

**PORTFOLIO FIRM RESPONSES TO INSTITUTIONAL
INVESTOR ACTIVISTS**

by

JASON CAVICH, MBA, MDiv.

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COMMITTEE MEMBERS

Michael McDonald, Ph.D., Co-Chair

Poonam Khanna, Ph.D., Co-Chair

Bruce Rudy, Ph.D.

Ronald Piccolo, Ph.D.

THE UNIVERSITY OF TEXAS AT SAN ANTONIO

College of Business

Department of Management

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DEDICATION

To my family, friends, and university professors who inspired me to strive to make meaningful contributions to this world.

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A number of people have provided great support to me during the pursuit of my doctoral degree and throughout my work concluding with this document. Greatly, I appreciate the understanding of my family and friends throughout this process. In addition, I am very grateful and appreciative of my colleagues in the graduate program and the friendships I have developed with them. My dissertation committee, chaired by Poonam Khanna and Michael McDonald, carried out their role with outstanding ability. Thank you to the faculty members and staff that have supported me at the University of Texas at San Antonio.

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PORTFOLIO FIRM RESPONSES TO INSTITUTIONAL INVESTOR ACTIVISTS

Jason Cavich, Ph.D.
The University of Texas at San Antonio

Supervising Professors: Poonam Khanna, Ph.D. & Michael McDonald, Ph.D.

Institutional Investor Activism (IIA) has become a dynamic institutional force and a valuable tool for institutional investors in their attempt to influence portfolio firms. Correspondingly, there has been a rapidly increasing body of scholarly literature devoted to understanding this phenomenon as it affects numerous disciplines within the organization science academy. Prior research in IIA has considered a number of antecedents and processes that may influence corporate outcomes (Goranova & Ryan, 2014b), yet results have been equivocal thus leaving unanswered questions critical for the scholarly discourse on IIA. An overlooked aspect of this literature is the heterogeneity that exists among institutional investor activists and the impact these differences can have on portfolio firm responses. Following the traditions of stakeholder salience theory (SST), I contend that some institutional investor activists have more power, legitimacy, and urgency than others. As a result, these activists will have a greater likelihood of receiving positive firm responses from their portfolio firms than activists with less power, legitimacy, and urgency. This study examines the characteristics and attributes of institutional investor activists. Then, I examine the boundary conditions by focusing on the moderating effect of activism tactics. By examining portfolio firm responses to the type of IIA using a stakeholder salience theory lens, this dissertation strives to answer the following research question: (A) How does the heterogeneity of institutional investor activists influence the likelihood that a portfolio firm will comply with an investor's requests/demands? And, in order to better understand the forces of activism tactics, this dissertation seeks to answer the question:

(B) How is the relationship between institutional investor activists and firm responses moderated by activism tactics? Drawing on 750 observations of IIA in the United States, I undertake an empirical test of the effects of institutional investor heterogeneity on portfolio firm responses using ordinal logistic regression, and I find mixed support for the hypothesized relationships.

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CHAPTER ONE: INTRODUCTION

Institutional investors (II) have become a very powerful force over the last three decades with \$45 trillion dollars of assets under management (Cotios, 2015). They currently own 85% of all global equities compared to owning 15% in 1950 (Cotios, 2015). This level of ownership provides them great power and influence in dealing with their portfolio firms. However, prior research suggests that ownership is not enough to drive desired change in portfolio firms (Gillan & Starks, 2000); often institutional investor activism is needed (David, Bloom, & Hillman, 2007; David, Hitt, & Gimeno, 2001; Neubaum & Zahra, 2006). Institutional investor activism (IIA) is defined as the attempt to influence the processes or outcomes of a given portfolio firm or to evoke large scale change in processes or outcomes across multiple firms through the symbolic targeting of one or more portfolio firms (Ryan & Schneider, 2002). While no comprehensive database exists that tracks all activism, IIA has grown substantially with 523 companies being targeted in North America in 2017 which is up from 378 in 2013 (See Figures 1, 2, & 3).

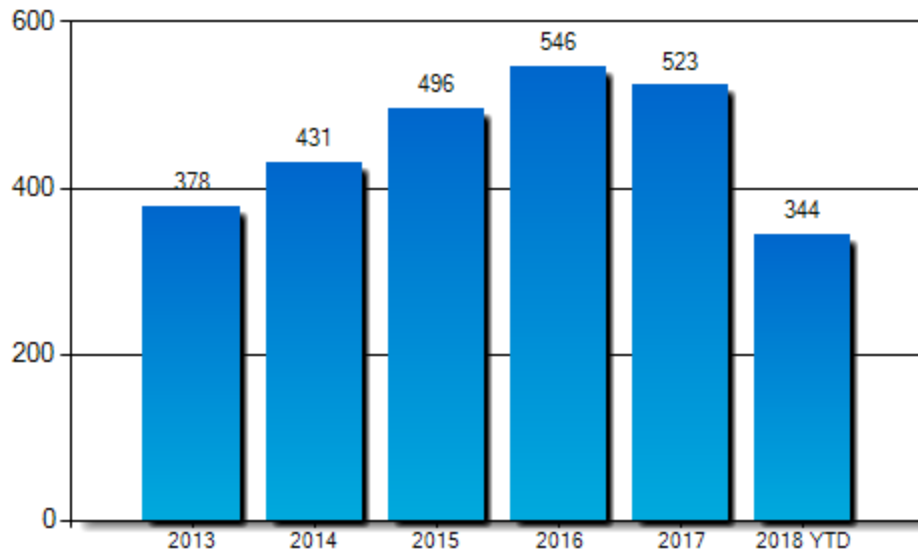


Figure 1. Number of Companies Subjected to Activist Demands in North America. Activist Insight, 2018.

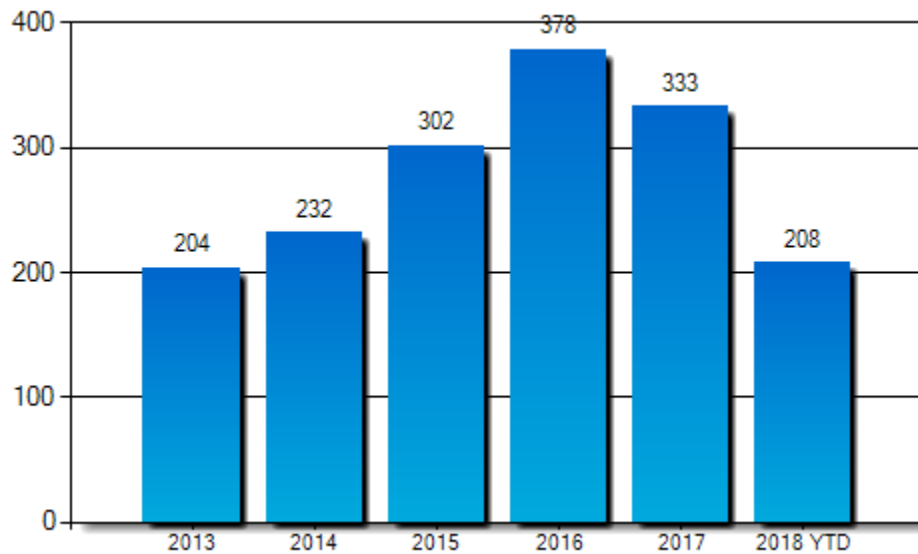


Figure 2. Number of Activists Publicly Subjecting Companies to Demands (North America). Activist Insight, 2018.

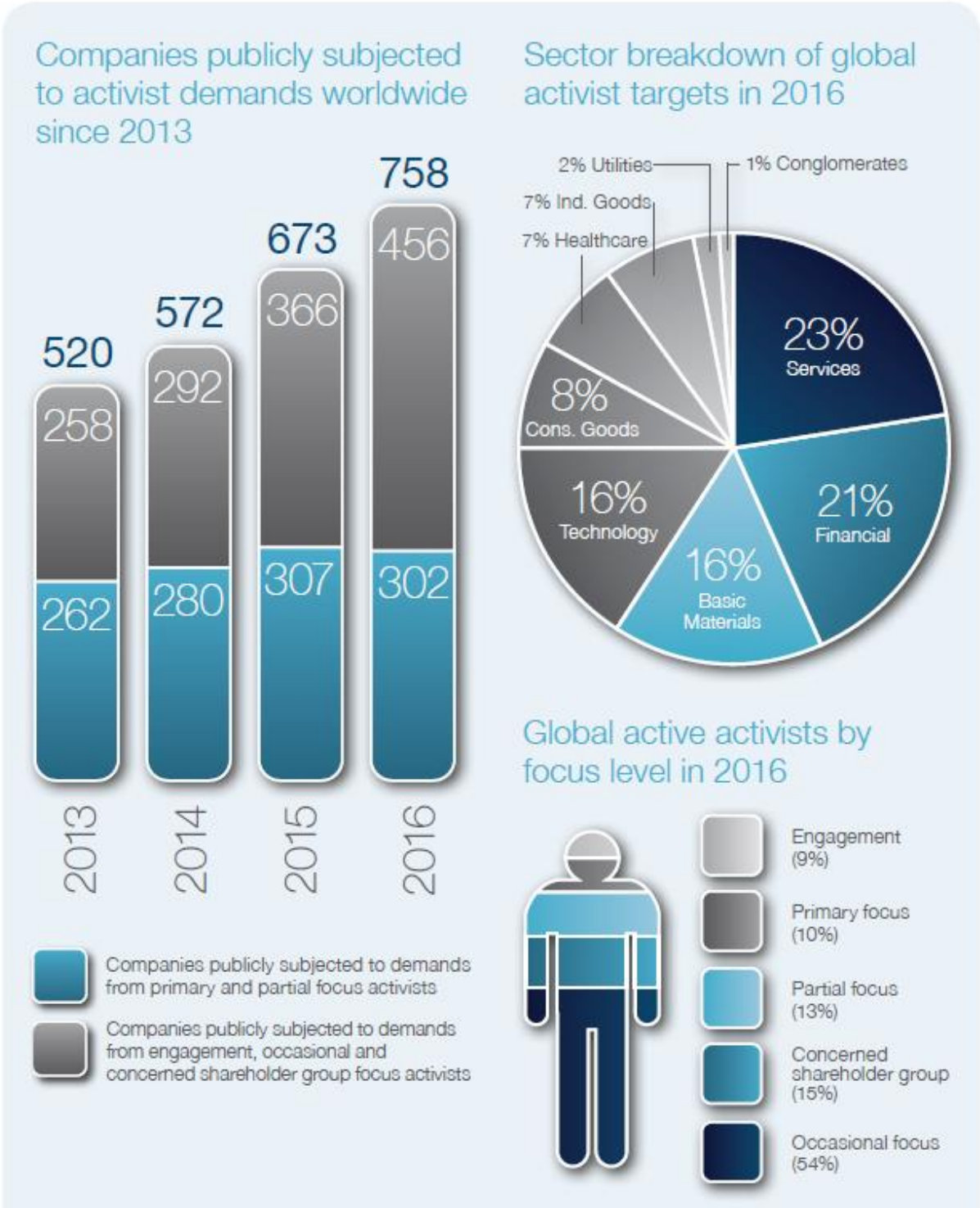


Figure 3. Global Shareholder Activism Data – Activist Insight, 2017.

