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

Jonathan Cohn[†] Mitch Towner[‡] Aazam Virani[§]

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Abstract

We document the role of investors at the periphery of control - "quasi-insiders" - in corporate governance. These agents, who include founders, former CEOs, and other former officers, launch activist campaigns in smaller and worse-performing firms than other activists, and use aggressive tactics to seek greater control. Their campaigns are associated with positive abnormal returns comparable to those in other activist campaigns and subsequent improvements in operating performance. The presence of a quasi-insider as a blockholder is associated with a significant increase in CEO turnover-performance sensitivity. Overall, our results suggest that quasi-insiders play a meaningful role in governance.

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[†]McCombs School of Business, The University of Texas at Austin, 2110 Speedway Stop - B6600, Austin, TX 78721, jonathan.cohn@mccombs.utexas.edu.

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

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

1 Introduction

Over the last two decades, institutional investors have become frequent and potent suppliers of governance to public corporations. Activist hedge funds in particular have forced many firms to make changes through campaigns of pressure and direct action, and the market generally responds positively to these campaigns (Brav et al., 2008; Clifford, 2008; Klein and Zur, 2009; Boyson and Mooradian, 2011).[1] However, activist hedge funds are considerably less likely to engage in campaigns at small firms than they are at medium-sized and large firms. While firms with less than $50 million of assets in a given year represent 18% of the firm-years in Compustat between 1997 and 2015, they represent less than 10% of hedge fund activism targets. More generally, the monitoring efforts of institutional investors appear to be focused on relatively large firms (Iliev et al., 2019). However, even in small firms, separation of ownership and control may create agency conflicts and hence a demand for external governance. Whether this demand is met and who supplies external governance to smaller firms remains largely unknown.

We posit and present evidence in this paper that former insiders currently outside a firm's formal control structure are natural suppliers of external governance to small firms. We dub these agents "quasi-insiders," and they include non-executive founders, former CEOs, and former board chairs.[2] Activist hedge funds likely eschew campaigns at small firms because of the high cost of accumulating a large enough position in these firms' stock to allow recovery fixed activism costs.[3] A quasi-insider, in contrast, often already owns shares in a firm where she was previously an insider and hence faces a lower cost of activism than other potential activists. Moreover, she is likely to have informational advantages relative to other potential activists because of her prior insider status. One unique feature of quasi-insiders is that, unlike activist hedge funds, which have the capital necessary to choose their targets, a quasi-insider's activism advantage is firm-specific.

[1]Research also links hedge fund activism episodes to long-run improvements in operating performance (Boyson and Mooradian, 2011; Brav et al., 2008; Clifford, 2008).

[2]Law firms advising companies in shareholder activism campaigns recognize the increasing importance of such quasi-insiders in activism. See, for example, "Activist Spotlight: The Rise of Founder Activism" by Keith Gottfried, Partner, Morgan Lewis & Bockius LLP in *The Deal*, December 13, 2018.

[3]Papers studying costs of activism and variation in those costs include those by Kahan and Rock (2011), Larcker, Ormazabal, and Taylor (2011), Becker, Bergstresser, and Subramanian (2013), Gantchev (2013), Cohn, Gillan, and Hartzell (2016), and Bhandari, Iliev, and Kalodimos (2019).

We thoroughly examine 122 public activism campaigns that quasi-shareholders launch between 2000 and 2015 at the firms to which they are connected. These campaigns likely represent only the tip of the iceberg in terms in terms of quasi-insider activism. Activism generally begins behind the scenes, with activists relying on soft pressure to induce changes, resorting to a costly campaign only if soft pressure fails (Carleton, Nelson, and Weisbach, 1998; Becht, Franks, Mayer, and Rossi, 2010; McCahery, Sautner, and Starks, 2016). Quasi-insiders are especially likely to be active behind the scenes because their relationships with current insiders give them a direct conduit into the firm. To shed light on quasi-insiders' behind-the-scenes governance activity, we examine the impact of their presence at the periphery of a firm's control structure on CEO turnover-performance sensitivity.

Consistent with the argument that quasi-insiders are natural suppliers of governance primarily in small firms, 32% of the 122 firms that quasi-insiders target in our sample of campaigns have assets less than $50 million (vs. 18% of Compustat firm-years, as noted above). Smaller firm size strongly predicts a higher likelihood that a firm is targeted by a quasi-insider in an activism campaign even after controlling for other observable firm characteristics in regression analysis. Unlike hedge fund campaigns (see Brav et al. (2008) and Klein and Zur (2009)), quasi-insiders tend to target firms with poor recent accounting and stock return performance. This poor pre-targeting performance could reflect several factors. For example, because of existing relationships with the firm, its board, and management, a quasi-insider may be well-positioned to intervene behind the scenes, resorting to public campaigns in only the most extreme cases. Alternatively, because the average absolute size of a quasi-insider's stake is generally small, the threshold level of performance below which it is privately optimal for a quasi-insider to intervene may be low, even if the fixed costs of intervention are relatively low.

When they embark on activism campaigns, quasi-insiders tend to seek some degree of control rather than requesting one-time actions such as dividend payments. They seek at least some board representation in 58.2% of the campaigns they undertake and seek outright control of the board 22.1% of the time. Knowledge of a firm's strategy, product markets, operations, and culture as a result of prior experience with the firm may position quasi-insiders to step in and exert control rather than simply "shock" a firm with one-time actions to address agency problems. The fact that they are likely to be long-term shareholders may strengthen their incentives to remain actively engaged. A former CEO or founder may also have strong views about the company's optimal strategy that can only be implemented through some degree of direct control. In contrast, hedge fund activists seek some board representation and outright control of the board in only 39.8% and 7.8% of campaigns, respectively.

The average cumulative abnormal return (CAR) in the (-10,+1) window associated with the announcement of quasi insider-initiated activism campaigns is 4.4%. This response is similar to the 4.6% average CAR associated with the announcement of campaigns initiated by activist hedge funds. CARs for quasi-insider campaigns involving founders appear to be higher than those not involving founders, suggesting that their longstanding relationship with the firm presents an advantage in launching campaigns. Quasi-insider campaigns are somewhat less likely to be successful, achieving stated objectives 41.8% of the time, compared to 53.3% for the hedge fund campaigns, suggesting that perceived value-creation conditional on campaign success may actually be slightly higher for quasi-insider campaigns.[4] Firms that quasi-insiders target also experience an arrest in the pre-campaign decline in their operating performance and some improvement in their operating performance over the three years post-campaign. However, it is difficult to rule out the possibility that other factors, such as mean reversion in performance, contribute to this turnaround.

While activism campaigns are highly visible, the fact that quasi-insiders are likely to be committed long-term shareholders may make them especially effective at monitoring and influencing corporate decision-making behind the scenes. While this activity is, by definition, unobservable to the econometrician, one potential visible manifestation of such activity is executive turnover, especially in poorly-performing firms. Fahlenbrach, Minton, and Pan (2011) document greater sensitivity of CEO turnover to recent stock return performance when a former CEO sits on the company's board. Extending their findings, we find that having a former CEO on a company's board increases the sensitivity of turnover to recent accounting as well as stock price performance. In addition, we find that having a quasi-insider as a large (5%+) shareholder, even if the quasi-insider is not on the board, also increases the sensitivity of CEO turnover to both stock return and accounting performance.

Our paper adds to the literature on shareholder activism (see Denes, Karpoff, and McWilliams, 2017, for a recent survey of this literature). Shareholder activism has become an increasingly influential force. Most of the literature on activism focuses on activism campaigns initiated by hedge funds (Brav et al., 2008; Klein and Zur,

[4]For comparison, Fos (2016) finds average abnormal returns of 6.5% around proxy contests, which represent an aggressive form of activism, over an earlier period.

2009; Brav et al., 2010), which tend to target larger firms.[5] Our results suggest that quasi-insiders may play a role similar to hedge funds in engaging in activism in smaller firms. One important difference between quasi-insider campaigns and other activism contests is that selection in the case of the former is at least partly predetermined. A hedge fund can choose among many firms to target in an activism campaign, and that choice may reveal the hedge fund's private information. In contrast, a quasi-insider is effectively limited to activism involving a single firm. This lack of selection partially allays concerns about the contaminating effects of selection in interpreting announcement returns and other responses around traditional activism campaigns.

Our paper also adds to the large literature on blockholder governance (see Edmans, 2014; Edmans and Holderness, 2017, for surveys). Cronqvist and Fahlenbrach (2008) document significant heterogeneity in the importance of different blockholders in explaining differences in firm policies and performance. Among other factors, they find that blockholders with a larger block size, board seats, and direct management involvement are more influential. Becker, Cronqvist, and Fahlenbrach (2011) find that blockholders influence firms, using geographic variation in blockholder location to separate selection from treatment effects. Agrawal (2012) find that union-affiliated blockholders may reduce firm value (see also Ertimur, Ferri, and Muslu, 2010a). Our paper specifically identifies former insiders as potentially important blockholders. Existing corporate governance research often explicitly excludes these agents when studying the role of external governance providers (Clifford and Lindsey, 2016; von Lilienfeld-Toal and Schnitzler, 2015). Hadlock and Schwartz-Ziv (2019) find that blockholders tend to crowd each other out, which may make quasi-insider blockholders, who typically hold ownership stakes because of their prior involvement with the firm, especially influential. Our evidence suggests that these blockholders play a significant role in the firms in which they are present.

Finally, our paper adds to the literature examining the role of former CEOs specifically in corporate control. In addition to finding that firms with former CEOs on their boards experience higher CEO turnover-performance sensitivity, Fahlenbrach, Minton, and Pan (2011) also find that firms with former CEOs on their boards experience better accounting performance. In contrast, Evans III, Nagarajan, and Schloetzer (2010) find lower long-run stock price performance after an outgoing non-founder CEO ascends to the board. Andres, Fernau, and Theissen (2014)

[5]Most research on shareholder activism studies U.S. firms. See Cziraki, Renneboog, and Szilagyi (2010) for a study of activism in Europe. See Appel et al. (2016) for evidence that even passive institutions may play a role in governance.

find that German firms whose former CEO serves on the supervisory board pay their current CEO more, though they also find a positive announcement return when a retiring CEO transitions to the supervisory board. Our paper adds to this literature by examining a broader set of former insiders, documenting a specific mechanism through which they exert control (activism campaigns), and demonstrating that CEO turnover-performance sensitivity is much larger when a former insider actually owns a large a stake rather than just serving on the board.[6]

2 Shareholder Activism

This section describes the shareholder activism campaign process in general. This discussion can easily be skipped by those already familiar with shareholder activism. It also discusses the potential role of quasi-insiders in activism, the novel element of our paper.

2.1 Shareholder Activists and Activism Campaigns

Shareholder activism encompasses a variety of activities that shareholders undertake in an effort to bring about a change in the management, structure, or operations of a firm (see Gillan and Starks (2000) for a thorough discussion). Many of these activities take place behind the scenes, as activists engage with management informally to influence corporate decisions towards their agenda. However, in some cases, activists wage public activism campaigns, often after exhausting attempts to induce change through informal engagement with management. These public campaigns are typically classified into three types: proxy fights, exempt solicitations, and other stockholder campaigns.

Proxy fights are the most involved and costly mode of shareholder activism. In a proxy fight, the activist (or "dissident") shareholder formally proposes a resolution to be voted upon at the company's annual meeting by filing Schedule 14A with the Securities and Exchange Commission. The dissident then attempts to procure votes in support of its resolution by soliciting the "proxies" of other shareholders (few of whom actually attend the

[6]Our paper also relates to the theory of Acharya, Myers, and Rajan (2011), who argue that inter-generational interactions may help to control agency conflicts. In their model, the incentives of future CEOs help to discipline current CEOs, while we examine the influence of former CEOs (and other former insiders) on current CEOs.

annual meeting in person).

Proxy contests can be classified based on their objective. In a “control contest”, the dissident shareholder seeks to acquire a majority of seats on the board of directors, which would effectively give the dissident control of the company. In a “short-slate contest”, the dissident seeks to acquire board seats, but not enough to gain a majority of the director positions. In an “issue contest”, the dissident seeks to win shareholder approval of a resolution relating to a specific operational or structural issue. Examples of issue contests include those proposing an increase in dividends to shareholders or the curbing of executive compensation. Votes on these issue-related proposals are typically non-binding on management, though they often do lead to change (Ertimur, Ferri, and Stubben (2010b)). The vast majority of proxy fights are either issue contests or short-slate contests.

