- and low-unionization industries defined at the median. Annual data on industry-level collective bargaining coverage are obtained from Hirsch and Macpherson (2003). "Hour/worker" is defined as total labor hours divided by the number of employees; "Total hour" is the production worker equivalent man hours as described in Appendix A; "Labor productivity" is defined as output divided by total labor hour; "Labor VA / hour" is value added per labor hour (another measure of labor productivity) defined as (Sales – material costs) / total labor hours. All other variables are defined in Tables 2 and 4. Year and industry fixed effects are included in all regressions. *t*-statistics based on standard errors adjusted for sample clustering at the firm level are reported below the coefficient estimates.

Panel A: Average Effects on Labor Outcomes

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Total employees	Hour / worker	Total hour	Labor productivity	Labor VA / hour	Avg. wage	Wage / hour
d[t-3]	0.325	-0.006	0.319	-0.022	-0.005	0.018	0.016
	5.05	-0.49	4.71	-0.55	-0.18	0.99	0.73
d[t-2]	0.276	0.006	0.282	-0.034	-0.007	0.031	0.019
	4.13	0.44	3.92	-0.91	-0.24	1.93	0.94
d[t-1]	0.285	0.003	0.288	-0.008	-0.012	0.038	0.028
	4.61	0.22	4.29	-0.24	-0.50	2.64	1.49
d[t]	0.272	-0.002	0.270	-0.015	-0.047	0.031	0.027
	4.85	-0.18	4.42	-0.41	-1.61	2.17	1.50
d[t+1]	0.256	-0.023	0.233	0.000	-0.039	0.008	0.020
	4.37	-1.94	3.91	0.01	-1.29	0.55	1.23
d[t+2]	0.203	-0.041	0.161	0.020	-0.013	0.015	0.041
	3.83	-3.01	2.96	0.50	-0.32	1.00	2.70
d[t+3]	0.189	-0.020	0.169	0.051	0.026	0.019	0.031
	3.02	-1.46	2.69	1.20	0.67	1.30	1.91
log(plants per segment)	-	-	-	0.051	0.013	-0.014	0.001
	-	-	-	6.07	1.92	-4.62	0.26
log(plants per firm)	-	-	-	0.100	0.039	0.025	0.031
	-	-	-	18.50	9.51	8.83	9.65
Plant age (/100)	-	-	-	-0.152	-0.024	0.538	0.447

	-	-	-	-4.74	-0.94	36.27	28.43
Year fixed effects	Y	Y	Y	Y	Y	Y	Y
Industry fixed effects	Y	Y	Y	Y	Y	Y	Y
Observations	787758	787758	787758	787758	787758	787758	787758
R-squared	24.76%	4.06%	24.02%	43.90%	10.18%	29.37%	26.31%
d[t] – d[t-3]	-0.052	0.004	-0.048	0.007	-0.043	0.013	0.011
	1.17	1.02	0.69	0.26	1.75	1.12	0.86
d[t+2] – d[t]	-0.070	-0.039	-0.109	0.035	0.034	-0.016	0.014
	1.64	2.04	2.05	1.47	1.05	1.11	1.43
d[t+3] – d[t]	-0.083	-0.018	-0.101	0.066	0.073	-0.012	0.005
	1.47	1.61	1.04	2.22	1.79	0.97	0.32

Panel B: Average Effects on Labor Outcomes by Unionization Rate

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Total employees	Hour / worker	Total hour	Labor productivity	Labor VA / hour	Avg. wage	Wage / hour
Sample				Low Unionization Rate			
d[t] – d[t-3]	-0.029	0.006	-0.023	0.018	-0.016	0.033	0.030
	0.56	0.41	0.40	0.50	0.60	2.04	1.71
d[t+2] – d[t]	-0.048	-0.033	-0.081	0.028	0.018	-0.035	-0.013
	0.81	1.20	1.15	0.81	0.48	1.44	0.77
d[t+3] – d[t]	-0.084	-0.002	-0.086	0.063	0.037	-0.020	-0.013
	1.07	0.10	1.03	1.35	1.06	1.03	0.63
Sample				High Unionization Rate			
d[t] – d[t-3]	-0.082	0.006	-0.075	0.001	-0.069	-0.007	-0.009
	1.21	0.57	1.11	0.00	1.45	0.41	0.48
d[t+2] – d[t]	-0.083	-0.041	-0.124	0.053	0.053	0.005	0.043
	1.59	2.75	2.12	1.74	1.06	0.41	3.56
d[t+3] – d[t]	-0.075	-0.029	-0.103	0.082	0.111	-0.003	0.026
	1.05	1.49	1.36	2.35	1.64	0.17	1.45