This is because IIA has been shown to be a powerful tool in helping IIs influence their portfolio firms (Gillan & Starks, 2000). Yet, academic research in this area is fairly nascent, and the IIA phenomenon is not well understood (Goranova & Ryan, 2014a). This dissertation aims to help develop deeper understanding of this phenomenon.

IIs pursue activism towards their portfolio firms in attempt to influence them to make changes. For example, they may want seats on a firm's board, a change in CEO, or a change in firm strategy. Then, portfolio firms have an opportunity to respond to IIA either positively or negatively. However, prior research has tended to aggregate IIs together (Goranova & Ryan, 2014a) thus overlooking their heterogeneity and the impact their differences may cause in portfolio firm responses (Eesley & Lenox, 2006). This dissertation considers the heterogeneity of IIs at the group level and how their differences and similarities impact portfolio firm responses. In order to assess the heterogeneity of IIs, this study seeks to gain insight into how their characteristics may translate into attributes that influence firm responses to better understand when and to whom portfolio firms acquiesce. A few examples of II characteristics include the size of the fund being managed, the investment time horizon of the fund, and the legal restraints. The full set of characteristics are addressed in great detail in the theory section (Chapter Three). As the primary theory used in this dissertation, a fundamental underpinning of Stakeholder Saliency Theory (SST) (Mitchell, Agle, & Wood, 1997) is that differences in stakeholders matter as they account for variation in firm-level decisions.

Stakeholder Saliency Theory provides a basis for examination of variance in shareholders through three key attributes: power, legitimacy, and urgency. The greater the cumulative effect of these three attributes, the more salient shareholders will be to firm managers. However, prior research in shareholder activism, which includes all types of shareholders, has treated IIs as

monolithic or studied only one fund type (Brav, Jiang, Partnoy, & Thomas, 2008; Karpoff, Malatesta, & Walkling, 1996). As a result, prior studies in IIA have yielded mixed results which may in part be due to researchers lack of understanding of the many differences among IIs (Goranova & Ryan, 2014a). For example, portfolio firm performance after IIA has been found to be positive (Smith, 1996), neutral (Strickland, Wiles, & Zenner, 1996), and negative (Bizjak & Marquette, 1998). But, these studies either use one type of activism, such as shareholder proposals, or the IIs are lumped together. Both the management (David, Kochhar, & Levitas, 1998) and finance literatures (Del Guercio & Hawkins, 1999) have called for a deeper understanding of the heterogeneity of IIs and how those differences impact firm responses (Eesley & Lenox, 2006).

In 2002, Ryan and Schneider wrote an Academy of Management Review article theorizing which II characteristics encompass their heterogeneity that may drive their propensity to pursue shareholder activism. In 2003, Ryan and Schneider created a preliminary framework theorizing how II characteristics may translate into the attributes of Stakeholder Saliency Theory (SST), which are power, legitimacy, urgency, and overall saliency. However, this framework focused on IIs in an ownership context. This dissertation extends the work of Ryan and Schneider (2002, 2003) by suggesting II characteristics and attributes ultimately influence portfolio firm responses, which captures overall saliency of the IIs, in an activism context. Staying consistent with Ryan and Schneider (2003), the lens of Stakeholder Saliency Theory is used. Furthermore, this dissertation explicates, extends, and builds upon Ryan and Schneider's 2003 saliency framework by creating novel hypotheses to test the extended framework, provide more depth and detail on how II characteristics translate into SST, adding hedge funds to their framework, and suggesting this framework applies in an activism context that influences

portfolio firm responses. Lastly, I define saliency in terms of actions (Eesley & Lenox, 2006), not perceptions, meaning firm responses are the measure of overall saliency of an II in an activism context. Following these parameters, I empirically test this framework while helping add to the descriptive theory of stakeholder salience by explaining the conditions under which managers will respond favorably to certain stakeholders compared to others (See Tables 1 & 2).

Table 1. Key Institutional Investor Characteristics. Ryan and Schneider, 2002.

1. Fund Size
2. Investment Time Horizon
3. Performance Expectations
4. Pressure Sensitivity
5. Percentage of Firm Stock
6. Percentage of Fund Portfolio
7. Proportion Invested in Equity
8. Legal Restraints
9. Defined Benefit/Contribution
10. Active/Passive Investing
11. Internal/External Management
12. Internal/External Proxy Voting Rights

Table 2. Institutional Investor Salience by Fund Type. Ryan & Schneider, 2003. Cavich, 2018.

	Power	Legitimacy	Urgency	Overall Salience
1. Hedge Funds	High	High	High	High
2. Public Pension Plans	High	High	High	High
3. Multiemployer Funds	High	Moderate	High	High
4. Private Pension Funds	Moderate	Moderate	High	Moderate
5. Mutual Funds	Moderate	Moderate	High	Moderate

The Institutional Activism Process

Typically, an II views a portfolio company as not maximizing shareholder value (Goranova & Ryan, 2014a). Once this is determined, the investor initiates a process to begin enhancing that value. Predominately, the investor will reach out to an executive team in private via letters and phone calls with suggestions and demands on how to improve the company (Gantchev, 2013). This part of the activism process is often unseen to the public, and anecdotal evidence suggests it can be highly effective (Chowdhury & Wang, 2009b). However, this unseen process may be leaked to the news media or IIs release their own statements of their “private” interactions with portfolio firms (Cheffins & Armour, 2011). The aforementioned tactics that are documented are often referred to in the activism literature as “non-proxy-based activism” (David et al., 2001). Portfolio firms have the right to ignore these requests, use possible stall tactics, or meet with their shareholders and address their requests (Eesley & Lenox, 2006).

If portfolio firms are not responsive to IIA, activists have to decide if they are going to escalate their demands in the form of “proxy-based activism”. Proxy-based activism refers to actions, such as proxy contests and shareholder proposals, which are formally documented in the proxy materials sent to all shareholders (Chowdhury & Wang, 2009b). The proxy process starts with II getting potential organizational changes on the proxy statement to be voted upon at the annual meeting (Goranova & Ryan, 2014a). Proxy-based activism usually forces the portfolio firm to reject, partially acquiesce, or fully acquiesce to activists’ demands. In addition, activists have to decide if they are willing to escalate demands throughout the process knowing each stage costs more money, time, and monitoring; for example, the average proxy fight costs an II about one million dollars (Gantchev, 2013).

In order to better understand the IIA phenomenon, this study focuses on how the characteristics of II activists ultimately influence portfolio firm responses. II characteristics variance in terms of driving firm responses is an important, but as of yet unknown, component yet to be studied by Stakeholder Salience Theory scholars. Portfolio firm responses is broadly defined as the potential answers that portfolio firms can give to II in the activism process (Eesley & Lenox, 2006). Prior work by Ryan and Schneider (2002, 2003) has suggested that heterogeneity amongst IIs will impact their activism propensity and ownership saliency, but this dissertation suggests II characteristics and ownership saliency will ultimately affect portfolio firm responses in an activism context.

Stakeholder Salience Theory. This theory is based upon the ability to help clearly identify who firm stakeholders are and how salient they are to firm managers. The theory assists in defining the principle of who and what really counts to firm managers. Stakeholder identification and salience is based upon stakeholders possessing one or more of three relationship attributes: power, legitimacy, and urgency. By combining these attributes, the theory generates a typology of stakeholders that suggests which ones are most salient to managers of the firm. Mitchell, Agle, and Wood (1997) argue that the more attributes a potential stakeholder has in aggregate, the more salient they are to firm managers. More specifically, the stakeholders that possess greater levels of power, legitimacy, and urgency in concert are definitive stakeholders with the ability to influence firm managers to do what they want or get them to acquiesce to their demands. The framework was originally developed to perform inter-group stakeholder analysis on groups like shareholders, employees, and members of the community. Meaning, what were the differences in attributes among these groups. However, Ryan and Schneider (2003) argue that it can be as effectively applied at the intragroup level, which they then apply to IIs as equity

owners, and I extend their framework into an activism context. This is an important distinction as prior work in shareholder activism research suggests being an institutional owner may not have as great of influence as when activism is pursued by an II (David et al., 2001; Gillan & Starks, 2007; Goranova & Ryan, 2014b; Neubaum & Zahra, 2006).

Institutional Investors. II are the stakeholders and independent variables considered in this study. II activists are IIs who own shares in their portfolio firms and have attempted to influence their portfolio firms through an activism event rather than latent ownership as prior research suggests that activism events account for greater influence over portfolio firms than just ownership (David et al., 2001; Noe, 2002). IIs are firms that, in full or in part, manage money for other firms or individuals (Ryan & Schneider, 2003a). This class is separate from individual investors and has become a dominant force in shareholder activism in general and compared to individual investors (Goranova & Ryan, 2014a). For this study, IIs are broken into five categorical investor groups including hedge funds, public and private pension funds, private multiemployer funds, and mutual funds. Prior research has tended to aggregate institutional activists together (David et al., 2001) (Neubaum & Zahra, 2006) and focus on firm or market performance as the primary outcome of activism (Goranova & Ryan, 2014a). However, the research on the importance of the heterogeneity among II and the influence those differences can have on portfolio firms is fairly nascent. Prior work started to theorize about the differences in IIs by focusing on their primary characteristics (Ryan & Schneider, 2002) and how salient they may appear to portfolio firms (Ryan & Schneider, 2003a). However, understanding the IIA process from II characteristics to influencing firm responses has not been considered.

Firm Responses. Firm responses are the dependent variable in this dissertation and are defined as responses portfolio firms can give to II during activism events including fully granting

II requests, partially granting requests, or rejecting II requests. There has been minimal empirical research done on firm responses to shareholder activism overall, and even less work on the theoretical side (Eesley & Lenox, 2006). However, management research on IIA has increased five-fold over the last fifteen years (Goranova & Ryan, 2014a). For firm responses, descriptive statistics have been calculated in a few finance studies on activism (Brav et al., 2008; Gillan & Starks, 2000; McCahery, Sautner, & Starks, 2016), but their limitations are similar to most research in shareholder activism where II are lumped together or study one area such as corporate governance (McCahery et al., 2016), which makes it difficult to generalize to different types of II. Very few studies have considered the theoretical mechanisms and drivers of portfolio firm responses (Eesley & Lenox, 2006). This dissertation attempts to help fill this gap by better understanding the theoretical drivers of portfolio firm responses and empirically testing them. In addition, by theorizing about the characteristics and attributes of each type of II activist, this study seeks to enhance our understanding of the ability of institutional activists to influence portfolio firms to do what they want.