In contrast to proxy contests, exempt solicitations and other stockholder campaigns do not involve attempting to pass a formal resolution. An exempt solicitation campaign entails communicating with other shareholders of the company regarding an issue without formally soliciting proxies. Other stockholder campaigns are campaigns in which the dissident does not interact directly with other shareholders. A typical example of other stockholder campaigns includes a press release detailing a letter the activist sent to management with requests for corporate change. This is considered to be a less costly form of activism than a proxy contest (Wilcox (2011)).

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

Hedge funds manage largely unregulated capital, have the ability to hold concentrated positions, can use financial leverage, and employ derivatives in their portfolios. They also face steep financial incentives and are less likely to be beholden to the management of firms than other institutional investors such as mutual funds. For these reasons, hedge funds are thought to be particularly effective activists compared to other types of investors

(Boyson and Mooradian (2011)). Hedge funds are known to use a sequence of increasingly aggressive and costly tactics to bring about changes at the firms in which they invest (Gantchev (2013)). They typically start with a conversation with management, which can escalate to more formal communications via press releases and specific proposals if management is unresponsive. If they remain dissatisfied with the management's response, they may initiate a proxy fight, litigation, or in some instances, attempt to take complete control of the company themselves.

Existing research (e.g., Brav et al. (2008), Klein and Zur (2009), Clifford (2008), and Greenwood and Schor (2009)) finds that hedge fund activists propose a wide variety of changes relating to strategic, operational, and financial aspects of the firm. The targets receive large positive and persistent abnormal announcement returns and acquiesce to requests the majority of the time, altering investment strategies and mitigating cash flow agency concerns.

2.2 Quasi-Insider Activism

While institutional investors such as hedge funds launch many activism campaigns, individuals launch campaigns as well. Some of these campaigns involve individuals with no direct connection to the company. Corporate "gadflies," for example, typically launch low-cost campaigns at companies more as a sign of protest than as a means of effecting substantive change. However, individuals who have either a relationship with the firm are responsible for a substantial number of individual-initiated campaigns, and, as we demonstrate, these campaigns tend to be serious endeavors. We define a quasi-insider as an individual investor who is a founder, former CEO, other former officer, or former board chair who is not a current officer (current board members who are former officers are included) of the firm. These individuals either lack formal authority or, in the case of former executives who are current directors, have limited authority over firm decisions.

As an example of a quasi-insider initiated activism campaign, Stephen Joffe, founder and former chairman and CEO of LCA-Vision, Craig Joffe, former interim CEO, and Alan Buckey, former CFO, combined forces to create the LCA-Vision Full Value Committee in 2008. On November 5, 2008, they filed a 13D disclosing an ownership stake of 11% and their intent to talk with management of LCA-Vision about ways to increase shareholder value. They met with the current chairman of the board on November 13 and issued a press release on November 19, unhappy with the fact that management had not responded to their concerns. On November 21, they disclosed that they had sent another letter to management, indicating that they would take any steps necessary to increase shareholder value. The company responded by adopting a 20% poison pill. On December 4, the committee sent another letter requesting board representation and a special shareholder meeting about the poison pill. Management rejected these requests. On December 17, the dissidents threatened a proxy fight, and the company responded by establishing a rule requiring 90-120 days advance notice for a meeting proposal. On January 16, 2009, the dissidents proposed a replacement slate for the board of directors. However, after failing to get support from the proxy advisory service Glass-Lewis Co., they withdrew the slate on March 26.

Engaging in activism to induce changes that increase firm value generates gains for all shareholders in a company. However, the activist bears most if not all of the costs of intervention privately. In addition to financial gains, an activist may also derive private benefits from engaging in a campaign. Let α denote the fraction of a firms shares that a potential activist owns, ΔV the expected increase in the firms equity value from activism, b the value of expected private benefits that the activist gets from activism, and c the private cost of engaging in activism. Furthermore, let ΔV be decomposed as $\Delta V = dv \times A$, where A is the size of the firm and dv is the change in firm value per unit of size. Then, a potential activist engages in activism if:

$$\alpha\, dv\, A + b > c. \tag{1}$$

Quasi-insiders differ from traditional activist investors such as hedge funds on dimensions that affect α, dv, b, and c. Some of these differences give quasi-insiders an advantage in engaging in activism, while others put them at a disadvantage.

Perhaps the most marked difference between quasi-insiders and traditional activists lies in a consideration of α - the activist's share of the potential target firms equity. Unlike traditional activists, founders and former insiders are often effectively endowed with significant equity positions as a result of their legacy ownership and previous incentive compensation. Traditional activists must acquire an equity stake by purchasing shares in the market. Purchasing a large stake may push share price upwards, especially in a firm with less liquid shares, limiting the size of the stake that a traditional activist can profitably buy before initiating activism. On the other hand, traditional activists may simply have more capital at their disposal to deploy, in principal allowing them to buy larger stakes in dollar terms than quasi-insiders either already possess or can accumulate.

These differences in the ability to acquire a large stake before engaging in activism, which one can think of as differences in α, generate predictions about the types of firms in which quasi-insiders and traditional activists should be active. All else equal, a given percentage increase in firm value dv results in a larger increase in total firm value ΔV in a larger firm (higher A). As a result, holding dv, b, and c fixed, a higher α is required for condition (1) to be satisfied when A is smaller.

Traditional activists ability to deploy large amounts of capital should convey an advantage primarily in larger companies. Quasi-insiders, especially non-founders, are likely to be endowed with smaller percentage stakes in larger companies. Moreover, most lack the resources to increase the size of their stakes meaningfully. Thus, it is likely to be difficult for most quasi-insiders to be able to generate a large enough financial return from activism in large companies to make activism worthwhile.

In contrast, a quasi-insider's pre-existing ownership stake is likely to be a significant advantage in a small company. In a small company, a traditional activist must buy a large percentage stake α in order to have a large enough dollar stake to make activism worthwhile. However, buying a large percentage stake is likely to push prices up, making it difficult to profitably accumulate a large stake. In addition, smaller stocks tend to be less liquid to begin with, so even buying a given percentage stake in a small company may move prices more than buying an equivalent percentage stake in a larger company. Moreover, an activist must file form 13-D after crossing the 5% ownership threshold, making it difficult to acquire a larger stake before the market becomes fully aware of the presence of an activist. Because a preexisting ownership stake is more important in a smaller company, we would expect to see quasi-insider activism disproportionately in smaller companies.

While traditional activists are likely to be motivated almost exclusively by financial profits, quasi-insiders may also derive private benefits from engaging in activism. That is, a quasi-insider is likely to have a higher value of b. As a founder or former insider, a quasi-insider may have an interest in protecting her legacy in the company. This legacy represents a form of private benefit. Quasi-insider activism may also be motivated in part by ego. A quasi-insider may believe that the company was better in the past on some dimension than under current management, even if this belief is a product of ego. Engaging in activism may allow a quasi-insider to sate her ego. This ego satiation can also be seen as a form of private benefit from engaging in activism.

Compared to traditional activists, such as hedge funds, quasi-insiders are likely to possess a rich knowledge about a company's core competencies, inner workings, and investment opportunities. These attributes likely confer advantages in identifying potential value-enhancing changes. Quasi-insiders are also likely to have connections to employees within the firm. In addition to representing a source of informational advantage, these relationships may make it easier for a quasi-insider to implement changes through activism. These aspects can be seen as making dv higher and/or c lower for quasi-insiders than for traditional activists.

On the other hand, while they may possess intimate knowledge of an individual firm, quasi-insiders generally lack the breadth of experience in activism that traditional activists possess. This experience may make it easier to identify patterns that indicate activism opportunities. It may also provide an advantage in determining and deploying optimal activism campaign strategy. In addition, quasi-insiders also do not enjoy the potential economies of scope across multiple engagements that traditional activists do. Finally, according to a webinar on quasi-insider activism by Morgan Lewis and Bockius LLP, there is "Less of an obvious path to an amicable settlement because quasi-insiders are more likely to seek control and they are unwilling to work with current board and managment". These aspects can be seen as making dv lower and/or c higher for quasi-insiders than for traditional activists.

3 Data and Sample

Our empirical analysis of quasi-insider intervention takes two forms. We first analyze shareholder activism campaigns and then study the consequences of having a quasi-insider as a blockholder. To implement this analysis, we construct two samples. The first sample consists of shareholder activism campaigns. The second sample takes the form of a panel of firm-years, within which we identify firm-years in which a quasi-insider connected to the firm owns a substantial block of the firm's shares.

3.1 Quasi-Insider Activism Campaigns

We define a quasi-insider formally as a founder, former CEO, former officer, or former chair who is not a current officer (including current board members who are former officers).[7] We build a sample of quasi-insider initiated activism campaigns in two steps. First, we identify campaigns involving quasi-insiders in FactSet's SharkWatch corporate activism database announced between January 1, 2000 and December 31, 2015.[8] To do so, we flag 508 campaigns that SharkWatch flags as involving at least one individual and no hedge funds as activists, based on the reported activist name(s), noting that some campaigns involve multiple activists. For each of these campaigns, we gather further information by reading through the campaign synopses and, where available, associated 13D and 14A filings. We supplement these information sources by conducting Google searches on the activists and firms. Using these sources, we obtain information on any existing or prior relationships between each individual activist and the target firm. This process yields 92 unique campaigns launched by a quasi-insider, per our definition. We treat the announcement date reported by FactSet as the start date of a campaign.[9] We also identify 1,962 activist campaigns that Factset flags as initiated by hedge funds, which we use as a comparison sample in parts of our analysis.

Second, we supplement the quasi-insider activism sample using campaigns identified based on 13D filings. We start by identifying 18,276 13D filings potentially filed by individual investors on EDGAR by dropping filings if the primary filer name field contains terms such as "Capital", "LLC", "LP", "Partners", "Trust" etc. We then use Capital IQ's People Intelligence database, which contains start and end dates for each executive and director role that an individual has had in a given firm to identify primary filers who are former CEOs, officers, and board chairs. We identify founders by searching for the string "found" within three words of the company name in the individual's Capital IQ biography.

We restrict firms in Capital IQ to those for which data is available in Compustat, and we are able to match

[7]In the Internet Appendix, we repeat the main activism analysis without current board members in Tables B1, B3, B4, B5 and draw similar conclusions on all fronts.

[8]We begin with 2000 because SharkWatch's coverage was relatively sparse before then.

[9]There are a few cases where the same former employee repeatedly "launched" campaigns over several years. For example, a former director of American Express unsuccessfully sought board representation at the company in six consecutive years. We do not view each of these campaigns as independent. To avoid giving undo weight to these cases, we consider these as a single campaign taking place when the activist targeted the firm for the first time.

6,022 unique 13D filer-company pairs to a person in Capital IQ (i.e. with a current or former relationship to the firm) by name. For each of these individual-company pairs, we obtain all 13D and 13G filings, including amendments, from EDGAR for the period between 1994 (the earliest year filings are available in EDGAR) and 2016. This yields a list of 29,147 of 13D/G filings and amendments made by an individual during and following the individual's tenure with the firm. We read through all 13D filings and amendments made by a former executive or founder and identify 13D filings that clearly indicate activism.[10] This process yields an additional 30 campaigns initiated by quasi-insiders that are not included in FactSet, bringing our total number of quasi-insider campaigns to 122, involving 146 individual quasi-insiders. For each of the additional campaigns, we treat the date of the first filing disclosing activist intentions as the campaign's start date.[11]

We collect data from FactSet on a number of characteristics of the campaigns and activists. 82% of quasi-insider activist campaigns and 78% of hedge fund activist campaigns are associated with a 13D filing. We assign each campaign to one or, at most, two of 12 narrowly-defined subcategories, nested into five broader categories, based on the stated objective(s) of the activist. We do so subjectively based on reading of FactSet's campaign synopsis (when available), SEC proxy and 13D filings, and press releases matching the announcement date for the campaign. The 12 subcategories are similar to those defined in prior papers (e.g., Brav et al., 2008).[12] For each activist target (and untargeted firms), we obtain accounting data from Compustat, return data from CRSP, analyst coverage data from I/B/E/S, and institutional ownership 13F data from Thomson Reuters. We correct for known errors in the holdings data.[13] All variables we use are described in Appendix A.