Table 10: Tests for Causality

This table provides evidence on the causal effects of hedge fund activism on the productivity of target firms. Panel A, columns 1 and 2 provide estimates of the effect of activism on plant productivity separately for hostile and non-hostile events. Panel A, columns 3 and 4 estimate the effect of activism separately for plants in peripheral and core segments of the target firm. We define a three-digit SIC industry of a target firm as "peripheral" if the combined shipments of the industry segment are less than 25% of total shipments of the firm (see Maksimovic and Phillips (2002)). At the bottom of panel A we report differences in the coefficients before and after the event year and the associated *t*-statistics. Panel B examines the effects of switches in filing status from Schedule 13G to Schedule 13D. Columns (1) to (3) provide regression results at the plant-year level using the Census data with the change in TFP as the dependent variable. Columns (4) to (6) provide regression results at the firm-year level using Compustat data with the change in ROA as the dependent variable. The change is recorded over a three-year period, and for event observations the three-year period begins with the event year. Year fixed effects are included in all regressions while in Panel B, we also include hedge fund and industry fixed effects. *t*-statistics based on standard errors adjusted for sample clustering at the firm level are reported below the coefficient estimates.

Panel A: Hostile Events and Target Plants in Non-core Segments

	(1)	(2)	(3)	(4)
Split	Hostile	Non-hostile	Peripheral (<25%)	Core (>= 25%)
Dep. Var.	TFP	TFP	TFP	TFP
d[t-3]	-0.022	0.038	-0.001	0.050
	-0.61	0.93	-0.03	1.26
d[t-2]	-0.056	0.056	0.020	0.046
	-1.07	1.18	0.44	1.06
d[t-1]	-0.008	0.026	-0.034	0.064
	-0.13	0.68	-0.75	1.62
d[t]	-0.027	0.021	-0.027	0.044
	-0.37	0.45	-0.47	0.95
d[t+1]	0.007	0.033	0.003	0.052
	0.08	0.78	0.04	1.26
d[t+2]	0.091	0.056	0.030	0.097
	0.93	1.41	0.45	2.16
d[t+3]	0.100	0.118	0.112	0.131
	1.01	2.63	1.41	2.89
log(plants per segment)	0.011	-0.001	0.009	-0.002
	0.21	-0.12	0.17	-0.25
log(plants per firm)	-0.040	0.056	0.021	0.057
	-0.82	9.81	0.56	9.84
Plant age (/100)	-0.786	-0.561	-1.120	-0.558
	-2.51	-16.74	-4.10	-16.60
Year fixed effects	Y		Y	
Industry fixed effects	N		N	
Observations	787,758		787,758	
R-squared	1.15%		1.15%	
Differences and t-statistics				
d[t] – d[t-3]	-0.005	-0.017	-0.026	-0.006
	0.10	0.57	0.52	0.17
d[t+2] – d[t]	0.118	0.035	0.057	0.053
	1.64	1.12	1.24	1.38

d[t+3] – d[t]	0.127	0.097	0.138	0.087
	1.90	2.27	2.59	1.90

Panel B: 13G to 13D Switchers

	(1)	(2)	(3)	(4)	(5)	(6)
	Plant level—Census data			Firm level—Compustat data		
Dep. Var.	Change in TFP			Change in ROA		
G to D switch	0.106	0.132	0.089	0.030	0.033	0.025
	0.72	1.68	1.12	1.97	2.15	1.59
Controls?	Y	Y	Y	Y	Y	Y
HF fixed effects	N	Y	Y	N	Y	Y
Industry fixed effects	N	N	Y	N	N	Y
Observations	2983	2983	2983	3, 954	3, 954	3, 954
R-squared	1.26%	6.23%	12.91%	8.4%	8.9%	15.4%