Overall, few studies have looked at the heterogeneity of IIs (Hoskisson, Hitt, Johnson, & Grossman, 2002; Rubach & Sebor, 2009) (McCahery et al., 2016), and how those differences can impact a portfolio firm. As previously mentioned, market performance and firm performance have been the most studied outcomes of IIA research (Cuñat, Gine, & Guadalupe, 2012; Del Guercio & Hawkins, 1999; Edmans, Fang, & Zur, 2013). However, most prior research on IIs has focused on ownership (Johnson & Greening, 1999), one type of investor at a time (Brav et al., 2008), or one form of activism such as shareholder proposals (Karpoff et al., 1996) which may be driving the mixed findings in activism research (Goranova & Ryan, 2014a). With numerous calls for a better understanding of the heterogeneity of II existing in the literature

(Goranova & Ryan, 2014a; Ryan & Schneider, 2002, 2003a), the author attempts to respond to those calls. By examining portfolio firm responses to the type of II using a Stakeholder Saliency Theory lens, this dissertation strives attempts to answer the following research question: *(A) How do the characteristics of II activists ultimately influence the likelihood that a portfolio firm will comply with an investor's requests/demands?*

Shareholder Tactics. In addition to the role of II heterogeneity and its influence on firm responses, this dissertation considers tactics used by II as an important antecedent to firm responses. Activists have a variety of tactics they can use in attempt to influence their portfolio firms. For example, activists can seek out private meetings, write letters, or place phone calls to firm managers in attempt to convey their interests to leadership which is considered to be non-proxy-based activism (Brandes, Goranova, & Hall, 2008; Logsdon & Van Buren, 2008). In addition, they can file shareholder proposals and have proxy fights which are considered proxy-based activism (Ryan & Schneider, 2002). Prior research suggests activism breaks down into these two groups: proxy-based activism and non-proxy-based activism (Chowdhury & Wang, 2009b; David et al., 2001). However, these categories have only been tested on homogenous shareholder activists. Thus, their effects on the separate classes of IIs is unknown. Per Stakeholder Saliency Theory, it is likely that proxy-based activism will be more salient to portfolio firms than non-proxy-based activism will be. I suggest that activism tactics have a direct effect on portfolio firm responses and are an important moderator of the II classes and firm responses relationship. In order to better understand the forces of activism tactics, this dissertation seeks to answer the following two questions: *(B) How do activism tactics directly effect portfolio firm responses, and (C) How is the relationship between institutional investor activists and firm responses moderated by activism tactics?*

Contributions

My dissertation seeks to make five important contributions. First, the relation between II activists and firm responses is considered, and I introduce novel hypotheses to test these relationships. While prior research has looked at some antecedents (Rubach & Sebora, 2009) and outcomes (predominantly firm performance and market performance)(Bizjak & Marquette, 1998; Karpoff et al., 1996) in the shareholder activism literature, very little research examines the relation between the heterogeneity of II activists and their portfolio firm responses in an activism context (Eesley & Lenox, 2006). The multi-disciplinary review work by Goronova and Ryan (2014) has called for a better understanding of the heterogeneity of shareholder activists and how those differences affect the market for corporate influence (Cheffins & Armour, 2011) as this gap has not yet been filled. This dissertation seeks to answer this call by considering how the characteristics of II activists translate into attributes that ultimately affect portfolio firm responses. The proposed model considers important group level characteristics and how those characteristics translate into the stakeholder saliency theory attributes of power, legitimacy, and urgency possessed by II activist classes. Institutional investor activist classes are the independent variables considered in this study comprised of the following groups: 1. Hedge Funds 2. Public Pension Funds 3. Private Multiemployer Funds 4. Private Pension Funds 5. Mutual Funds.

Second, I theorize how the characteristics of hedge funds translate into the attributes of power, legitimacy, and urgency of SST, which has not been done before. Prior research has considered the power, legitimacy, and urgency of secondary stakeholders (Cheffins & Armour, 2011), and Ryan and Schneider (2003) started the research on how investor characteristics may translate into Stakeholder Saliency Theory by developing a preliminary framework for those ideas. I extend this framework by adding the asset class of hedge funds and theorizing how their

characteristics translate into power, legitimacy, and urgency. Furthermore, I extend how their theorized levels of saliency will result in firm responses with an empirical testing of the framework, which has not been examined before.

Third, I suggest that activism tactics will have a direct effect on portfolio firm responses. Activism tactics have been shown to be an important consideration in affecting firm actions during the activism process (Del Guercio & Hawkins, 1999), but they have not been considered in relation to portfolio firm responses. Fourth, an interaction model considers the moderating effects of activism tactics upon the relationship of II activists and portfolio firm responses. Drawing on prior work (Chowdhury & Wang, 2009b; David et al., 2001), I contend that activism tactics will have an amplifying or dampening effect on the activism brought by an institutional activist which will increase or decrease the saliency of the activism for the portfolio firm. I offer novel hypotheses that suggest moderation upon the main effects between institutional activists' groups and the responses of portfolio firms. Through a deeper understanding of II groups, their salience, and the influence of activism tactics, academic research will have a more nuanced understanding of how the shareholder activism process works along with possibly bringing some clarity to mixed findings in prior studies on IIA.

Fifth, a unique contribution is offered through the use of broad shareholder activism data from five different II classes in one study, which is very rare (Goranova & Ryan, 2014a). In addition, the data differentiates types of activism tactics and demands into sub-categories so the empirical results provide greater insight into shareholder activism. In prior research, activism data has been either lumped together not accounting for any heterogeneity amongst activists (Goranova & Ryan, 2014a), or the data focuses on one type of activist (Brav et al., 2008), such as hedge funds, one type of activism (Gillan & Starks, 2000), such as shareholder proposals, or

one category of demands, such as changes in corporate governance. It has been suggested that the prior approaches may account for the mixed results in activism research despite anecdotal evidence and sentiment that activism does account for some changes (Goranova & Ryan, 2014a). This study answers the call for a deeper dive into understanding the differences amongst IIs, and how those differences influence portfolio firms. While this study may compromise some generalizability, it allows for a clearer and more specific picture of the IIA phenomenon.

CHAPTER TWO: LITERATURE REVIEW

This chapter provides an overview of past research on Shareholder Activism (which includes IIA), Firm Responses, and Stakeholder Salience Theory.

Background and Research on Shareholder Activism

Shareholder activism has changed substantially since shareholder resolutions were first allowed by the SEC in 1942 (Reid & Toffel, 2009). Activism was rather scant in the 1940s, 1950s, and 1960s as individual investors owned approximately 90% of all equities in the United States as large IIs controlled only 8-10% of all equity investments in those decades (Aguilar, 2013). However, a lawsuit in 1970 won against the Securities and Exchange Commission allowed social issue proposals to be submitted (Proffitt & Spicer, 2006; Sjöström, 2008). While social activism is different than financial activism, it is important to note social activism does exist and has played a crucial role in the rise of the prominence and legitimacy of activism (Rehbein, Waddock, & Graves, 2004; Sjöström, 2008; Tkac, 2006). In fact, financial activism and social activism have been shown to work in concert to bring about effective change within an organization (Proffitt & Spicer, 2006) despite their variance in demands of their portfolio firms.

Financial activism is the focus of this dissertation, and it is because of the rise of IIs and their ability to have an impact on firm outcomes (Gillan & Starks, 2007; Thomas & Cotter, 2007). IIs were assisted in their legitimacy in 1985 when both the Institutional Shareholder Services and the Council of IIs were founded (Davis & Thompson, 1994; Lipton, 2007). Public pensions were the initial players in activism (Gillan & Starks, 2007) then followed by labor unions (Agrawal, 2012; Romano, 2000) and mutual funds (Brandes et al., 2008). Initially,

corporate governance was the primary target of shareholder activism before other issues became salient as well (Gillan & Starks, 2007; Gillan & Starks, 2000). Hedge funds became prominent in the late 1990s and are still some of the most active shareholders in the market for corporate influence (Cheffins & Armour, 2011; Greenwood & Schor, 2009). All these II benefit from the agenda of maximizing shareholder value which is more important in the United States than many other countries with hedge fund activism emerging as the most promising and potent form of activism (Schneider & Ryan, 2011).

Research in shareholder activism has predominantly used agency theory for its theoretical explanations based upon shareholders needing to monitor managers to make sure that shareholders' value is maximized (Goranova & Ryan, 2014a). However, numerous other theories have been used to address the multidimensional nature of shareholder activism. Researchers have applied modern portfolio theory to consider shareholders' motivations to become activists (Rubach & Sebor, 2009; Ryan & Schneider, 2002), institutional theory (David et al., 2007), social movement theory (Davis & Thompson, 1994; Rao & Sivakumar, 1999; Reid & Toffel, 2009), and network theory to see how instances of activism impact other firms and their prevailing corporate network (Rao & Sivakumar, 1999). Political theory (David et al., 2001), social influence theory (Westphal & Bednar, 2008), reactance theory (David et al., 2007), and deterrence theory (Reid & Toffel, 2009) have also been used as lenses to explain shareholder activism. Stakeholder theory is generally considered the most direct challenge to agency theory as it focuses on the importance of organizational stakeholders rather than just maximizing shareholder value (Goranova & Ryan, 2014a). Finally, Stakeholder Saliency Theory (Mitchell et al., 1997) has been used to study why managers are willing to accommodate some demands and not others from all possible stakeholders (Chowdhury & Wang, 2009b; David et al., 2007;

Neubaum & Zahra, 2006; Stevens, Kevin Steensma, Harrison, & Cochran, 2005). Stakeholder Saliency Theory is used in this dissertation as this theory best accommodates and describes the differences that can exist among II. In addition, it can help describe how these differences can influence portfolio firm responses.

Institutional Activist Antecedents

Most prior empirical work has focused on firm antecedents while ignoring activist antecedents including their characteristics, motives, and reasons for pursuing shareholder activism (Ryan & Schneider, 2002). Furthermore, activist antecedents likely play a large role in their levels of success when pursuing shareholder activism (Ryan & Schneider, 2003a), which is the thesis of this dissertation. In fact, focusing primarily on portfolio firm antecedents while neglecting activist antecedents paints a partial picture of how the activism process works and leaves a lot of potential variance on the table (Goranova & Ryan, 2014a).