[10]Further details of the process for matching 13D filings to Capital IQ can be found in the Internet Appendix.

[11]The actual number of quasi-insider activism campaigns is likely to be larger. While we have identified other examples of quasi-insider activism through various news articles, we do not include these in our sample as we are unable to consistently identify them in a systematic way. In fact, quasi-insider activism appears to be increasingly prevalent. For instance, anecdotes continue to appear in the news, and a prominent law firm recently issued advice on how companies might defend themselves from quasi-insider activism (see https://www.morganlewis.com/events/morgan-lewis-shareholder-activism-defense—how-founder-former-ceo-led-shareholder-activism-campaigns-differ-from-other-activism-campaigns)

[12]One difference in our classification is that the assigned objective is "Maximize Firm Value" in fewer cases. FactSet reports this objective with approximately the same frequency that Brav et al. (2008) find. However, we use information from Factset's synopses of the entire campaign to identify more detailed objectives where possible. In the Table B6 of the Internet Appendix, we report Factset's raw classifications and Table B7 conducts the CAR analysis comparing "Maximize Firm Value" campaigns with all other campaigns.

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

3.2 Quasi-Insider Blockholders

In order to construct our second sample, we begin with the panel of 29,147 of 13D/G filings and amendments made by an individual that we matched to Capital IQ's People Intelligence database to identify quasi-insider blockholders. The structure of the 13D/G data creates several challenges in determining whether or not an individual is a 5% blockholder at any given point in time. A shareholder is required to file either an initial form 13D or 13G with the SEC after obtaining a holding of 5% or more of a publicly-listed company's stock. The shareholder is then required to file an amended 13D or 13G when there is a change in either the ownership level of greater than 1% relative to the most recent filing or when the shareholder's intentions change. In theory, shareholders are required to file a final 13D/G amendment when their ownership stake falls below 5%. However, perusal of the filings suggests that they may often neglect to do so, making it difficult to determine when a blockholder ceases to be a blockholder.[14]

We identify an individual as a blockholder in a given year if two criteria are satisfied: (i) the first 13D or 13G filing (including amendments) we observe for that individual occurs before that year, and (ii) we observe at least one 13D or 13G filing (including amendments) for the individual after that year. To be conservative, we define all years after the last 13D or 13G filing for an individual as missing, since we do not know whether the individual continues to remain above the 5% threshold and simply has no further changes in ownership or purpose to report beyond that point. Since 13D/G filings are available from SEC EDGAR starting only in 1994, and we need to observe a prior 13D/G filing to classify an individual as a blockholder in a given year, we only attempt to classify blockholders for years starting in 2000. Note that this is also the starting year of our activism campaign sample.

For each firm-year in the sample from 2000 through 2017, we define an indicator variable $QIBlockholder$, equal to one if a founder, former CEO or other officer, or former board chair not currently employed by the firm is a 13D/G blockholder in a given year and zero otherwise. We set $QIBlockholder$ to undefined for a firm-year if the firm had a quasi-insider as a 13D/G blockholder in any prior year but does not, based on our definition, in the current year. This approach yields 340 firm-years belonging to 195 unique firms where a quasi-insider not currently employed by the firm is a 13D/G blockholder, i.e., where $QIBlockholder = 1$. We note again that

[14] Filers also appear frequently to file initial 13D/G's when amendments are required and vice versa.

because of our conservative approach to classifying 13D/G blockholders in a given year, there are certainly many firm-years where we set $QIBlockholder$ to undefined where a quasi-insider is, in fact, a blockholder.

Note that the overlap in the quasi-insider activism campaign and quasi-insider blockholder samples is limited. Only 20 out of the 122 campaigns are originated by quasi-insiders who are also in the blockholder sample. There are two main reasons why the overlap is not larger. First, inclusion in the blockholder sample in a given year requires a minimum of at least two 13D/G filings, at least one of which must be after the given year. Several quasi-insider activists never file a 13D/G, presumably because their ownership stake does not cross the 5% threshold. Others either only file an initial 13D upon campaign announcement and never file an amendment or file no amendments after the campaign date. Second, the Capital IQ data that we use to identify potential quasi-insiders may be incomplete. Specifically, the data is sometimes missing the end date for an individual's role with a firm. Without an end date, we cannot make the determination that an individual is no longer employed by the firm. One virtue of the relative lack of overlap in these samples is that the tests involve largely independent groups of firms, ensuring that they are not effectively capturing the same mechanism.

We use this quasi-insider blockholder sample to examine whether CEO turnover-performance sensitivity differs when a quasi-insider is a blockholder. For each firm-year in the sample, we compute two measures of firm performance. The first is the firm's idiosyncratic stock return for the year. Here, we follow the approach of Jenter and Kanaan (2015) and measure this idiosyncratic return as the residual return from a pooled regression of annual returns on the equal-weighted mean return for all other firms in a firm's Fama and French (1997) 48-category industry. The second is the firm's standardized return-on-assets. We define return-on-assets as income before extraordinary items (ib) divided by total assets (at). We standardize this variable by subtracting the cross-sectional mean value of return-on-assets for all firms in the firm's 3-digit SIC industry for the year and then dividing the difference by the standard deviation of industry return-on-assets for the year. The resulting variable has a mean of zero and standard deviation of one by construction. We identify CEO turnover events using the Capital IQ People Intelligence data. We set the firm-year indicator $CEOTurnover$ to one if the firm experienced a CEO turnover event during a given year and to zero otherwise.

3.3 Summary statistics

Table 1 reports summary statistics for the firms in our two samples. Panel A reports prior year-end summary statistics for quasi-insider activist targets, hedge fund activist targets, and all Compustat firm-years for which firms are not subject to activism campaigns. Panel B reports summary statistics for firm-years with quasi-insider blockholders and all Compustat firm-years without a quasi-insider blockholder. Note that years beyond the quasi-insider's last 13D/G filing are excluded from both sets of firm-years, since we treat *QIBlockholder* as undefined in those years. Asterisks indicate statistical significance at the 1%, 5% and 10% levels for Wilcoxon median signed-rank tests comparing quasi-insider activist targets to hedge fund activist targets and other Compustat firms (Panel A) and firms with quasi-insider blockholders and other Compustat firms (Panel B).

— Insert Table 1 here —

Several differences are worth noting about both samples. First, while hedge fund targets are, on average, about the same size as non-targeted firms, the median quasi-insider target is approximately one third of the median size for each of these groups and, relatedly, has less analyst coverage (Panel A).[15] Similarly, the median firm with a quasi-insider as a blockholder tends to be a little less than one third the size of the average Compustat firm and to have less analyst coverage (Panel B). These differences suggest that quasi-insiders play an active role in a different set of firms than hedge fund activists do and may rely on a different economic model to generate returns on their investment.

Hedge funds tend to target relatively large firms, where they can acquire large positions (in dollar terms) without generating excessive price pressure. Quasi-insiders often already hold substantial stakes in small firms as a result of their prior relationships. Moreover, if their insider knowledge and connections allow them to engage in activism and other forms of intervention at a lower cost, they can generate sufficient returns to cover their costs with small holdings (in dollar terms). It is not surprising, then, that quasi-insiders involved in activism campaigns tend to hold larger percentage stakes but that their median dollar stake is approximately half the size of the median hedge fund activist dollar stake.

[15] While quasi-insider targets are generally much smaller, there are a few notable exceptions in our sample, including AIG, IBM, HP, American Express, and General Motors.

Second, while both quasi-insiders and hedge funds tend to target firms with poor recent performance in terms of ROA and stock return relative to other firms, quasi-insider targets tend to have suffered especially poor recent performance on these dimensions. In addition, quasi-insider targets tend to be less liquid. One interpretation of these differences is that fixed costs of intervention make intervening in small firms more costly than in large firms. Thus, even though quasi-insiders plausibly have a lower cost of intervening, holding firm size fixed, they wait until performance has deteriorated more before intervening.

Third, while hedge fund activists tend to target firms with high levels of institutional ownership relative to other firms, quasi-insiders do not. Existing research suggests that hedge funds prefer to target firms with high levels of institutional ownership because they rely on these institutional owners to support their campaigns (Brav et al. (2008)). Because of their inside connections, quasi-insiders may not need to rely as much on institutional investor support to achieve their objectives. Alternatively, institutional investors' mandates may prevent them from investing in the types of smaller firms that quasi-insiders target. Quasi-insiders potentially make up for less institutional support by owning a larger percentage of the firm than hedge funds (12% versus 8% in the median target).

Panel A of Table 1 indicates that the median-sized firm targeted by a quasi-insider activist is small compared to the both the median-sized Compustat firm and the median-sized firm targeted by a hedge fund. We assess differences in the size distribution more generally by plotting overlapping histograms of the natural logarithm of total assets ($Log(Assets)$). Figure 1 plots the distributions. The figure shows that small firms in the Compustat universe tend to be underrepresented among hedge fund targets but unrepresented among quasi-insider targets. Consistent with the implications from Table 1, the bulk of the size distribution of quasi-insider targets lies to the left of hedge fund targets. The figure also shows that quasi-insiders occasionally target firms at in the right tale of the size distribution.

— Insert Figure 1 here —

3.4 Multi-variate Target characteristics

Table 1 only allows for comparisons of quasi-insider and hedge fund campaign targets on one firm characteristic at a time. Many of these characteristics are correlated. To draw firmer conclusions about the nature of firms that quasi-insiders tend to target and how these differ from hedge fund targets and other firms, we next turn to multivariate regression analysis. To do so, we estimate probit regressions using two samples. In both, the dependent variable is equal to one if the firm was targeted by a quasi-insider activist in a given year and zero otherwise. The first sample is the set of all firms targeted in quasi-insider campaigns and all firms targeted in hedge fund activist campaigns. Here, we ask what factors determine the likelihood that a firm is targeted by a quasi-insider specifically, conditional on being targeted in an activism campaign. The second sample is the set of all firms targeted in quasi-insider campaigns and all firms not targeted in any campaign ("non-targeted" firms). Here, we ask what factors determine the likelihood that a firm is targeted by a quasi-insider as opposed to not being targeted at all. In all of the regressions, we standardize and measure explanatory variables in the year prior. Table 2 presents the results.[16] This table includes year and two-digit SIC fixed effects and we present standard errors clustered at the firm level below each point estimate.

— Insert Table 2 here —

For each of the two different samples (quasi-insider campaign targets vs. untargeted firms and quasi-insider targets vs. hedge fund targets), we present estimates from two separate sets of regressions - one where the explanatory variables are financial characteristics computed using Compustat and one where we add stock returns over the previous year, number of analysts covering the firm, the illiquidity measure of Amihud (2002), and percentage of shares owned by institutions to that set.[17] Columns (1) and (3) present these estimates for the pooled quasi-insider target and non-targeted firm sample and columns (2) and (4) for the pooled hedge fund target and quasi-insider targeted firm sample. Consistent with the univariate comparisons in Table 1, firms targeted by quasi-insiders have lower stock returns and lower ROA than both hedge-fund targets and non-targeted firms.

[16] Table B2 in the Internet Appendix reports similar results using a multinomial probit.

[17] We omit Log(Market Cap) when we add these variables because it is highly collinear with the number of analysts and institutional ownership.

They also tend to be smaller than non-targeted firms and have lower institutional ownership than hedge-fund targets, as in Table 1.

4 Quasi-insider Activism

4.1 Quasi-insider Relationships

Panel A of Table 3 summarizes the relationships of each quasi-insider involved in a campaign at the campaign level. Note that these categories are not-mutually exclusive - some campaigns include multiple quasi-insiders, and some individuals fit in multiple categories. 67.2% of campaigns involve a former non-CEO executive of the target company, 63.9% involve a former CEO, 53.3% of campaigns involve a founder, and 53.3% of campaigns involve a former chair of the board. Panel B of Table 3 summarize these relationships for the 146 quasi-insiders. 55.5% of all quasi-insider are former CEOs, 49.3% are founders, 46.6% are former board chairs, and 61.6% held other top executive positions. These campaigns also sometimes involve other former non-chair directors, whom we do not include in our definition of quasi-insider, as well as current directors.

— Insert Table 3 here —

4.2 Activist campaign characteristics

Panel A of Table 4 reports the frequency with which quasi-insiders and hedge funds launch different campaign types. Quasi-insider campaigns are much more likely than hedge fund campaigns to take the form of proxy fights (45.1% of campaigns for quasi-insiders, vs. 26.6% for hedge funds) and Exempt Solicitations (5.7% versus 1.2%). Panel B reports campaign objective frequencies for quasi-insiders and hedge fund campaigns. Quasi-insiders seek board representation in in 58.2% of the campaigns they initiate (vs. 39.9% for hedge fund-initiated campaigns) and full board control in 22.1% of their campaigns (vs. only 7.8% for hedge funds). Quasi-insiders seek governance and executive compensation changes and the removal of the CEO or Board Chair more frequently than hedge funds do, though these objectives are relatively uncommon in general. They are also more likely to seek sales to themselves and less likely to seek sales to third parties than hedge funds.

— Insert Table 4 here —

Overall, the results thus far suggest that quasi-insiders may play much of the same interventionist role in small firms that activist hedge funds do in larger firms. They tend to target poorly-performing firms that may be too small for traditional hedge fund activists to be able to profit from targeting. The mode of activism employed by quasi-insider also appears to differ notably from that of hedge fund activists. Quasi-insiders tend to seek greater control and employ more aggressive campaigns. These differences may indicate that they view themselves as being better positioned to exert direct control over their targets because of their past experience managing or overseeing the firm.

4.3 Abnormal Returns and Share Turnover

Figure 2 plots the cumulative abnormal returns (CARs) as well as the abnormal turnover (see Table A1 for definitions) over the 41 day period centered around the campaign announcement date for quasi-insider (Subfigure a) and hedge fund campaigns (Subfigure b). These graphs indicate that both quasi-insider and hedge fund targets exhibit large CARs over the 41 days around the announcement date, with most of the returns concentrated in the few days around the campaign. Both groups of target firms exhibit some run-up prior to the filing date. The hedge fund activism CARs appear similar to those that Brav et al. (2008) and Klein and Zur (2009) document. Hedge fund targets have slightly greater abnormal turnover in the days preceding the announcement, consistent with quasi-insider already having a large stake in the firm, while hedge funds may be acquiring shares in anticipation of launching a campaign.

— Insert Figure 2 here —

Subfigures (c), (d), (e) and (f) of Figure 2 present the quasi-insider campaign announcement CARs split based on whether or not the campaign is control-related, whether or not it is takeover-related, whether or not the activist's stake exceeds 10%, , and whether a founder is involved or not respectively. We classify a campaign where the activism seeks board representation, board control, or a forced sale of the firm to the activist as control-related. We classify a campaign where the activist seeks the sale of the firm either to the activist or to a third party as takeover-related.

Both control-related and non-control related campaigns are associated with similar CARs up to the seventh day post-campaign announcement, although non control campaigns exhibit a partial reversal around afterwards. Takeover-related campaigns have significantly higher CARs around announcement, though even non-takeover related campaigns appear to have positive abnormal returns. The difference is consistent with findings from the hedge fund activism literature that much of the value increase around activism campaign announcements in general is driven by the possibility of a takeover (Mulherin and Poulsen, 1998; Boyson, Gantchev, and Shivdasani, 2017). Campaigns launched by quasi-insiders with at least a ten percent stake in the target are associated with larger CARs than campaigns with smaller stakes. This difference may indicate that a campaign is more likely to induce change when the activist has a larger stake, though stake size could also be correlated with the other factors such as the likelihood that the campaign is takeover-related. Finally, campaigns involving founders are associated with larger CARs than campaigns not involving founders. This suggests that a deeper, longstanding connection with the firm and its stakeholders presents an advantage to a quasi-insider launching a campaign.

Table 5 presents the information in Figure 2 in tabular form, allowing us to interpret the magnitude of the CARs around campaign announcements and assess their statistical significance. Panel A shows CARs for all quasi-insider and hedge fund-initiated campaigns separately. The (-10,+1) window CAR for quasi-insider campaigns is 4.4% and differs statistically from zero with 99% confidence based on a two-tailed t-test. The (-10,+1) window CAR for hedge fund campaigns is similar at 4.6%. CARs over the narrower (-1,+1) window are 3.2% for quasi-insider campaigns and 3.4% for hedge fund campaigns. Differences between the quasi-insider campaign and hedge fund campaign CARs over both windows are statistically insignificant.

— Insert Table 5 here —

Panel B shows CARs for different quasi-insider campaigns based on the same four splits that Figure 2 depicts.

Takeover-related campaigns produce the largest CARs of all subgroups, at 7.9% over the (-1,+1) window and 9.9% over the (-10,+1) window. These CARs are statistically larger than those of non-takeover related campaigns. CARs for campaigns involving founders are statistically larger at the (-10,+1) window than for campaigns not involving a founder. CARs are also significantly larger when the activist owns more than 10% of the firm's stock than when the activist's stake is smaller, though the differences are not statistically significant.

4.4 Firm operating performance, investment, and financing decisions

Figure 2 and Table 5 suggest that, as with hedge fund campaigns, investors perceive quasi-insider campaigns to create value for shareholders. If this perception is correct, then we should observe changes after activism campaigns that ultimately increase cash flow to shareholders. We next investigate the nature of changes in operating performance after activism campaigns by analyzing the evolution of return-on-assets (ROA) around these campaigns. Figure 3 presents this analysis.

— Insert Figure 3 here —

The figure plots trends in the average ROA from three years before to three years after campaigns.[18] For targets of quasi-insiders, ROA falls sharply from three years before a campaign to the year of the campaign before increasing substantially after the campaign. The figure also plots the trend for the average 3-digit SIC industry median over the same period. While the median firms in the same industries experience a decrease in ROA and subsequent reversal, the magnitude of the changes for quasi-insider campaign targets appear to be substantially larger. The significant reversal in the decline of ROA could indicate that quasi-insider campaigns arrest and reverse declines in operating performance, a potentially important source of value-creation. However, we cannot rule out the possibility that the reversal of the ROA decline simply reflects mean reversion in performance. Hedge fund activism campaigns exhibit a similar but less-pronounced trend. We extend this analysis to a multivariate setting and report the results in Table 6.

[18]We winsorize ROA at the 5th and 95th percentiles to address concerns about outliers, and we require data on ROA to available in the pre and post-announcement periods.

— Insert Table 6 here —

Column (1) of Table 6 reports OLS regressions with ROA as the dependent variable. The sample consists of the Compustat universe over the 2000-2015 period. The explanatory variables consist of a series of indicators equal to one if a firm was subject to a quasi-insider activist campaign announced in year $t + k$, for $k = -3$ to $k = 3$, and zero otherwise. We also include the natural logarithm of market capitalization and 3-digit SIC industry-by-year fixed effects as controls. The results are consistent with Figure 3, with lower ROA over three years prior to the campaign (significant for year $t-3$), and a larger ROA over the three years after the campaign (significant for years $t+2$ and $t+3$), relative to other firms in the same industry.

In columns (2) through (7), we use the same regression specification to identify time-series variation in various corporate outcomes and policy variables. These include capital expenditures, R&D, sales growth, dividend yield, cash, and debt. Sales growth in column (4) exhibits the most noteworthy results, with lower levels prior to the campaign than other firms in the same industry (significant for years $t-2$ and $t-1$) that reverse and actually become slightly positive in year $t+1$. This represents further evidence that quasi-insider campaigns may reverse underperformance.

4.5 Campaign success

Finally, we examine the success rates of quasi-insider and other activist campaigns in meeting their stated campaign goals and compare these rates to those of hedge fund activists. To measure campaign success, we read through the campaign notes provided by FactSet and supplement the information from this source with news articles about the outcome of the campaign. We classify a campaign as successful if the firm implemented at least one of the activists' stated objectives. Table 7 summarizes the success rates of hedge fund and quasi-insider activist campaigns and breaks this down by the category of the campaign objective.

— Insert Table 7 here —

Quasi-insiders are successful in achieving at least one of their objectives in 41.8% of their campaigns, lower than the 53.3% success rate of hedge funds in their campaigns, and the difference is statistically significant at the 5% level. This difference does not simply reflect the fact that quasi-insiders have more aggressive objectives. Analysis of success rate by objective category shows that quasi-insiders are less successful in four of the five objective categories, though the difference is only statistically significant for campaigns where the activist seeks board representation or control.

There are several possible explanations for quasi-insiders' relative lack of success in their campaigns. Even within categories, the objectives of quasi-insiders campaigns could be bolder than those of hedge fund campaigns, making it more difficult for quasi-insiders to win shareholder support. Alternatively, a lack of institutional investor ownership may make it difficult to win the support of shareholders more broadly. Still another possibility is that campaigns initiated by quasi-insiders are sometimes motivated by personal benefits rather than the opportunity to increase firm value, which could make it difficult to win shareholder support.

We extend this analysis to a multivariate setting to further examine how campaign success varies between hedge fund and quasi-insider activists. We estimate a series of campaign-level probit regressions where the dependent variable is an indicator equal to one for successful campaigns and zero for unsuccessful campaigns. Table 8 presents the marginal effects from the estimates of these regressions.

— Insert Table 8 here —

Columns (1) and (2) pool quasi-insider and hedge fund campaigns together. Column (1) includes all categories of campaigns, while column (2) includes only proxy contests. The explanatory variables are size as measured by log of market capitalization, dissident ownership percentage, an indicator for control-related campaigns, and an indicator for a quasi-insider campaign. The negative coefficient on the quasi-insider campaign indicator confirms the conclusion from Table 7 that quasi-insider campaigns are less likely than hedge fund campaigns to be successful. In general, campaigns are more likely to be successful if they are control-related or involve larger companies or if the dissident owns a larger stake.

In the next four columns, we examine the determinants of campaign success for quasi-insider campaigns (columns (3) and (4)) and hedge fund campaigns (columns (5) and (6)), separately. Again, the first of each pair of columns includes all categories of campaigns, while the second include only proxy contests. Quasi-insiders are more likely to be successful at smaller companies, consistent with the argument that quasi-insiders play the largest role in small companies. In contrast, hedge fund campaigns are more likely to succeed in larger companies. They are also more likely to succeed when the dissident owns a larger stake.

5 Presence of Quasi-Insiders and CEO Turnover-Performance Sensitivity

Section 4 presents evidence documenting the initiation of activism campaigns by agents such as founders, former officers, and current non-officer directors who operate at the periphery of control and provides evidence suggesting that these campaigns have positive consequences for current shareholders. However, as with other engaged shareholders, public campaigns likely represent only the tip of the iceberg in terms of quasi-insider governance activities. In this section, we examine the governance impact of simply having a potentially-active quasi-insider as a shareholder. Specifically, we examine the responsiveness of CEO turnover to firm performance in firms with these shareholders in their ownership structure.

We estimate probit regressions of $CEOTurnover$ on the $QIBlockholder$ indicator variable, performance measures, and the interaction of the two. In estimating these regressions, we exclude firm-year observations where the current CEO has been in place for less than one full year as of the beginning of the year. Turnover so early in a CEO's tenure likely indicates that CEO was an interim CEO. Table 9 presents marginal effects from the regressions.

— Insert Table 9 here —

We consider two performance variables: (i) the residual stock return from a pooled regression on the mean return of all other firms in the same industry and (ii) normalized return-on-assets relative to industry. We measure these variables as of year $t-1$. Columns (1) and (2) present results where the performance variable is the residual return. Column (1) presents the base estimate. Not surprisingly, the coefficient on the stock return performance measure is negative, with statistical significance at the one percent level. A firm's CEO is more likely to depart after under-performance. Of greater interest, the negative marginal effect of the interaction term indicates that the sensitivity is greater when a quasi-insider is a blockholder in the firm, though this marginal effect is only statistically significant at the ten percent level.