Activists' interests to engage in activism may be decoupled from portfolio firms' financial or governance situations and driven by their own characteristics. Activism costs vary greatly ranging from \$2000 for shareholder resolutions (Cuñat et al., 2012; Ertimur, Ferri, & Stubben, 2010b) up to several million dollars for hedge fund activism or litigation (Gantchev, 2013). To justify these expenses, activists must see overall improvement in shareholder value or garner some type of benefit that is unique to them compared to other stakeholders (Chava, Kumar, & Warga, 2010; Choi, 2000; Kumar & Ramchand, 2008). Therefore, investors ability and willingness to pursue activism and win may be affected by their investment portfolio characteristics such as investment horizons (Rubach & Sebor, 2009; Ryan & Schneider, 2002), business relationships with targeted firms (Black, 1998; Romano, 2000), and discretion to devote resources to the focal firm (Carleton, Nelson, & Weisbach, 1998; Clifford, 2008).

In addition, certain shareholders are more likely to have superior salience with corporate managers and/or the ability to gain other shareholders support as they expect better returns on their activism investments (Gifford, 2012; Kang & Sorensen, 1999). Self-selection could indicate that more powerful or legitimate investors (Alexander, Chen, Seppi, & Spatt, 2010; Ertimur, Ferri, & Muslu, 2010a; Greenwood & Schor, 2009) who can garner support from other shareholders (Chowdhury & Wang, 2009b; Neubaum & Zahra, 2006; Stevens et al., 2005) may be more likely to become activists, and I will argue later in the paper more likely to receive positive firm responses. For example, shareholder activism that has been brought by coordinated groups has received higher shareholder support than proposals brought by individuals (Gillan & Starks, 2000; Proffitt & Spicer, 2006). Most shareholder activist efforts are motivated by the urgency of financial goals, however, shareholder activists must be cognizant of the benefits and costs of shareholder activism (Gantchev, 2013). When IIs expect higher benefits, they are often willing to escalate their activism campaigns (Klein & Zur, 2009). However, investors with a lot to lose by pursuing activism are not likely to use adversarial or hostile activism (Goranova & Ryan, 2014a).

Furthermore, as some activists have financial and social agendas, their social identities (Rowley & Moldoveanu, 2003), emotional makeup (Bundy, Shropshire, & Buchholtz, 2013), and/or moral legitimacy (Den Hond & De Bakker, 2007) may explain why some activists battle for lost causes. For example, some activists, like the Center for Responsible Lending, are established around a cause that may give them a strong emotional connection to their mission/agenda which is often trumpeted as a moral cause, which they claim increases their legitimacy as an organization because they are doing the right thing (Waddock, 2000). Ryan and Schneider (2002) theorized that activists that have both social and financial activism objectives

are more likely to be activists, and I contend they are more likely to receive positive firm responses due to their increased levels of saliency.

Ryan and Schneider (2002) theorized about the twelve most important characteristics of IIs and how those characteristics may drive their propensity to pursue IIA. In this dissertation, I suggest that those characteristics also help determine the types of responses II will receive from portfolio firms as those characteristics help drive how salient or not II are to their portfolio firms. This dissertation will help fill the missing gap where the heterogeneity of II and their effects on firm responses has not been considered.

Environmental Antecedents

The rise of IIA has ramifications for portfolio firms, corporate managers, and the macro environment (Goranova & Ryan, 2014a). The concentration of shareholdings moving from individual investors to large IIs (Davis, 2008, 2009; Hawley & Williams, 2007; Ryan, 2000) allows these larger, concentrated investors with more resources to better monitor corporate managers (Del Guercio, 1996; Schnatterly, Shaw, & Jennings, 2008). In addition, they may have more success in changing societal structures and norms and influencing mimetic change in the institutional environment (Davis & Thompson, 1994; Zajac & Westphal, 1995). An example of this are the changes in the legal environment that benefit shareholders and their ability to influence corporate managers. In 1992, the SEC relaxed prior rules now allowing shareholders to communicate with one another thus making it easier for them to coordinate actions towards portfolio firms (Choi, 2000; Del Guercio & Hawkins, 1999). In addition, normative changes signal it is becoming much more common for shareholder activism to occur (Anabtawi & Stout, 2008; Kahan & Rock, 2010), and concurrent technological advances have also helped in doing so by lowering the cost of coordination for investors (Wessel, 2011).

Shareholder Tactics (Proxy versus Non-Proxy Activism)

The primary choices that shareholders possess regarding their shares are to hold their position, sell their shares, or use their voice in the form of activism (Davis & Thompson, 1994; Hirschmann, 1970). One of the significant advantages of being a shareholder compared to a stakeholder is the fundamental right to vote your shares where investors can either support or oppose management and their managing of the firm. Opposition to management practices can occur by voting against management (Ashraf, Jayaraman, & Ryan, 2012; Butler & Gurun, 2012; Davis & Kim, 2007) or by pursuing shareholder activism in forms like just vote no campaigns (Del Guercio, Seery, & Woidtke, 2008; Ertimur et al., 2010a) which encourages shareholders to vote against certain directors on the board (Conyon & Sadler, 2010; Hillman, Shropshire, Certo, Dalton, & Dalton, 2011). Voting for either shareholder proposals or against management proposals can help mold and change corporate practices and influence the growing acceptance of shareholder activists' demands (Ferri & Sandino, 2009; Thomas & Cotter, 2007). These types of actions by shareholders can signal to corporate managers that their demands should be heard and at times influence management actions (Hillman et al., 2011). From a cost perspective, voting against management proposals is the least expensive form of activism followed by shareholder resolutions and then proxy-based activism (Black, 1998). Traditionally, hedge funds have spent the most money on activism campaigns, but anytime conflict arises in the form a lawsuit, this becomes the most expensive tactic (Gantchev, 2013).

Shareholder activists have a wide variety of tactics they can select from in terms of method and cost in pursuing activism towards a portfolio firm which include both private and public options (Gantchev, 2013). Public activism options for shareholder activists include SEC rule 14a-8 which allows shareholders to file shareholder resolutions (Dimitrov & Jain, 2011;

Reid & Toffel, 2009); 13-D filings, that investors must file within ten days of purchasing 5% or more of a firm's shares, convey that activism will be pursued (Brav et al., 2008; Edmans et al., 2013; Klein & Zur, 2011) compared to 13-G filings, which are 5% or more company ownership but no activism will be pursued; or publicized letters, focus lists, and media campaigns (Chowdhury & Wang, 2009b; Hillman et al., 2011; Song & Szewczyk, 2003; Ward, Brown, & Graffin, 2009) that often are seen in the top financial newspapers in the United States and Europe along with being headline news on business channels like CNBC and Bloomberg.

Private activism (Becht, Franks, & Grant, 2009; Brandes et al., 2008; Carleton et al., 1998; Logsdon & Van Buren, 2008) takes place behind closed doors and is sometimes referred to as quiet diplomacy (Hendry, Sanderson, Barker, & Roberts, 2006). It is often perceived that private activism may be more powerful as it allows shareholders and corporate executives the opportunity to resolve issues without any risk of public embarrassment or reputational impact (David et al., 2007; Hadani, Goranova, & Khan, 2011). However, research has indicated these private sessions often breakdown and corporate executives use this tactic to slow down any potential activism process (Goranova & Ryan, 2014a). However, shareholders are not afraid to pursue public activism subsequent to private activism or if private activism initially fails (Brav et al., 2008; Cheffins & Armour, 2011; Del Guercio & Hawkins, 1999; Gantchev, 2013).

Prior research suggests that private activism is probably more prevalent than public activism (Becht et al., 2009; Carleton et al., 1998; Rubach & Sebor, 2009). However, getting details and data on private negotiations between executives and their shareholders is very difficult and incredibly rare which is why the majority of activism research utilizes publicly available data. In addition, private activism has benefits and challenges with negotiations handled privately. On one hand, private activism may allow activists to achieve their goals,

protect the images of managers, and bring increased firm value to all shareholders (Goranova & Ryan, 2014a). Conversely, private activism may benefit one shareholder activist as corporate executives cater to certain shareholders over others at the expense of increasing the overall value of the firm (Anabtawi & Stout, 2008), and it is not subject to the shareholder approval process.

Useem (1996) argued that shareholder activists must have some type of key resources like power and bargaining leverage in order to influence portfolio firms. Otherwise, they may have to resort to using the media and negative publicity to gain influence. To date, limited research has used Stakeholder Salience Theory as the key theoretical framework used to explain how differences among shareholder activists may influence managerial behavior. Prior research suggests managers will give priority to more powerful activists with legitimate and urgent demands (Chowdhury & Wang, 2009b; Mitchell et al., 1997; Neubaum & Zahra, 2006; Rehbein et al., 2004; Stevens et al., 2005), but most research has lumped activists and demands together or used one tactic such as shareholder proposals, which has been the dominant tactic in the majority of activism research (Goranova & Ryan, 2014a). In addition, prior research suggests shareholder proposals may be more likely to be settled if they are filed by IIs or coordinated groups compared to individual shareholder activists (David et al., 2007; Gillan & Starks, 2000).

Background on Firm Responses

Firms that are targets of shareholder activism are part of an IIs' portfolio, and these portfolio firms have options in how they can choose to respond to investors who bring some type of activism towards their firm. However, history plays an important role here. Historically, firms were not overconcerned with investors as they were predominately individual investors who rarely made their voices known thus allowing managers to run their firms with very little interference from outside parties (Goranova & Ryan, 2014a). In fact, it was not until 1942 that

shareholders were allowed to submit shareholder resolutions (Reid & Toffel, 2009), and individual investors in the 1970's were termed "corporate gadflies" (Gillan & Starks, 2007) and perceived to be a waste of corporate managers' time. In 1950, 85% of shareholders were individual investors and 15% were IIs (Gillan & Starks, 2000). With the advent of corporate raiders in the 1980's, portfolio firms began to have to listen to shareholders as threats to take over the firm, fire current management, and move firms in a new direction became a possibility (Walsh & Kosnik, 1993). This is why corporate defense mechanisms to potential takeovers began to be put in place to make the idea of gaining full control of a firm very costly and difficult for interested parties (Walsh & Kosnik, 1993; Walsh & Seward, 1990). But, corporate raiders laid the groundwork for firms having to start considering the voices of shareholders (Goranova & Ryan, 2014a).

Portfolio firms have a variety of responses or non-responses they can take with shareholder activists. Non-responses can be defined as portfolio firms completely ignoring any type of activism advanced towards their firm (Eesley & Lenox, 2006). Historically, firms have preferred to ignore shareholders as many executives do not want to be told how to run their firm, and paying attention to shareholder activists takes time, money, and other resources from the firm to address shareholders which managers have historically felt was not a good use of their time (Goranova & Ryan, 2014a). However, as shareholder activism has gained acceptance, ignoring shareholders can come at a price (Gantchev, 2013). For example, firms may incur operational expenses such as legal fees, public relations' expenses, and time consuming managerial attention if activist concerns are not addressed (Eesley & Lenox, 2006). In addition, non-responses may impact a firm's reputation and its ability to attract customers, employees and appease regulators (Eesley & Lenox, 2006).