Column (2) presents results where we also include as additional explanatory variables an indicator variable equal to one if a former CEO of the firm is on the board of directors in the given year and zero otherwise as well as its interaction with the return performance measure. Fahlenbrach, Minton, and Pan (2011) find that CEO turnover is more sensitive to recent stock return performance for these firms. We confirm their result. In addition, we find that turnover continues to be more sensitive to return performance when a firm has a quasi-insider as a blockholder after controlling for the conditioning effect of having a former CEO on the board.[19]

Columns (3) and (4) present analogous regressions where the performance variable is normalized return-on-assets relative to industry. Not surprisingly, the coefficients on ROA performance are negative and statistically significant at the one percent level. The coefficients on the interaction of $QIBlockholder$ and $RelativeROA$ are negative and statistically significant at the one percent level, indicating that CEO turnover is also more sensitive to accounting performance when a quasi-insider is a blockholder. The interaction of accounting performance and the former CEO on board indicator in column (4) is also negative and statistically significant at the one percent level. Overall, then, turnover is more sensitive to both return and accounting performance when the firm has a quasi-insider as a blockholder and when a former CEO of the firm sits on its board of directors.

6 Conclusion

Morgan Lewis, a prominent law firm, recently issued advice on how companies can make themselves less vulnerable to activism by investors who had a prior relationship with a company as insiders, such as founders and former CEOs. We examine the role of such investors, whom we term quasi-insiders, in the governance of firms. We document that they engage in shareholder activism campaigns just as activist institutional investors do but tend to

[19]It is worth noting that our sample period (2000–2017) has little overlap with the sample period that Fahlenbrach, Minton, and Pan (2011) study (1994–2004).

target smaller companies that institutional investors are likely to ignore. These quasi-insiders, as we term them, appear to be relatively aggressive in their campaigns, seeking outright control rather than changes to specific corporate policies with greater frequency. This finding suggests that concerns about companies' vulnerability to quasi-insider activism are well-founded. However, our evidence also suggests that quasi-insider activism is associated with improvements in corporate performance. Quasi-insiders thus appear to play an important role in governance that other investors and corporate stakeholders ought to pay attention to. Moreover, the campaigns we observe represent the culmination of quasi-insiders' confrontations with firms — the tip of the iceberg. Many of their confrontations with management are likely to be unobserved, occurring outside of the public domain. While we find some evidence that supports this — the mere presence of quasi-insiders in the ownership structure of firms is associated with greater sensitivity of CEO turnover to performance — our study is likely to underestimate the full extent of quasi-insiders' role in governance, particularly in the private domain. Further research could perhaps shed light on this.

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Appendices

A Variable Definitions

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

Variable	Definition
Abnormal Turnover	Daily turnover is calculated as daily trading volume divided by shares outstanding. Abnormal daily turnover in the event period is measured relative to the average daily turnover for that firm during the (-100,-40) period relative to the campaign announcement date (Source: CRSP).
Amihud Illiquidity	the Amihud (2002) illiquidity measure, defined as the yearly average of the daily value of 1000|Return|/(Dollar Trading Volume). (Source: CRSP).
Analyst Coverage	Number of analysts issuing an EPS forecast for the firm for the next fiscal-year end (Source: IBES).
Business Segment Sales HHI	The Herfindahl-Hirschman index of sales in different business segments (Source: Compustat).
CAPEX	The target firm's capital expenditures divided by total assets (Source: Compustat).
CAR(-i,+j)	The cumulative abnormal return from day -i to day +j relative to the campaign announcement computed using event study methodology with the market model. The estimation window for the market model is the (-280,-30) period relative to the announcement date, with a minimum of 60 observations. The market return is measured using the value-weighted CRSP index return (Source: CRSP).
Cash	The target firm's cash and short-term investments divided by total assets (Source: Compustat).
Debt	The sum of the target firm's long-term debt and debt in current liabilities divided by total assets (Source: Compustat).
Dissident (Dollar) Ownership	The fraction (dollar value in millions) of the target company's shares collectively owned by all the activists involved at the time that the campaign was announced (Source: Factset).
Dividend Yield	The sum of the target firm's common and preferred dividends divided by the sum of the market value of common equity and preferred equity (Source: Compustat).

Institutional Ownership	The percent of shares held by institutions that file with a 13F (Source: Thompson Reuters).
Log(Market Cap)	The (natural log of) market capitalization in millions of dollars of the target firm at the end of the fiscal year before the campaign (Source: Compustat).
Log(Total Assets)	The (natural log of) total assets (item at) at the end of the fiscal year before the campaign (Source: Compustat).
Market-to-Book Equity	The ratio of the target's market value to book value of equity (Source: Compustat).
Payout	The target firm's total dividends divided by income before extraordinary items — set to missing if negative (Source: Compustat).
R&D	The target firm's research and development expenses divided by total assets; set equal to zero when missing (Source: Compustat).
ROA	The target firm's income before extraordinary items divided by total assets, return-on-assets (Source: Compustat).
Sales Growth	The change in the target firm's sales between year t and year t-1 divided by sales in year t-1 (Source: Compustat).
Stock Return	The buy-and-hold return in the year prior to the campaign announcement in excess of the value-weighted CRSP index return, computed using monthly return data (Source: CRSP).
Tobin's q	Total assets minus the book value of equity plus the market value of equity scaled by total assets (Source: Compustat).

Figure 1: Size distribution of targets of quasi-insider and hedge fund activist campaigns

This figure plots the distribution of the size, measured as the natural logarithm of total assets, of targets of quasi-insider, targets of hedge fund activist campaigns, and the Compustat universe. The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign.

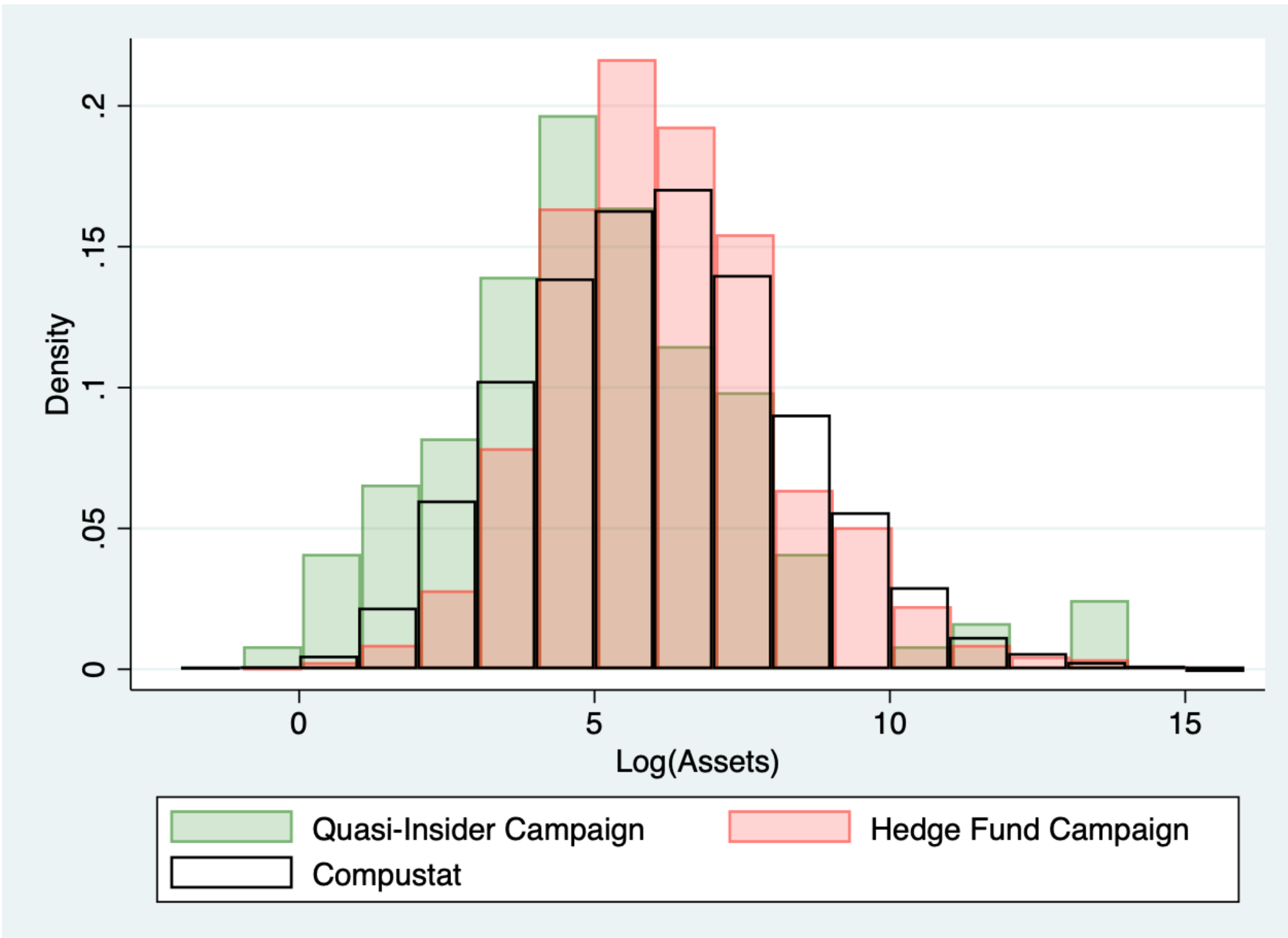
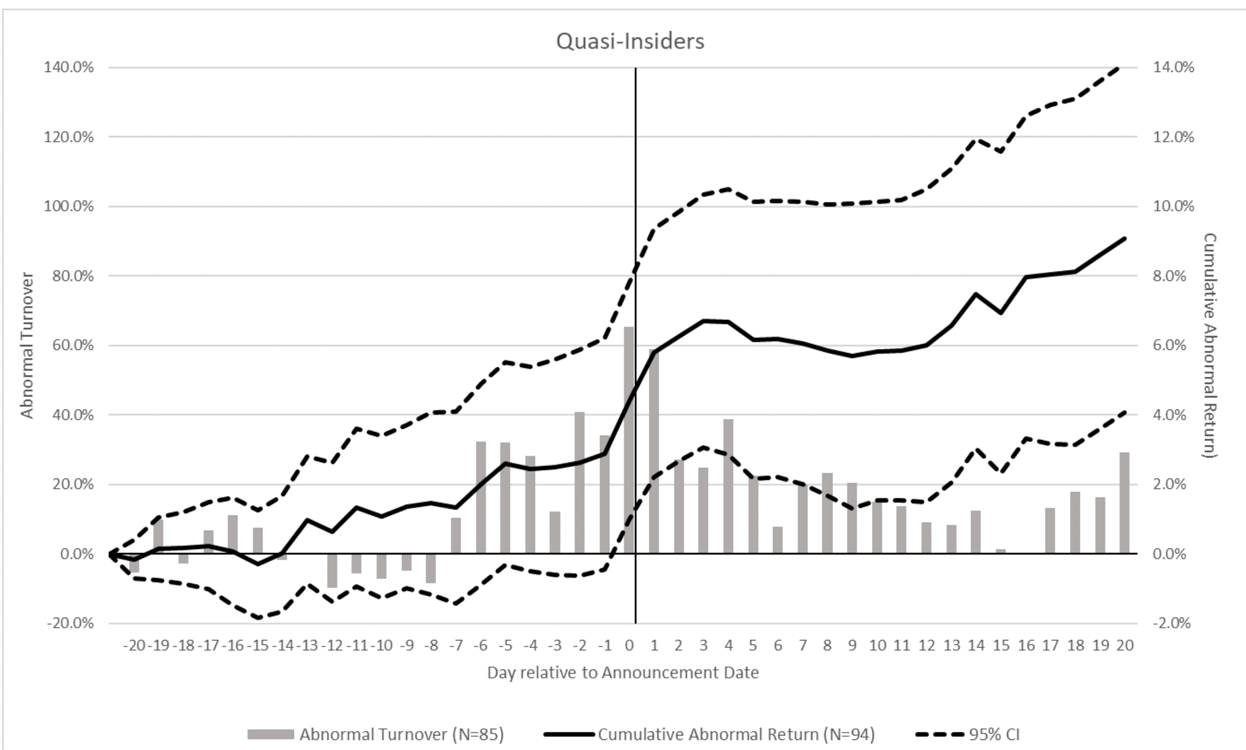


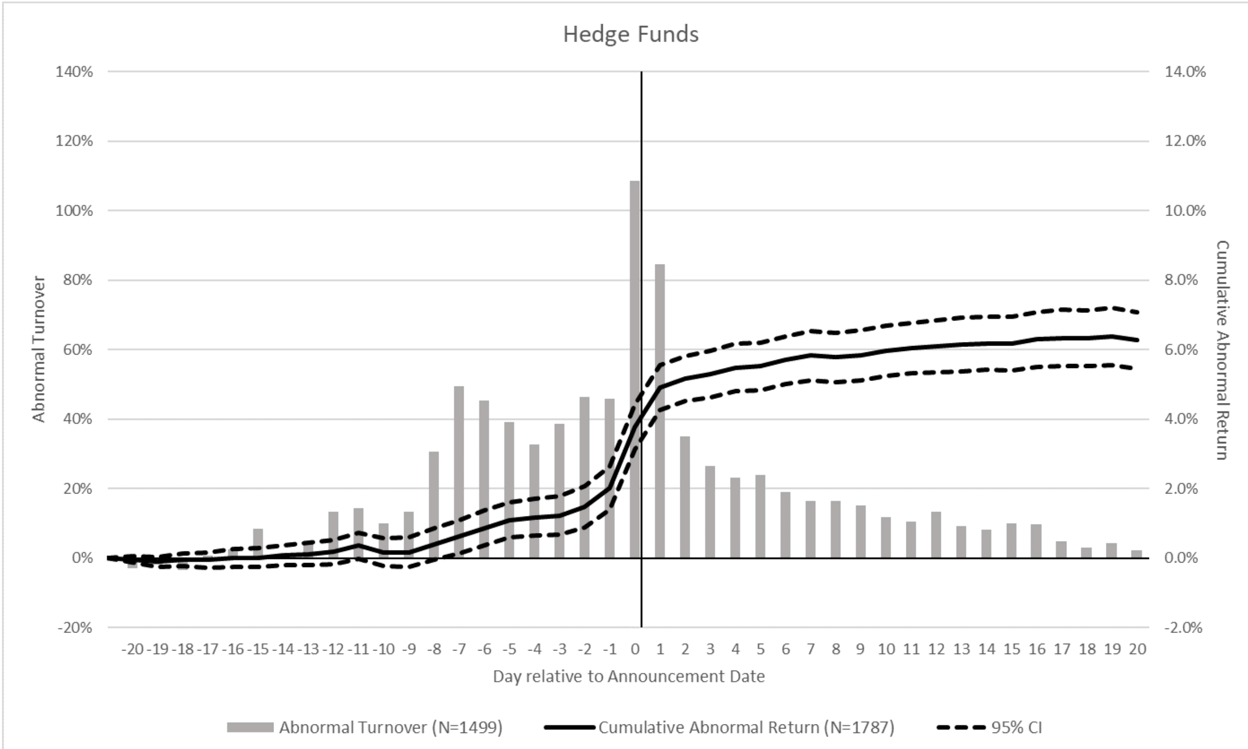
Figure 2: Campaign Announcement CARs and Abnormal Turnover

This figure plots the cumulative abnormal returns (CARs) and abnormal turnover around the announcement date for hedge fund and quasi-insider activist campaigns, starting 20 days before and ending 20 days after the announcement date. The sample consists of firms that are targets of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 3). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign. The sample is further restricted to firms for which data are available on returns/turnover in CRSP (see Table A1 for definitions), resulting in 94/85 quasi-insider activist and 1787/1499 hedge fund activist campaigns. CARs are computed using event study methodology with the market model. Abnormal daily turnover in the event period is measured relative to the average daily turnover (calculated as daily trading volume divided by shares outstanding) for that firm during the (-100,-40) period relative to the event date. CARs and abnormal turnover are winsorized at the 5^{th} and 95^{th} percentiles relative to the announcement. Figure (a) plots the data for quasi-insider campaigns and (b) plots data for hedge fund campaigns. Figures (c), (d), (e) and (f) plot CARs for quasi-insider campaigns split by control and takeover related objectives, activist ownership stakes above and below 10%, and whether a founder is inolved or not. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings (see Panel B Table 4). Control-related objectives include obtaining board representation, board control, or seeking the sale of the target firm to the activist. Takeover-related objectives consist of seeking the sale of the target firm to the activist or a third party. Ownership is the dissident ownership as defined in Table A1.

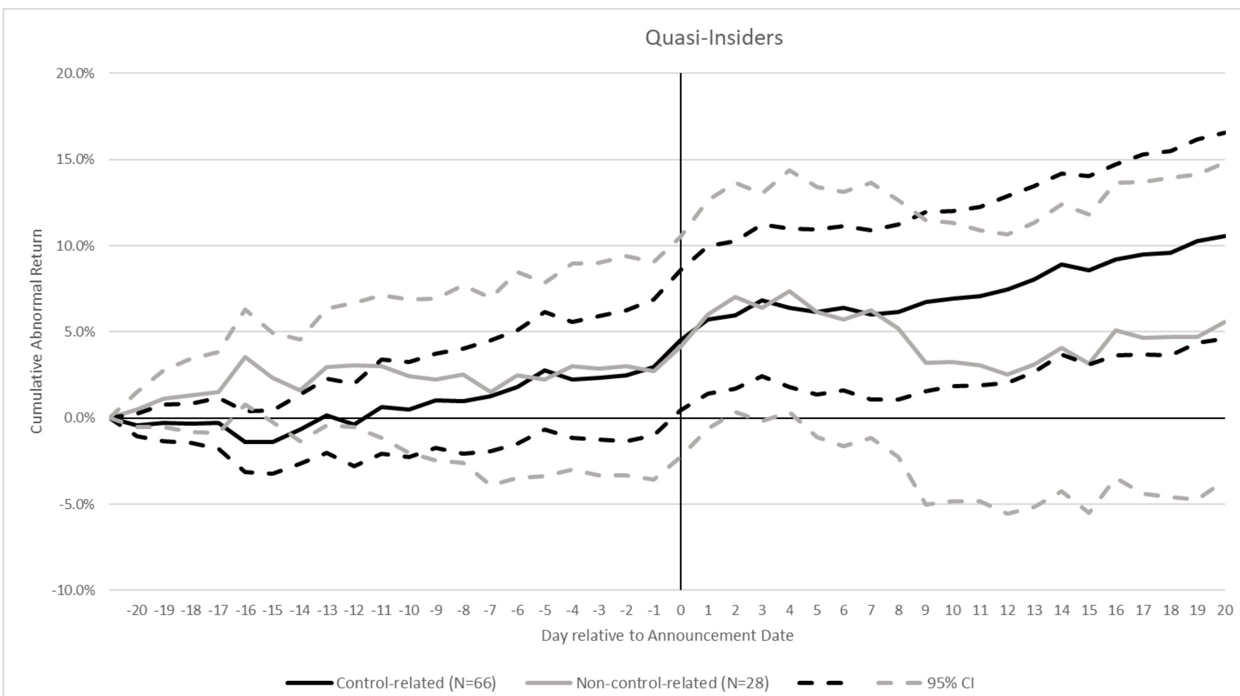


(a) Quasi-Insiders

Figure 2: Continued.

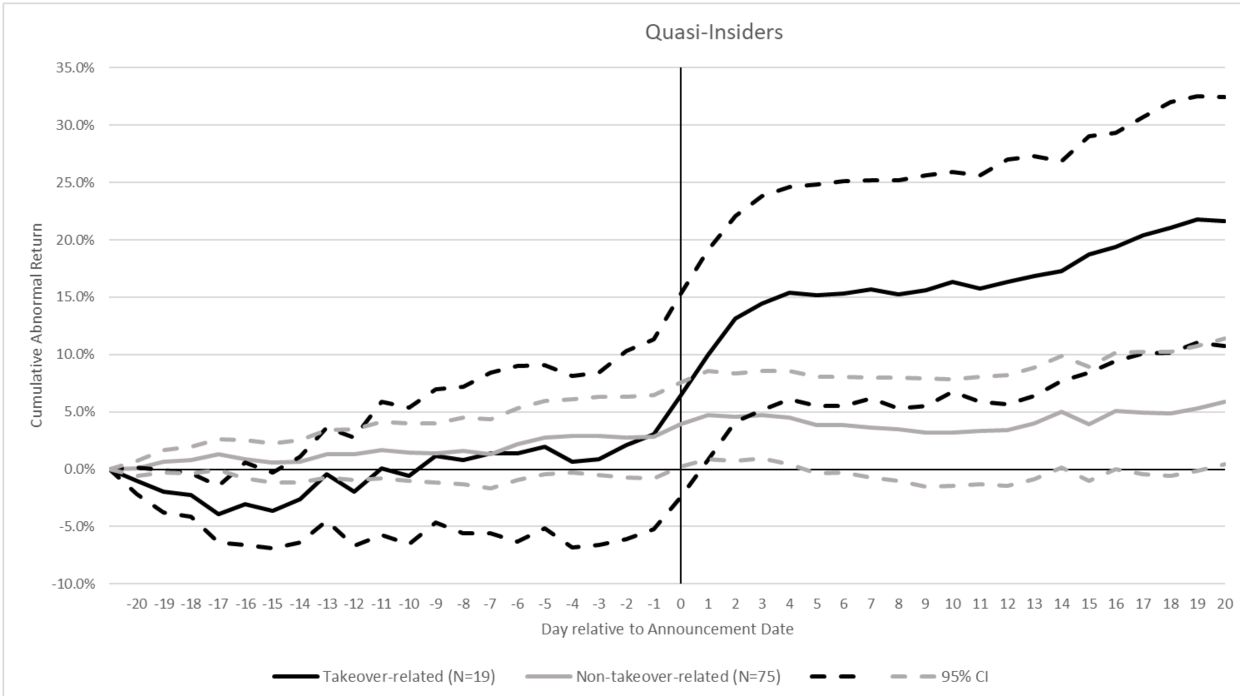


(b) Hedge Funds

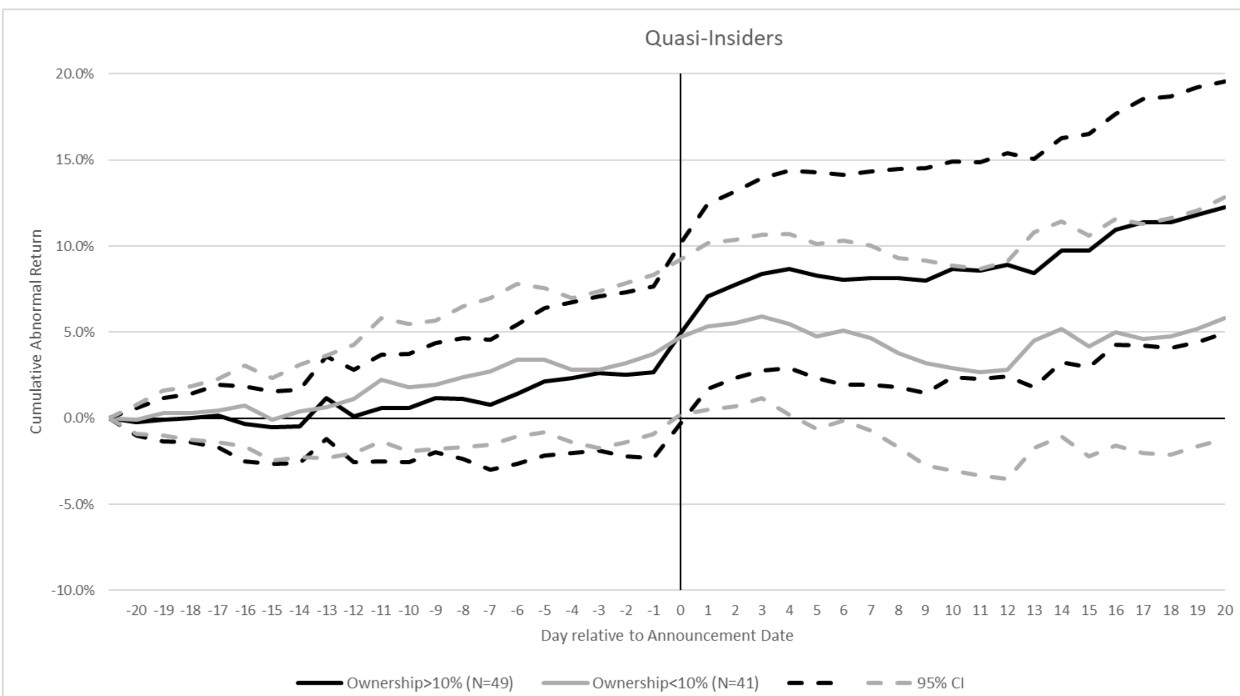


(c) Quasi-Insider Campaigns by Control-related Objective

Figure 2: Continued.