The other two options firms have to respond to shareholder activism are to respond negatively and positively. Negatively responding to a shareholder activist means a firm rejects the request for some type of change within the organization. For example, activists may want seats on the board (Black, 1998), management to consider selling the company (Clifford, 2008), or that the CEO should be removed (Parrino, Sias, & Starks, 2003). In rejecting shareholder activists' requests, firms must consider the long-term costs and benefits of doing so. Some shareholder activists are willing to walk away and not escalate their issue any further (Ryan & Schneider, 2003a). They have chosen a different path than furthering activism and are willing to sell their position in the company. In rejecting shareholder activist' requests, firms run the risk of activists escalating the issue to formal proceedings such as a proxy fight at the annual meeting or even lawsuits (David et al., 2001). Or, portfolio firms may get their way permanently, and for the time being, it may help protect executives' jobs, board seats, and company strategies (Eesley & Lenox, 2006).

Conversely, firms may respond positively to activist requests meaning they partially grant a request or completely grant a request. Firms have to weigh each response to each activism event carefully as the response signals to the market, shareholders, and other stakeholders on how they engage activists (Eesley & Lenox, 2006), and the level of influence they will allow activists to have on the firm (Ryan & Schneider, 2003a). As previously mentioned, firms have historically been opposed to having outside influences determine how the company is run (Gillan & Starks, 2007). With that being said, shareholders have legal rights to their portfolio firms that they are getting better at enforcing, and portfolio firms know this (Thompson, 1999). As a result of institutional activists fully understanding their rights as shareholders, there is some anecdotal

evidence suggesting portfolio firms are becoming more receptive to institutional activists (Williams & Ryan, 2007).

As research on shareholder activism is fairly nascent, the theoretical development of why firms respond in each category, the mechanisms they use to do so, and the influences on portfolio firms are not well understood and understudied (Goranova & Ryan, 2014a). Prior research has captured some of the descriptive responses from portfolio firms to shareholder activism but with little theoretical reasoning on how or why they responded (Brav et al., 2008; Gillan & Starks, 2000). In numerous studies, firm responses are ignored (David et al., 2001) and/or recorded for one type of shareholder activist (Brav et al., 2008) or one type of activism (ex: shareholder proposals)(Del Guercio & Hawkins, 1999) . It has been suggested that a much deeper understanding of the shareholder activism process and their influences on portfolio firms is needed (Goranova & Ryan, 2014a; Rubach & Sebor, 2009; Ryan & Schneider, 2002, 2003a). This dissertation attempts to address this gap by considering the saliency of shareholder activists, more specifically II activists, on their portfolio firms.

Research on Firm Responses

A key premise in prior activism research is that IIA addresses managers' inability to create shareholder value (Gillan & Starks, 2007; Greenwood & Schor, 2009; Rehbein et al., 2004). The majority of financial activism research has viewed managers as inactive participants who ignore activists' attempts unless they are compelled to yield partially or fully to their demands (Goranova & Ryan, 2014a). Conversely, the opposite view posits that firm managers who are responsive to their shareholders actually look for more compliant investors (Williams & Ryan, 2007). Williams and Ryan (2007) argued that some corporate executives courted large shareholders that would be in agreement with their current management strategies and possible

changes to the firm while withholding information from dissenting shareholders. However, a limitation of this study is that it has not been empirically tested. Gantchev's (2013) recent research frames activism as an escalating process from more cooperative, private negotiations to more confrontational, public, and documented activism. This research shows that costs escalate going from private negotiations to more formalized and often public activism. These costs can reach up to \$11 million dollars for a proxy fight and even higher if the activism results in a lawsuit. The limitation of Gantchev's study (2013) is that its sample includes hedge funds only and no other IIs.

Thus, corporate managers may only respond to shareholder activists after relentless pestering (Proffitt & Spicer, 2006). Furthermore, Proffitt and Spicer (2006) found that religious organizations may help shape important social issues for companies to consider, but those organizations needed the assistance of public pension funds to force the portfolio firm to make organizational changes. This study hints at the importance of IIs and their potential salience to corporate managers. However, some limitations of this study include only considering shareholder proposals and public pensions as the only II. Conversely, managers may be able to take strong stances against activism (Carleton et al., 1998) as many proposals submitted by activists do not garner majority support by firm shareholders (Sjöström, 2008) even though shareholder activism has grown over time (Renneboog & Szilagyi, 2011). Sjoström (2008) found that only 10-20% of shareholder proposals ever receive majority support from all investors. However, their study included some IIs like public pension funds and multi-party employers along with social activism groups that could minimize the success rates of the IIs as social activists groups do not possess the same level of saliency as IIs (Eesley & Lenox, 2006). Furthermore, while firms are likely to implement shareholder proposals that receive majority

votes (Ertimur et al., 2010a; Ertimur et al., 2010b), most shareholder resolutions are precatory (Brandes et al., 2008; Tkac, 2006) meaning firms are not required to implement the requests (Bizjak & Marquette, 1998; Smith, 1996) even though they are strongly advised to do so. However, research shows firms implement shareholder proposals that receive a majority vote at a much higher rate than proposals that do not receive a majority vote (Ertimur et al., 2010b). Ertimur (2010) found that shareholder proposals brought predominantly by unions to limit CEO pay were often approved. This contribution is important and limiting at the same time as CEO pay can be considered a contentious issue to begin with, and the sample was dominated by unions.

On the other hand, managers may approach large shareholders and solicit their advice and suggestions for ways to improve the firm (Rao & Sivakumar, 1999; Useem, 1996). In addition, CEOs could attempt to ingratiate and use persuasion on IIs (Westphal & Bednar, 2008) to delay or minimize possible changes as it may buy the CEOs time for the remainder of their tenure in the position. Westphal and Bednar (2008) found that CEOs can target and be successful in influencing large shareholders in attempt to preempt them from possibly becoming activists. A limitation of this study is that it was survey based of corporate managers with a very limited sample of current or former IIs. Lastly, firms may look at activism taking place in their industry towards peer firms and preemptively make changes within their own firm to eliminate the possibility of activism (Brandes et al., 2008; Ferri & Sandino, 2009). Limitations of the prior two studies are their exclusive usage of shareholder proposals as a form of activism. Thus, a continuum of compromise, dialogue, and negotiation lies between these extremes of corporate managers being inactive parts of the activism process and soliciting support of certain types of shareholders (Logsdon & Van Buren, 2008; Sikavica & Hillman, 2008).

In addition to responding or ignoring shareholder activist demands, managers have the ability to influence whether demands are implemented substantively or merely symbolically (David et al., 2007; Zajac & Westphal, 1994). Decoupling make occur where managers commit to the activist demands but use impression management and window dressing activities which diverts firm resources from the real activist goal or transfers poor practices to other subsidiaries (Hadani et al., 2011; Williams & Ryan, 2007). Both prior studies find the corporate managers commit to activist demands by agreeing to their shareholder proposals for change but then proceed to allocate minimal resources or shallow commitment to the topic of concern as they know the activists may not be able to fully monitor their level of commitment to the issue. However, these studies are limited by their exclusive focus on shareholder proposals as the only method of activism. Lastly, corporate managers may be influenced by managerial traits such as managerial entrenchment (Carleton et al., 1998; Giroud & Mueller, 2011), which is very powerful CEOs ability to resist outside influences (Weisbach, 1988), an inability to address heterogenous shareholder demands (Bundy et al., 2013; Hadani et al., 2011), or characteristics of shareholder activists that determine whether or not they can monitor firm changes substantively or symbolically (Brav et al., 2008; David et al., 2007; Zajac & Westphal, 1995).

Common limitations seen throughout the aforementioned studies and in Ryan and Goranova (2015) is firm responses to only one type of institutional activist, and studies predominately focused upon responses to shareholder proposals. Or, all activists and forms of activism are lumped together. This dissertation distinguishes itself by focusing on firm responses that are granted or rejected for cases where both proxy-based and non-proxy-based activism are used. In addition, clear distinctions are made among different types of IIs and how they may influence firm responses. Thus, this dissertation attempts to take a much deeper dive into the

differences of IIs, their tactics, and how these differences drive variance in portfolio firm responses.

Research on Stakeholder Saliency Theory

Stakeholder Saliency Theory (SST) (Mitchell et al., 1997) was developed to help identify stakeholders and their levels of saliency by defining the principle of who and what really counts. The theory suggests that stakeholders possess one or more of three relationship attributes: power, legitimacy, and urgency. Power is defined as a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not have otherwise done (Dahl, 1957; Pfeffer & Pfeffer, 1981). Legitimacy is defined as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions (Suchman, 1995; Weber, 1947). Urgency is defined as the degree to which stakeholder claims call for immediate action (Mitchell et al., 1997). The more cumulative the combination and levels of these attributes, the more salient stakeholders will be in the minds of managers.

In this dissertation, the author uses SST to help differentiate II activists because historically they have been lumped together in the majority of shareholder activism research (Goranova & Ryan, 2014a). Historically, agency theory has been the primary theory used in shareholder activism research despite the fundamental assumption that all IIs want the same thing from a portfolio firm and have the same risk tolerances (Ryan & Schneider, 2003a). SST allows for very important variance among heterogenous shareholder activists to be explored and explained in a way that the lens of agency theory cannot. In fact, SST has been called, “*the key theoretical framework that explains the differential ability of shareholder activists to attract managerial attention and influence managerial behavior*” (Goranova & Ryan, 2014a). Facing

heterogeneous stakeholders, managers will give priority to more powerful activists, with legitimate and urgent demands ((Chowdhury & Wang, 2009b; Mitchell et al., 1997; Neubaum & Zahra, 2006; Rehbein et al., 2004; Stevens et al., 2005).

SST has been used to study managers' propensity to accommodate demands from a plethora of shareholder activists (Stevens et al., 2005). Stevens, Steensma, Harrison, and Cochran (2005) looked at the influence of ethics codes on financial executives' decision and found that executives were more likely to integrate ethics codes into their strategic decision-making process if they perceived pressure from their market stakeholders compared to their non-market stakeholders. Market stakeholders (customers, suppliers, employees, shareholders) play an integral role in the firm's value chain, influence the competitive environment and economic forces of competition, provide critical and dependency creating resources, and provide the firm access to factors of production or the sale of goods and services. Without these relationships, the firm would cease to exist and any threats by the market stakeholders of exiting their relationships can cause undue harm and possible lack of confidence by other stakeholders. A limitation of this study is that it was based upon a survey of senior executives and how they would respond to activism rather than what actually occurred. This dissertation focuses on actual activism events and how portfolio firms did respond to those events.