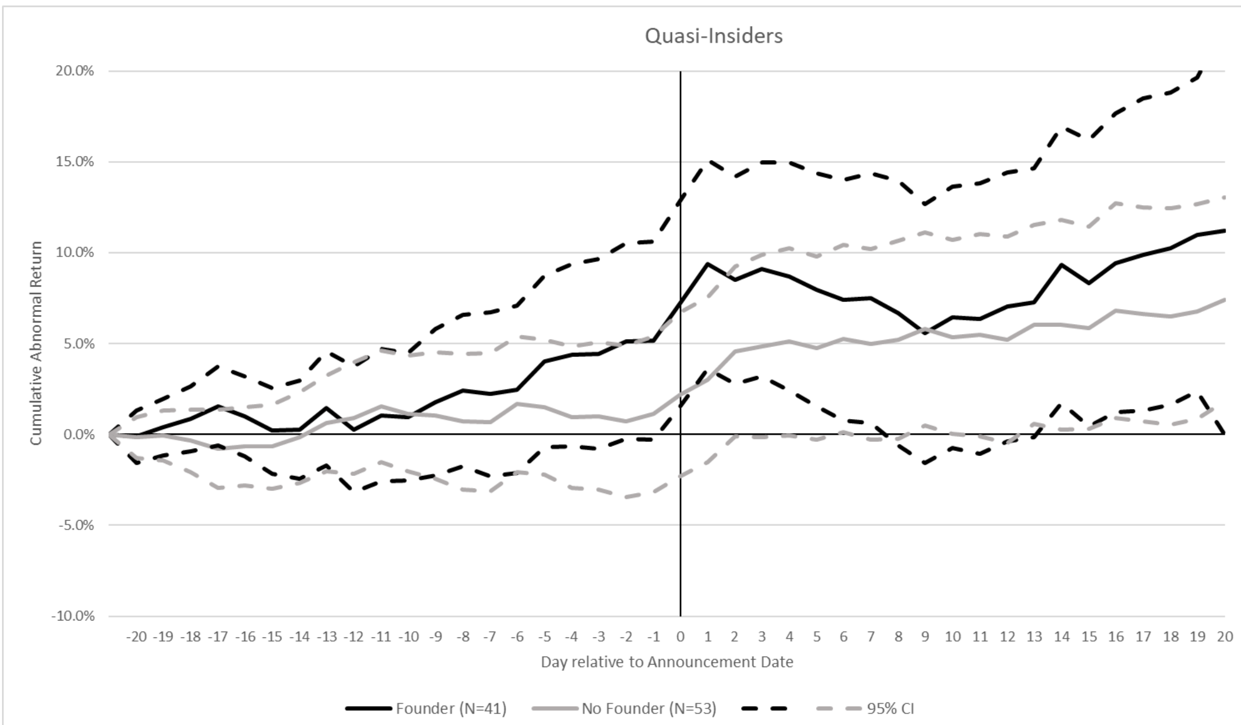


(d) Quasi-Insider Campaigns by Takeover-related Objective



(e) Quasi-Insider Campaigns by Ownership

Figure 2: Continued.



(f) Quasi-Insider Campaigns by Founder Involvement

Figure 3: Operating Performance - Return-on-Assets

This figure plots the average Return-on-Assets (ROA) around the hedge fund and quasi-insider activist campaigns, starting 3 years before and ending 3 years after the fiscal year during which the campaign was announced. The sample consists of firms that are targets of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 3). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign. The sample is further restricted to firms for which data on ROA is available every year for the period starting 3 years before and ending 3 years after the fiscal year during which the campaign was announced, resulting in 66 quasi-insider and 949 hedge fund activist campaigns. ROA is computed as income before extraordinary items divided by total assets and is winsorized at the 5^{th} and 95^{th} percentiles every year. The figure also plots the average industry median ROA at the 3-digit SIC level for the quasi-insider and hedge fund activist targets over the same period.

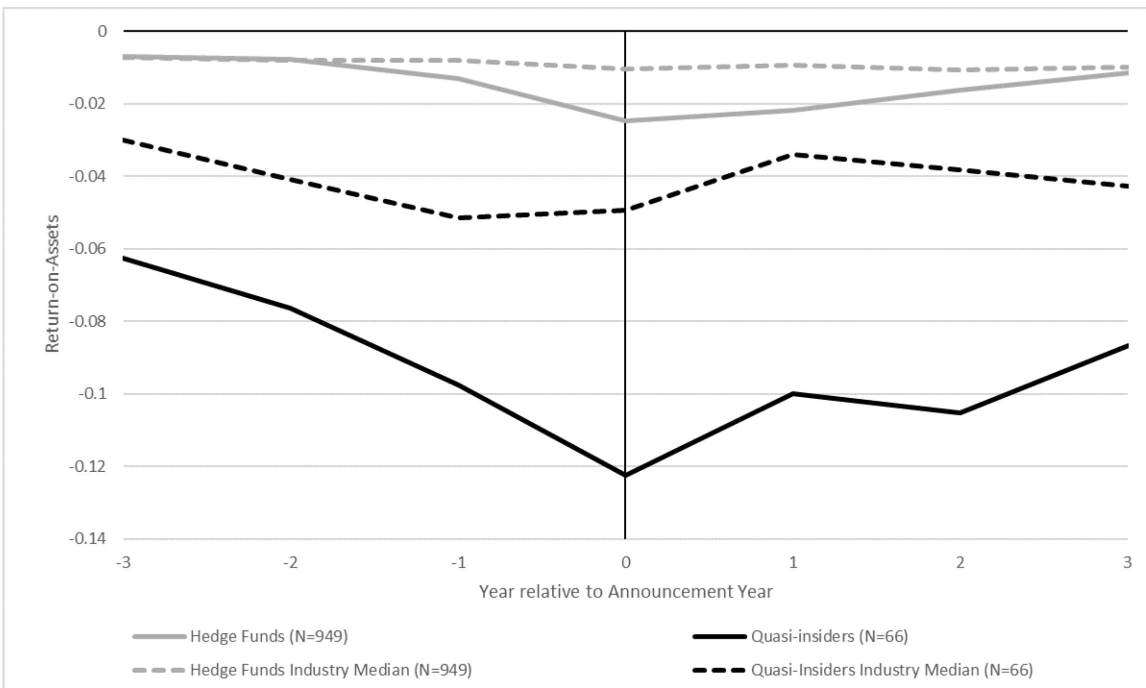


Table 1: Summary Statistics

This table reports summary statistics on characteristics of firms targeted by hedge fund and quasi-insider activists. The sample consists of targets of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider; an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 3). The sample is restricted to campaigns for which data on firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 122 quasi-insider and 1962 hedge fund activist campaigns. Panel A contains summary statistics for targets of quasi-insider activists, hedge fund activists and other Compustat firms excluding targets of quasi-insider or hedge fund activists. Panel B reports summary statistics for quasi-insider blockholders not currently employed and other Compustat firms that do not have quasi-insider blockholders. ***, **, * indicate statistical significance at the 1%, 5% and 10% levels for Wilcoxon signed-rank tests (medians) that compare quasi-insider activist targets to hedge fund activist targets and other Compustat firms. All variables are defined in Table A1.

	N	Mean	Median	SD	P25	P75	Other Median	HF Median
Total Assets	122	23405.35	132.83	137056.70	39.93	657.33	420.99***	432.49***
Market Cap	122	4585.64	83.89	23779.93	22.35	285.01	277.61***	244.02***
Tobin's q	122	2.93	1.20	6.96	0.98	2.06	1.30	1.22
Market-to-Book Equity	122	0.34	1.31	32.49	0.67	2.34	1.65***	1.38
Cash	122	0.24	0.16	0.25	0.04	0.36	0.09**	0.12
R&D	122	0.11	0.00	0.40	0.00	0.07	0.00	0.00
ROA	122	-0.44	-0.03	1.33	-0.32	0.01	0.02***	0.01***
Sales Growth	113	0.05	0.01	0.54	-0.12	0.13	0.08***	0.03*
Debt	122	0.27	0.12	0.83	0.02	0.31	0.17	0.15
Dividend Yield	122	0.01	0.00	0.02	0.00	0.02	0.00	0.00
Payout	99	0.40	0.00	2.76	0.00	0.00	0.00**	0.00
Stock Return	94	-0.15	-0.18	0.45	-0.40	0.09	-0.05***	-0.13*
Institutional Ownership	101	0.39	0.37	0.32	0.11	0.63	0.36	0.67***
Amihud Illiquidity	94	0.70	0.24	0.93	0.08	1.07	0.13***	0.11***
Business Segment Sales HHI	104	0.83	1.00	0.25	0.58	1.00	1.00	1.00
Analyst Coverage	122	2.62	0.00	4.74	0.00	3.00	1.00***	3.00***
Dissident Dollar Ownership	118	370.75	8.79	2375.15	2.63	33.01		17.47***
Dissident Percent Ownership	118	0.16	0.12	0.13	0.07	0.21		0.08***

Panel B: Quasi-insider blockholder summary statistics

	N	Mean	Median	SD	Other Median
Total Assets	340	17,350.07	59.93	117,187.90	282.28***
Market Cap	338	1,616.60	59.96	5,723.41	176.93***
Cash	337	0.26	0.15	0.28	0.09***
R&D	340	0.08	0.00	0.16	0.00
ROA	340	-0.54	-0.03	1.50	0.01***
Sales Growth	299	0.21	0.03	1.14	0.06***
Debt	340	0.35	0.18	0.61	0.17
Dividend Yield	340	0.02	0.00	0.04	0.00
Stock Return	331	0.09	-0.06	0.90	0.03***
Institutional Ownership	223	0.37	0.32	0.30	0.39***

Table 2: Targeted Regressions

This table reports marginal effects of probit regressions with the dependent variable of interest equal to one if the firm is the target of a quasi-insider activist campaign in the following fiscal year (columns (1) through (4)). The sample in columns (1) and (3) is the union of firms targeted by quasi-insider activists and Compustat firms not targeted in an activism campaign in the given year. The sample in columns (2) and (4) is the union of firms targeted by quasi-insider activists and firms targeted by hedge fund activists. All independent variables are standardized and defined in Table A1. All columns include year fixed effects and two digit SIC fixed effects. Standard errors are clustered by firm and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels.

	(1) QI Activists vs. Other Firms	(2) QI Activists vs. Hedge Funds	(3) QI Activists vs. Other Firms	(4) QI Activists vs. Hedge Funds
Log(Market Cap)	-0.0009***	-0.0112		
	(0.0002)	(0.0086)		
Tobin's q	0.0003**	-0.0410	-0.0084**	0.0435
	(0.0001)	(0.0263)	(0.0042)	(0.0872)
ROA	-0.0007***	-0.5381***	-0.0008***	-0.2613**
	(0.0003)	(0.1046)	(0.0003)	(0.1109)
Sales Growth	-0.0026***	-0.8273*	-0.0020**	-1.5656*
	(0.0008)	(0.4507)	(0.0009)	(0.8106)
Book Leverage	-0.0014	-0.0781	0.0004	0.0098
	(0.0009)	(0.0613)	(0.0016)	(0.0590)
Dividend Yield	-0.1683**	-1.5643	-0.1415*	2.7195
	(0.0832)	(4.9199)	(0.0852)	(4.6145)
R&D	-0.0003	-0.1042***	-0.0014**	-0.1232***
	(0.0005)	(0.0288)	(0.0006)	(0.0328)
Stock Return			-0.0095**	-0.3326**
			(0.0039)	(0.1364)
Analyst Coverage			-0.0003	-0.0079
			(0.0002)	(0.0069)
Amihud Illiquidity			-0.0000	0.0022
			(0.0001)	(0.0074)
% Inst Own			-0.0003*	-0.0328***
			(0.0002)	(0.0078)
N	70,773	1,751	64,407	1,509
Pseudo R^2	0.086	0.188	0.086	0.209

Table 3: Quasi-Insider Activists' Relationships with Target Firms

This table summarizes the relationships of quasi-insider activists with the target firms. The sample consists of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm. The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 146 quasi-insiders that participate in 122 quasi-insider activist campaigns. Information on the activists relationships to target firms is obtained from FactSet campaign synopses, Capital IQ, SEC 13D and proxy filings, and web searches. Panel A reports the relationship breakdown at the campaign level and Panel B reports the relationship breakdown at the quasi-insider level. The relationship classifications are not mutually exclusive because quasi-insiders may have multiple relationships with a firm or a campaign may include multiple quasi-insiders.

Panel A: Campaign Level

	N	% of Quasi-Insider Campaigns
Former CEO	78	63.9%
Current Chair	6	4.9%
Former Chair	65	53.3%
Current Director	32	26.2%
Former Director	58	47.5%
Former Other Top Executive	82	67.2%
Founder	65	53.3%
Total	122	

Panel B: Quasi-Insider Level

	N	% of Quasi-Insider Individuals
Former CEO	81	55.5%
Current Chair	6	4.1%
Former Chair	68	46.6%
Current Director	41	28.1%
Former Director	76	52.1%
Former Other Top Executive	90	61.6%
Founder	72	49.3%
Total	146	

Table 4: Frequency of Campaign Tactics and Objectives

This table summarizes the type of campaigns employed by hedge fund and quasi-insider activists (Panel A) and the objectives of the activists (Panel B). The type of campaign is classified by FactSet, including whether they made a press release, made contact with other shareholders, or made a formal proxy request. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings. The first column indicates the category of the objective and the second column indicates the specific objective. These are not mutually exclusive because a campaign can have up two distinct main objectives. Campaigns with more than two main objectives are classified as General Value. The sample consists of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 3). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 122 quasi-insider and 1962 hedge fund activist campaigns.

Panel A: Campaign Type

	Quasi-Insiders		**Hedge Funds**	
	N	%	N	%
Exempt Solicitation	7	5.7%	24	1.2%
Other Stockholder Campaign	60	49.2%	1417	72.2%
Proxy Fight	55	45.1%	521	26.6%

Panel B: Campaign Objectives

		Quasi-Insiders		**Hedge Funds**	
		N	%	N	%
General Value	Maximize Value	25	20.5%	295	15.0%
	Capital Structure	1	0.8%	196	10.0%
	Stop Sale	4	3.3%	198	10.1%
Board Representation	Board Representation	44	36.1%	629	32.1%
Board Control	Board Control	27	22.1%	152	7.8%
Sale Related	Sale to 3rd Party	9	7.4%	276	14.1%
	Sale to Activist	17	13.9%	74	3.8%
	Restructure Business	5	4.1%	152	7.8%
Governance	Oust CEO/Chair	5	4.1%	36	1.8%
	Compensation	3	2.5%	26	1.3%
	Governance	12	9.8%	87	4.4%
	Board Proposal	2	1.6%	97	4.9%
	Total	122		1,962	

Table 5: Campaign Announcement CARs

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

Panel A: Quasi-Insider vs. Hedge Fund Campaign CARs

	N	CAR(-1,+1)		CAR(-10,+1)	
		Mean	*p*-value	Mean	*p*-value
Quasi-Insiders	94	0.032	0.00	0.044	0.00
Hedge Funds	1,787	0.034	0.00	0.046	0.00
Difference		-0.003	0.76	-0.001	0.94

Panel B: Quasi-Insider CARs by Campaign Characteristics

	N	CAR(-1,+1)		CAR(-10,+1)	
		Mean	*p*-value	Mean	*p*-value
Quasi-Insiders:					
Control-related	66	0.032	0.01	0.051	0.01
Non-control-related	28	0.030	0.05	0.030	0.19
Difference		0.003	0.89	0.020	0.48
Takeover-related	19	0.079	0.03	0.099	0.01
Non-takeover-related	75	0.020	0.01	0.031	0.04
Difference		0.059	0.09	0.068	0.08
Ownership>10%	49	0.045	0.00	0.065	0.00
Ownership≤10%	41	0.021	0.07	0.031	0.09
Difference		0.024	0.18	0.034	0.22
Founder	41	0.042	0.00	0.083	0.00
No Founder	53	0.023	0.08	0.015	0.37
Difference		0.019	0.29	0.068	0.02

Table 6: Firm Operating Performance, Investment, and Financing Decisions Around Quasi-Insider Campaigns
This table presents estimates from OLS regressions of various firm-level investment and financing activities on an activist campaign launched by a quasi-insider. The sample period is 2000–2015. The unit of observation is a firm-year. The dependent variables are ROA, CAPEX, R&D, Sales Growth, Dividend Yield, Cash and Debt, all defined in Table A1. *Quasi-insider* $t+k$ for $k=-3$ to $+3$ are indicators equal to 1 in year $t+k$ relative to the year in which a campaign launched against the firm by a quasi-insider is announced. All regressions include 3-digit SIC industry by year fixed effects. Standard errors clustered at the firm level are reported in parentheses below each point estimate. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, based on a two-tailed t-test.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dependent Variable	ROA	CAPEX	R&D	Sales Growth	Dividend Yield	Cash	Debt
Quasi-insider $t-3$	-0.079*	-0.000	0.004	-0.042	0.001	0.043*	-0.049*
	(0.045)	(0.005)	(0.009)	(0.050)	(0.003)	(0.026)	(0.028)
Quasi-insider $t-2$	-0.036	-0.002	0.004	-0.146***	-0.000	0.007	-0.035
	(0.037)	(0.005)	(0.010)	(0.040)	(0.002)	(0.027)	(0.027)
Quasi-insider $t-1$	-0.052	-0.002	0.004	-0.144***	0.002	0.011	-0.034
	(0.044)	(0.004)	(0.008)	(0.031)	(0.002)	(0.024)	(0.026)
Quasi-insider t	0.015	-0.001	-0.005	-0.025	-0.001	-0.001	-0.012
	(0.031)	(0.004)	(0.007)	(0.048)	(0.002)	(0.025)	(0.024)
Quasi-insider $t+1$	0.013	0.002	-0.002	0.010	-0.001	0.014	0.010
	(0.028)	(0.005)	(0.006)	(0.046)	(0.002)	(0.028)	(0.026)
Quasi-insider $t+2$	0.058**	0.009*	-0.008	0.018	-0.003**	-0.007	-0.014
	(0.026)	(0.005)	(0.006)	(0.041)	(0.001)	(0.021)	(0.024)
Quasi-insider $t+3$	0.055*	0.006	-0.007	-0.017	-0.002	0.006	-0.004
	(0.029)	(0.004)	(0.007)	(0.035)	(0.002)	(0.024)	(0.026)
Log(Market Cap.)	0.050***	0.001***	-0.002***	0.012***	0.001***	-0.007***	-0.005***
	(0.001)	(0.000)	(0.000)	(0.001)	(0.000)	(0.001)	(0.001)
Constant	-0.323***	0.044***	0.050***	0.115***	0.007***	0.203***	0.271***
	(0.007)	(0.001)	(0.002)	(0.006)	(0.000)	(0.005)	(0.005)
N	82,458	82,458	82,458	77,289	82,458	82,220	82,458
Adjusted R^2	0.271	0.265	0.362	0.084	0.240	0.248	0.147
Industry-Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table 7: Frequency of Success

This table reports data on the success of activist campaigns for hedge fund and quasi-insider activists. The sample consists of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 3). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 122 quasi-insider and 1962 hedge fund activist campaigns. A campaign is classified by hand as being successful if the activist achieves at least one of its stated objectives, according to information in the FactSet synopses and press reports. Success rates are reported for all campaigns as well as separately by objective. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings (see Panel B of Table 4). Success rates are also reported separately for quasi-insiders and hedge funds. Difference is the difference between the success rates for quasi-insider and hedge fund activists. p-values are for t-tests that compare the success rates for quasi-insider and hedge fund campaigns.

	Quasi-Insiders			**Hedge Funds**			**Difference**	
	N	N Successful	% Successful	N	N Successful	% Successful	% Successful	p-value
All	122	51	41.8%	1,962	1,045	53.3%	-11.5%	0.014
By objective:								
General Value	30	9	30.0%	677	292	43.1%	-13.1%	0.155
Board Representation	44	22	50.0%	629	416	66.1%	-7.4%	0.030
Board Control	27	10	37.0%	152	107	70.4%	-33.4%	0.001
Sale Related	28	12	42.9%	480	262	54.6%	-11.7%	0.227
Governance	22	12	54.6%	216	109	50.5%	4.1%	0.717

Table 8: Success Regressions

This table reports marginal effects from probit regressions with the dependent variable equal to one if the campaign was successful and zero otherwise. A campaign is classified by hand as being successful if the activist achieves at least one of its stated objectives, according to information in the FactSet synopses and press reports. The sample consists of (firms that are targets of) activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 3). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign and data on the dissidents ownership is available in Factset, resulting in 118 quasi-insider and 1806 hedge fund activist campaigns. Columns (1) and (2) pool quasi-insider and hedge fund campaigns with an indicator for quasi-insiders as an independent variable. Columns (3) and (4) include only quasi-insider campaigns and (5) and (6) include only hedge fund campaigns. Columns (2), (4) and (6) include proxy fights only (see Panel A of Table 4). Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings. (see Panel B of Table 4). Log(Market Cap) and Dissident Ownership% are standardized. All variables are defined in Table A1. Standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels.

	Pooled		**Quasi-Insiders**		**Hedge Funds**	
	(1)	(2)	(3)	(4)	(5)	(6)
Log(Market Cap)	0.0452***	0.0279	-0.1062**	-0.1620***	0.0569***	0.0552**
	(0.0127)	(0.0260)	(0.0434)	(0.0606)	(0.0132)	(0.0278)
1(Control Related)	0.1747***	0.1096	-0.0018	-0.1016	0.1804***	0.1115
	(0.0216)	(0.0700)	(0.0999)	(0.2002)	(0.0220)	(0.0735)
Dissident Ownership %	0.0354***	0.0733***	0.0011	-0.0933**	0.0420***	0.1248***
	(0.0120)	(0.0249)	(0.0264)	(0.0451)	(0.0135)	(0.0283)
1(Insider)	-0.1777***	-0.2181***				
	(0.0485)	(0.0718)				
N	1,924	560	118	53	1,806	507
Pseduo R^2	0.033	0.026	0.032	0.080	0.035	0.034

Table 9: CEO Turnover, Firm Performance, and Quasi-Insider Ownership

This table presents marginal estimates of probit regressions of CEO turnover on firm performance and its interaction with the presence of quasi-insiders not currently employed by the firm as blockholders. The sample period is 2000–2017. The unit of observation is a firm-year. The dependent variable is an indicator equal to one if the firm experiences a change in CEO in a given year and zero otherwise. The indicator variable *QIBlockholder* is one if the firm has a blockholder who was a founder, CEO, other executive, or board chair of the firm but is not a current employee and zero otherwise. See Section 3.2 for a description of how we identify such blockholders. The indicator variable *FormerCEOOnBoard* is one if a firm has a director at the beginning of the year who was previously but is not currently the CEO of the firm and zero otherwise. In columns (1) and (2), performance is the *t-1* residual return from a pooled regression of annual returns on the equal-weighted mean return for a firm's Fama and French 48-category industry. In columns (3) and (4), performance is the z-score of a firm's year *t-1* return on assets within three-digit SIC code-year cell. Firm-years in which the firm's current CEO enters the year having spent less than one full year in that role are excluded. Standard errors clustered at the firm level are reported in parentheses below each point estimate. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, based on a two-tailed t-test.

Performance measure	Returns		ROA	
	(1)	(2)	(3)	(4)
Performance	-0.0236***	-0.0241***	-0.0098***	-0.0098***
	(0.0028)	(0.0028)	(0.0010)	(0.0010)
QIBlockholder	0.0635**	0.0639**	0.0443**	0.0445**
	(0.0281)	(0.0282)	(0.0213)	(0.0213)
QIBlockholder * Performance	-0.1109*	-0.1110*	-0.0544***	-0.0538***
	(0.0671)	(0.0673)	(0.0171)	(0.0169)
FormerCEOOnBoard		0.0101***		0.0216***
		(0.0034)		(0.0030)
FormerCEOOnBoard * Performance		-0.1044**		-0.0449***
		(0.0517)		(0.0141)
N	62,991	62,991	99,337	99,337
Pseudo R^2	0.005	0.002	0.005	0.004