Nuebaum and Zahra (2006) used SST to find that the investment horizon, use of activism, and coordination by activists increased the influence of institutional owners on corporate social performance. They argued that confrontations between institutional owners and executives can undermine public perceptions of executives' legitimacy to manage their firm and accommodate their shareholders. However, they measured activism by lumping all IIs and tactics together thus limiting the differences among II and their tactics. David et. al. (2001) suggested that activism

acts as a trigger to destabilize managerial power and makes managers more responsive to the needs of IIs. However, the study did not distinguish among types of IIs nor the types of activism brought by II. David and Kochhar (1996) suggest that as IIs cannot always sell their shares without severe depression of the stock, some may use their voice through activism to increase their saliency in the minds of their portfolio firm managers. This study started to accommodate the differences among institutional owners, but it did not capture activism or develop a link between ownership and activism. And, one of the most important findings by Smith (1996) is that confrontational activism can be successful. Yet, the limitation of this study is that focuses exclusively on the activism of the California Public Pension (Calpers) thus limiting its scope of applicability.

David, Bloom, and Hillman (2007) found that firm managers are more likely to settle proposals filed by salient shareholders, which means those with greater power to influence the firm, legitimacy of the relationship with the firm, and the urgency of the stakeholders claim on the firm. These three attributes influence managers' perceptions of stakeholder salience and their ability to "impose their will" on firm managers. One of the limitations of this study is lumping all II together and utilizing only shareholder proposals to study activism. Chowdhury and Wang (2009) investigated the effects of institutional activism tactics on CEO compensation and found tactics influence the level of compensation. In addition, they found that proxy-based activism was more influential than non-proxy-based activism in influencing CEO compensation. They utilized SST to help describe how proxy-based activism is more salient to firm managers than non-proxy-based activism likely leading to II getting what they requested or at least part of their request. A limitation of this study is not accounting for any differences among institutional activists, and an additional minor limitation is the study focused on companies in Canada. As can

be seen in these studies using stakeholder saliency theory, there is a little accounting for the differences among IIs activists with some evidence for differences in proxy-based versus non-proxy-based activism. This dissertation specifically fills an open gap in great detail on the differences among IIs, activism tactics, and how these combinations of activist and tactics may influence firm responses.

Lastly, Ryan and Schneider (2003) compared and contrasted agency theory and stakeholder theory and those theories ability to describe and differentiate among IIs. They concluded that a deeper dive was needed as the assumptions of those theories do not accommodate for the differences in IIs. As a result, they started to theorize about the saliency levels of IIs using SST and creating a framework to consider their variance. The purpose of this dissertation is to expand upon this theoretical framework and create formal hypotheses to test the efficacy of SST in the shareholder activism process.

Conclusions

Stakeholder Saliency Theory is commonly used in research in assessing differences amongst stakeholders. Ryan and Schneider (2002) identified the most important characteristics of IIs and then created a preliminary framework (2003) theorizing how these characteristics translate into SST. While other disciplines and theories have been used to explore shareholder activism, SST provides an appropriate lens, along with proven methodological techniques, to analyze how the differences amongst II influence firm responses. Furthermore, prior studies in shareholder activism have been limited by treating II and their tactics in a homogeneous fashion. Or, research has selected one type of II or one type of tactic such as shareholder proposals. This dissertation fills the gap for a deeper understanding of the heterogeneity of II, the tactics they use, and how these differences influence portfolio firms.

CHAPTER THREE: THEORY AND HYPOTHESES

IIA has become a dynamic institutional force, and its growing body of literature influences numerous disciplines in organizational research (Goranova & Ryan, 2014a). Institutional investor activism (IIA) is defined as actions taken by institutional shareholders with the explicit intention of influencing corporations' policies and practices rather than latent intentions implicit in ownership stakes or trading behavior (Goranova & Ryan, 2014a). In addition, it is important to distinguish IIA from the market for corporate control (Jensen & Ruback, 1983) as these IIs only want to influence their portfolio firms, they do not want to take them over and be responsible for executive decision making . However, prior research has tended to aggregate IIs in their studies assuming them to be monolithic, which has resulted in mixed findings (Denes, Karpoff, & McWilliams, 2016; Goranova & Ryan, 2014a). There have been numerous calls for deeper understanding of the heterogeneity of institutional activists as it is suggested that these differences play a role in prior researchers' mixed findings (Goranova & Ryan, 2014a; Ryan & Schneider, 2002, 2003a). In addition, these calls for research highlight the importance of understanding the overall shareholder activism process at a much deeper level due to the ascendancy of this phenomenon. This dissertation attempts to respond to those calls.

In responding to IIA, there are limited number of responses for portfolio firms to consider. At a high level, firms can respond either positively or negatively to the activism. For example, with negative responses, firms can choose to acknowledge the activism and reject it, or they can choose to ignore the demands. With positive responses, firms can fully or partially agree to the demands brought by the activists. Whether a response is positive or negative, there are ramifications for portfolio firms to consider with both responses as IIA can take place privately or publicly (Becht et al., 2009; Carleton et al., 1998). In fact, it is suggested that a fair

amount of IIA is conducted privately as an initial starting point making this data hard to get at for researchers (Gillan & Starks, 2000). However, IIA can start leaking information to the press or publishing their suggestions for portfolio companies, so researchers can get some insight into the non-proxy-based approaches of IIA (Chowdhury & Wang, 2009b). In addition, prior research (Gantchev, 2013) suggests that IIA moves through an escalating process if an IIs demand is rejected or ignored, and that process normally moves from private activism to more formally documented public activism. Thus, portfolio firms have thoughtful considerations to make in deciding how to respond to IIA.

While II have been treated as monolithic in prior research (Goranova & Ryan, 2014a), it is theorized that their heterogeneity should make a difference in their ability to elicit positive firm responses (Eesley & Lenox, 2006; Ryan & Schneider, 2003a). In responding to the calls for a deeper dive into II heterogeneity, I suggest that prominent characteristics of each type of II activist will play a prominent role in their ability to elicit positive firm responses. In 2002, Ryan and Schneider proposed a theoretical modeling detailing the most important characteristics that might lead an II to pursue activism. Theoretically, I suggest those characteristics do more than predict activism likelihood; I suggest those characteristics help predict the success levels IIs have in their activism pursuits. Furthermore, these characteristics probably influence the levels of power, legitimacy, and urgency that each II possesses (Ryan & Schneider, 2003a) thus impacting the level of overall salience to executives which is captured by the portfolio firm response.

In 2003, Ryan and Schneider started to pursue this idea of how II characteristics may translate into power, legitimacy, and urgency, which are the attributes of Stakeholder Salience Theory (Mitchell et al., 1997). They built a preliminary framework suggesting how these characteristics may lead to overall saliency, but they left a lot of room for additional depth,

description, formal hypotheses, and the testing of those hypotheses. In addition, their conceptual framework was theorized about in an ownership context. As with Ryan and Schneider's 2002 paper, I suggest this attribute model extends to II in an activism context, not just an ownership context. This dissertation considers how the heterogeneity of II influences firm responses by theorizing how the characteristics of II activists translate into SST attributes at varying levels of saliency that help drive firm response types in an activism context. In addition, this author expands Ryan and Schneider's 2003 framework by theorizing about the characteristics and SST attributes of hedge fund's saliency to portfolio firms as hedge fund activism was in its infancy in 2003. Lastly, I theorize and consider the main effect of activism tactics on portfolio firm responses and the impact of non-proxy and proxy-based activism as a moderator on the relationship between IIs and portfolio firm responses.

A preview of the theoretical arguments in this chapter is that the five major types of II activists (hedge funds, public and private pension funds, multiemployer plans (Taft-Harley Funds & TIAA-CREF), and mutual funds), which are the independent variables, should elicit varying firm responses (the dependent variable) from their portfolio firms in an activism context when based upon their investor characteristics and attributes. Per Stakeholder Salience Theory (Mitchell et al., 1997) and building upon the 2003 framework developed by Ryan and Schneider, the II characteristics will be translated into the three attributes of power, legitimacy, and urgency of SST. Theoretically, these attributes should lead to different levels of saliency in managers' minds leading them to give in or acquiesce to II with higher levels of saliency. Thus, the direct effects of this study look at the relations of II and portfolio firm responses in an activism context. In addition, I suggest that activism tactics play an important role in the activism process and have a direct effect on portfolio firm responses. Beyond the direct effects, I predict that the tactics

(non-proxy and proxy-based) used by II will moderate the aforementioned direct effects of this study.

The following sections first describe and detail Stakeholder Saliency Theory (Mitchell et al., 1997), its core attributes of power, urgency, and legitimacy, and its reasoning for being selected as the primary theory of this dissertation. Second, the twelve characteristics of IIs theorized by Ryan and Schneider (2002) are described in detail. Third, how those characteristics translate into the attributes of SST and drive portfolio firm responses to each II type are theorized about leading to my hypotheses. Fourth, I theorize and hypothesize the direct effect of activism tactics on portfolio firm responses. Lastly, I theorize and hypothesize how the type of activism (non-proxy and proxy-based) used by an II will moderate the relationship between II and portfolio firm response.

Stakeholder Saliency Theory

Stakeholder Saliency Theory (Mitchell et al, 1997) was originally developed to help determine stakeholder identification and saliency based on stakeholders possessing one or more of three relationship attributes: power, legitimacy, and urgency. By combining these three attributes, the authors generated a typology of stakeholders to help determine their level of saliency to firm managers. Saliency is defined as the degree to which managers give priority to competing stakeholder claims (Mitchell et al., 1997). SST was selected as the theory for this dissertation as prior research suggests it has the most explanatory power to understand the differences among II as groups and the tactics they use (Goranova & Ryan, 2014a). Other theories used in shareholder activism were reviewed in the literature review. The following paragraphs detail and describe how the attributes of power, legitimacy, and urgency may be linked to saliency of portfolio firm managers.

Power

Historically, power has been tricky to define, but it is not that difficult to recognize (Ryan & Schneider, 2003a). For this study, power is defined as a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not have otherwise done (Dahl, 1957; Pfeffer & Pfeffer, 1981). Furthermore, SST uses Etzioni's (1964) logic for a more precise categorization of power in an organizational setting based upon the type of resource used to exercise power. Etzioni suggests that power has three bases which are coercive, utilitarian, and normative. Coercive power is based on the physical resources of force, violence, or restraint. Utilitarian power is based on material or financial resources, and normative power is based on symbolic resources. Thus, a party to a relationship has power to the extent it has or can gain access to coercive, utilitarian, or normative means to impose its will in the relationship (Etzioni, 1964).

For IIs, arguably, the most important historical change is the significant increase in shareholder power which has been recognized and codified in law (Hawthorne, 1993; Schlesinger, 2002; Useem, 1996). Examples of this include shareholders possessing voting rights for their shares of stock (Bainbridge, 2005), ability to make shareholder proposals to be voted on (Karpoff et al., 1996), and the ability to communicate with one another about a portfolio firm where prior discussions used to be illegal (Gillan & Starks, 2007). All II types have power to influence their portfolio firms, but that does not mean their levels of power are the same. In fact, deeper analysis of II types suggests that their levels of power are likely to differ (Ryan & Schneider, 2003a).

Utilitarian power affects the ability of stakeholders to dispense or withdraw material rewards (Etzioni, 1964), and it is highly likely that II types will vary on utilitarian power. Two

important characteristics of IIs influence utilitarian power: The size of IIs' holdings and their liquidity requirements (Ryan & Schneider, 2002), which is the ease that their equities can be converted to cash. An example of this is large block shareholders of company's stock will probably have influence over executive compensation by directly influencing board decisions and indirectly by influencing share price, and both instances can impact performance-based bonuses (Boyd, 1994). Furthermore, IIs have a fiduciary duty to diversify their portfolios, but their level of diversification varies due to the amount of regulatory pressures they face (Coffee, 1991). For example, pension plans and hedge funds face less severe regulatory pressures than do mutual funds, which means they are more likely to become larger shareholders in their portfolio firms (Ryan & Schneider, 2002) as they will have larger dollar amounts invested in fewer companies. Furthermore, multiemployer pension plans tend to have a size advantage over private pension plans as multiemployer plans collect funds across companies along with weighting their portfolios toward firms that employ their workers (Schwab & Thomas, 1993). Conversely, mutual funds have high liquidity requirements that make them more likely to sell a firm's stock and less likely to intervene with a given portfolio firm (Roe, 1994), which means their utilitarian power is likely reduced compared to pension plans. However, mutual funds have started to become more involved in activism (Gross, 2006). Thus, large pension funds and hedge funds are the most likely to use their utilitarian power because of their significant financial resources and larger freedom from diversification regulation and high liquidity needs (Ryan & Schneider, 2003a).

Normative Power is exerted on an individual by a reference group to conform to the group's (or generally accepted) norms of behavior (Etzioni, 1964). Since shareholder value is so important (Rappaport, 1986) in the United States, the ability of CEOs to satisfy IIs contributes to

their prestige and the esteem of executives' peers which gives IIs normative powers over managers as a class (Ryan & Schneider, 2003a). Out of the seven categories of IIs used in this study, public pension funds and hedge funds are likely to have the most influence over managers' images. Public pension funds are the largest funds, and along with hedge funds, the most activist of IIs in addition to their efforts being the most visible to peer firms and other shareholders (Romano, 1993). Furthermore, public pension funds and hedge funds are the most likely to use the media to publicize their displeasure with specific firms (Del Guercio & Hawkins, 1999).

Utilitarian power and normative power are reinforced by coercive power as all investors have the right to use the courts and legislation if they feel managers are not protecting their interests (Ryan & Schneider, 2003a), and the legal system is the ultimate mechanism able to use force or restraint against portfolio firms when needed (Kesner & Johnson, 1990). However, IIs are subject to different levels of regulation which impacts their ability to exercise their coercive power (Ryan & Schneider, 2003a). For example, private pension funds are restrained by ERISA in their activism efforts (Brancato, 1997; Hawksley & Wells, 1996) and mutual funds have strong regulatory restrictions on their ability to hold large blocks of stock (Roe, 1994). So, although these three fund types may hold utilitarian and normative power, they are much more constrained in using this power compared to public pension funds, hedge funds, and multiemployer plans. In addition, pension plans tend to be larger in size which allows them to have greater resources and expertise (Byrd, Parrino, & Pritsch, 1998) to undertake legal remedies when deemed appropriate. Lastly, public pension plans have the ability to influence governmental backing of portfolio firms based on how strongly those firms support the funds' initiatives (Romano, 1993).

SST (Mitchell et al., 1997) does not address portfolio firms exercising their power or using their own influence over shareholders, which might mitigate shareholders' influence, but I do control for portfolio firm size in this study. In addition, the II characteristic of pressure sensitivity (upcoming section) does theoretically capture some of this potential influence, so I introduce the characteristic here. Historically, private pension funds have observed a “golden rule” of nonintervention with fellow corporations because exercise of one corporation's shareholder power over a fellow corporation's managers could lead to retaliation (Bird, 2001). Public pension plans and hedge funds tend to be the most pressure resistant as they do not have pre-existing relationships with private businesses which allows them to exercise their influence when they feel it is necessary (Ryan & Schneider, 2002; Schneider & Ryan, 2011). Thus, in terms of variance of level of powers, this author and Ryan and Schneider (2003) contend that hedge funds, public pension plans, and multiemployer plans most likely have the highest levels of power followed by private pension funds and mutual funds possessing moderate levels of power towards their portfolio firms.

Legitimacy

SST defines legitimacy as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions which is based upon work by Suchman (1995) and Weber (1947). In addition, SST recognizes that legitimacy is attained in a system with multiple levels of analysis with the most commonly recognized being the individual, organizational, and societal levels (Wood, 1991). The definition suggests that legitimacy is a desirable social good, that it is larger and more broadly shared than one's self-perception, and that it may be negotiated differently at different levels of social organizations (Ryan & Schneider, 2003a). Following are

some examples of legitimacy related to IIs at the individual, organizational, and societal level prior to full application of legitimacy to all the II groups in the upcoming hypotheses' section.

All IIs that are shareholders in portfolio firms possess legitimacy within the eyes of society, but their fund managers may be considered at differing levels of legitimacy at the individual level by corporate managers of portfolio firms because of their potential mixed motives in investing (Wood, 1991). Corporate managers of portfolio firms have challenged the legitimacy of some II claims on their portfolio firms (Wood, 1991). They have drawn a clear distinction between the moral control rights of pension fund managers who are explicitly aware of their beneficiaries' with strong rights and claims on a fund compared to beneficiaries with weaker rights and claims (Useem, 1996). In addition, by questioning the ability of fund managers telling corporate managers how to run their companies, executives are challenging the expertise-based legitimacy of fund managers in general (Donlon & Gutfreund, 1998; Useem, 1996) and public pension fund managers in particular (Norton, 1991; Taylor, 1990). Fund managers of multiemployer plans are considered less legitimate than other IIs because of their adversarial style and mixed motives as they advance the interests of fund beneficiaries and current union employees rather than just increasing overall shareholder value (Sweeney, 1996). Another type of mixed motive exists when fund managers with a social agenda use beneficiaries concentrated financial power for inappropriate nonfinancial ends such as to advance a political cause (Economists' Roundtable, 1999; Whittington, 1994).

In addition to the individual level of legitimacy differences in IIs, there are also organizational level differences (Ryan & Schneider, 2003a). As mentioned above, society gives some measure of legitimacy to all shareholders because they are owners of stock in firms (Eesley & Lenox, 2006). An important distinction amongst IIs is if they are defined-benefit or defined-

contribution plans (Ryan & Schneider, 2002). In pension funds, legitimacy can be based upon property rights (Ryan, 2000) as private pension funds tend to favor defined-contribution plans which means that the property rights of portfolio assets rest more clearly with beneficiaries as they bear the risk of variations in investment returns. Conversely, public pension plans tend to use defined-benefit plans where the property rights of beneficial owners are more obscure as the fund sponsor bears the risk to ensure that beneficiaries' liens on the assets are delivered (Eaton & Nofsinger, 2004). Thus, funds sponsoring defined-contribution plans have less legitimacy as shareholders of portfolio firms except when representing the explicit interests of beneficiaries (Ryan & Schneider, 2003a). In addition, public pension funds often support social goals that are lauded by the general public who want firms to do well by doing good (Romano, 1993; Ryan & Schneider, 2002) which may give them heightened organizational and societal legitimacy. And, it has been argued that managers of portfolio firms most likely reflect the general public's perceptions as the public is their customer base (Eesley & Lenox, 2006). Thus, public pension funds, because of their defined-benefit status and broad social interests, are more likely to have higher levels of overall legitimacy than other IIs (Ryan & Schneider, 2003a).

Urgency

SST argues power and legitimacy are independent variables in the stakeholder-manager relationship, but these do not capture the dynamic of stakeholder-manager interactions (Mitchell et al., 1997). The theory argues that the stakeholder attribute of urgency helps move the model from static to dynamic. Urgency is defined as the degree to which stakeholder claims call for immediate action (Mitchell et al., 1997). In addition, urgency is built upon two bases...one is time sensitivity, and the second is criticality. Time sensitivity is the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder (Eyestone, 1978;

Wartick & Mahon, 1994), and criticality is the importance of the claim or the relationship to the stakeholder (Hill & Jones, 1992; Williamson, 1985). However, while time sensitivity is necessary to identify a stakeholder's claim or its relationship with the firm as urgent, it is not sufficient by itself. The stakeholder must view its claim on the firm as critical as well. Thus, when both factors are present, the theory captures the multidimensional attribute of urgency allowing dynamism to be part of the theory. Below are contextual examples of how urgency fits within IIA.

For the majority of the 20th century, investors were primarily individuals who wielded little power in influencing portfolio firms because shareholders were so dispersed (Goranova & Ryan, 2014a). In the late 20th century, shareholder rights became concentrated in the hands of institutional fund managers (Ward, 1997). These managers reasserted investors corporate standing through activism. Similar to power and legitimacy, all IIs have urgency, but it is likely they have varying degrees of urgency in their corporate claims based upon their time sensitivity and their criticality (Ryan & Schneider, 2003a). For example, most private pension funds and mutual funds tend towards active portfolio management, which means they will have a more time sensitive claim than more captive shareholders (Ryan & Schneider, 2002). Conversely, public pension funds tend to be more captive shareholders as they hold indexed portfolios or large stakes in a firm (Ryan & Schneider, 2002). Active investors tend to consider their demands to be more time sensitive because inaction by portfolio firm executives may lead to the funds divesting the stock (Ryan & Schneider, 2003a). This means transactions costs will be incurred and potentially accepting a depressed stock price.

Indexed fund managers may make similar demands but sense less time sensitivity as they possess longer time horizons and plan on being invested in a firm for longer time periods.

However, even among passively managed funds, those with greater liquidity requirements and short-term performance pressure like indexed mutual funds are likely to exhibit time sensitivity compared to public pension funds with longer time horizons (Ryan & Schneider, 2003a).

Furthermore, career ladders and compensation systems may encourage time sensitivity in IIs as well (Ryan & Schneider, 2003a), and public pension fund managers may face political reappointment dates where fund performance can impact their livelihoods (Romano, 1993).

Mutual fund managers' compensation systems are based on total assets under management on specific dates which may encourage mutual fund managers to press portfolio firms for short-term increases in fund value to attract new customers (Brown, Harlow, & Starks, 1996).

Conversely, funds with large investments in firms, where their investment strategy is to buy and hold, may consider their need for managerial attention to be more critical than highly diversified mutual funds (Ryan & Schneider, 2003a). In addition, socially conscious funds may have mixed motives, which means they have both financial interests and social interests making their claims more critical to them (Ryan & Schneider, 2002). Furthermore, many public pension funds and multiemployer plans that are legally required to support beneficiaries and current workers may consider their interests to be more critical than funds with purely financial interests. Overall, pension funds and mutual funds have few countervailing pressures but higher pressures as fund managers for performance most likely leading to higher senses of urgency.

SST suggests that the cumulative attributes of power, legitimacy, and urgency are likely to drive a shareholder's level of saliency with corporate managers. However, IIs likely possess varying characteristics that influence varying levels of power, legitimacy, and urgency. Ryan and Schneider (2002) theorized twelve characteristics of IIs that may make them likely to pursue activism. This author and Ryan and Schneider (2003) argue that these characteristics will drive

the levels of power, legitimacy, and urgency that ultimately influence corporate managers. Following are these theorized twelve characteristics described in detail prior to fully translating them into SST for my upcoming hypotheses' section.

II Characteristics

Following are the prominent twelve characteristics theorized about by Ryan and Schneider (2003) that may determine an IIs propensity to become an activist. However, I suggest these characteristics may help determine the success rates of IIs as they help drive or restrain their overall saliency to portfolio firms. Following are descriptions of these characteristics followed by the hypotheses' section where these characteristics are translated into the attributes of SST which I suggest drive portfolio firm responses in an activism context.

Fund Size

The overall size of an II activist fund is likely to affect its level of saliency to a portfolio firm (Ryan & Schneider, 2003a). Larger funds have more resources and usually more expertise that allows them to pursue longer and more expensive forms of activism along with having a highly trained and experienced staff in evaluating companies and their performance (Byrd et al., 1998). For example, holding hundreds of stocks gives large investors economies of scale (David et al., 1998) (Black, 1992) and incentive to increase the percentage of return on investment even slightly (Conrad, 1988) as very small increases in return can mean millions of dollars for a multibillion dollar fund which means activism by a larger fund usually receives greater gross payback from their activism compared to smaller firms (Ryan & Schneider, 2002). The annual activism program budgets often constitute less than .005 percent of fund assets (Del Guercio &

Hawkins, 1999) which leads fund managers to believe they are more than compensated for their activism attempts.

Investment Time Horizon

II activist funds differ in their need for liquidity. Both public and private pension plans tend to have very predictable, long-term outflows to their beneficiaries which allows them to have a long-term perspective regarding their investments (Brown, 1998; Monks & Minow, 1996). Funds that have a long-time horizon often allow their portfolio firms the benefit of patient capital (Porter, 1992). But, this time horizon also increases the potential for these funds to exercise their influence through activism and expect increased accountability from their portfolio firms (Black, 1992; Gibson, 1990; Millstein, 1991).

Investors with shorter time horizons tend to rely on market forces rather than corporate influence to improve the performance of their funds which results in high portfolio turnover, sales of shares of underperforming firms, and the purchasing of other firms whose short-term prospects for return on investment are significantly higher (Ryan & Schneider, 2002).

Performance Expectations

Fund managers' expectations of portfolio firms can be purely financial or focus on both financial and qualitative measures (Johnson & Greening, 1999) such as corporate social performance. Some IIs acknowledge their activism efforts are intended to increase fund returns and promote social agendas (Johnson & Greening, 1999; Romano, 1993; Smith, 1996; Wahal, 1996). This is demonstrated by the rapidly increasing number of socially screened investment funds as many investors want more than just financial returns from their investments (Statman, 2000). But, some II activists that emphasize maximizing shareholder value as the sole purpose of

their fund can avoid the costs of activism by merely buying and selling shares based on a portfolio firm's financial performance or by free-riding on the coattails and the efforts of other IIs who are purely financially driven (Ryan & Schneider, 2002). However, over the last twenty years, there has been a significant increase in the number of socially interested investment funds along with their financial interests (Sparkes, 2008). Examples of funds' social activism include pressuring firms to boycott South Africa (Teoh, Welch, & Wazzan, 1999) and to end the sale of old growth forest products despite the effect on profit (Clow, 1999). Purely selling an offending firms stock would have little social impact to funds and investors to whom this characteristic is important. Thus, it is necessary to consider if an II is pursuing purely financial ends or a combination of social and financial ends.

Pressure Sensitivity

This is the most tested characteristic among IIs to date (Goranova & Ryan, 2014a). Pressure sensitivity is their ability to be influenced by a portfolio firm's management because of a pre-existing business relationship along with their role as an investor (Ryan & Schneider, 2002). Brickley and Smith (1998) created a framework that originally divided IIs into three mutually exclusive categories, but I have changed it to two as more data is now available thus eliminating the third category which was designed for IIs with little to no data: 1) pressure sensitive institutions that potentially have extensive business dealings with portfolio firms; 2) pressure resistant institutions that have few if any preexisting business dealings with portfolio firms such as public pension funds and hedge funds. These two classes of investors have been found to interact differently with portfolio firms, but the empirical results have been mixed (Brickley, Lease, & Smith, 1988; David et al., 1998; Duggal & Millar, 1994; Van Nuys, 1993).

They do tend towards Brickley and Smith's (1998) contentions that pressure resistant IIs are more likely to pursue activism than are pressure sensitive investors.

Size of Corporate Holding

IIs have to consider if they have the means and incentives to pursue activism, which is captured by the following two characteristics: percentage of firm stock and percentage of firm portfolio. Means in the form of owning enough of their portfolio firm's stock to make a difference and incentive in that a significant portion of their portfolio is invested in a target firm (Roe, 1994; Sundaramurthy & Lyon, 1998). Larger investors are more likely to get the attention of managers as managers may feel more pressure to listen to these investors because of the impact they can have on the company and CEOs long-term employment. In addition, larger investors have more proxy votes which means they could initiate more confrontational forms of activism (Ryan & Schneider, 2002). In addition, the size of the investments must be substantial enough to make activism worthwhile to the activist, and if their investment is a significant portion of their invested portfolio, they must have the incentive to pursue activism as a mechanism to increase the value of their holdings (Potter, 1992). By focusing their efforts on large holdings, fund managers are more likely to increase their returns and attract other investors (Capon, Fitzsimons, & Prince, 1996).

Proportion Invested in Equity

The proportion of a fund that is invested in equity is the percentage that fund managers allocate towards equity as opposed to other types of securities like bonds, government securities, and real estate (Ryan & Schneider, 2002). Modern portfolio theory often drives this decision as investment returns are largely a function of risk taken on (Markowitz, 1959). Each fund has an

investment policy statement that lays out the framework it will use to invest the resources contributed to its fund and which asset classes it will be a part of (Beebower, Brinson, & Hood, 1986). Fund managers usually diversify their investments to garner the greatest returns for the least amount of risk. Larger allocations to equity signal that the institutional activist is willing to take on higher risk investments rather than lower risk roles of being a debt holder (Campbell, Cocco, Gomes, Maenhout, & Viceira, 2001). Furthermore, greater allocation to equities signals that a particular fund is willing to use its other resources and power to see positive returns from its equity investments. Lastly, fund managers tend to give the majority of time and attention where they have their largest investments (Ryan & Schneider, 2002).

Legal Restraints

IIs all have some legal restraints that can impact their success and motivation as activists. They have legal fiduciary responsibilities to their funds' beneficial owners (Monks, 1997) which include exercise of trust law regarding duty of care (Brizendine, 1992; Droms, 1992) and duty of loyalty (Black, 1992; Krikorian, 1991). In addition, the Securities and Exchange Commission places extensive regulation on investors (Ward, 1997). All IIs are subject to baseline trust and SEC regulations, but the regulatory environment is complex and has a fair amount of variance depending upon the type of II (Ryan & Schneider, 2002).

The Employment Retirement Income Security Act (ERISA) of 1974 regulates many private pension funds and places significant compliance burdens on these funds which the literature has documented (Hopkins, 1996). For example, if a corporate pension plan wishes to pursue activism, under ERISA, it must demonstrate to the U.S. Department of Labor that the benefits of engaging with a portfolio firm will outweigh the cost associated with pursuing activism (Schelberg & Bitman, 1999). Furthermore, if a fund manager makes a poor investment

or violates the duty to diversify plan assets, he can be held personally liable and subject to federal suit (Brancato, 1997). In addition, if a fund manager was found in attempt to control a portfolio firm rather than just influence it, a fund could lose its tax-exempt status (Blair, 1995). ERISA forces many fund managers to be very cautious and selective in their decisions to pursue activism.

Defined-Benefit/Contribution

An important characteristic that only applies to pension funds (Public, Private, Multiemployer) is whether they are classified as defined-benefit or defined-contribution , and the key to this distinction is which party bears the risk of investment and the ramifications of that risk (Ryan & Schneider, 2002). Defined-benefit plans promise beneficiaries an annuity at retirement, so the fund sponsor bears all the risk in making sure they can deliver those payments for decades to come. Defined-contribution plans make no promises to beneficiaries...it is up to the beneficiaries to invest their money and garner returns, which means they bear all the risk (Andrews & Hurd, 1992; Bodie & Crane, 1998). The corporate sector is predominantly defined-contribution because they want employees to bear the risk for their own retirements (Andrews & Hurd, 1992), and they have seen other large firms struggle greatly to fulfill requirements to beneficiaries which can significantly hinder the business with their legacy costs (Rauh, 2010). The public sector remains largely defined-benefit (Zorn & Harris, 1996), and public pensions shortfalls are considered by many states to be the largest economic problem they face as a state (Skeel Jr, 2012).

Defined-benefit funds have higher incentives to increase fund returns because larger returns can minimize or eliminate contributions from the fund sponsor (Berkowitz, Finney, & Logue, 1988; Prevost & Rao, 2000), which means the fund sponsor can keep more of their

profits and use them otherwise. Furthermore, many defined-benefit funds are public companies themselves who can have shareholders pressuring them for higher returns and even pursuing activism against them (Goranova & Ryan, 2014a). Lastly, fund sponsors have complete control over their fund and its investment decisions because beneficiaries only have claims on future payouts (Ryan, 2000); beneficiaries do not have voting rights because they do not actually own shares of stock...the fund sponsor does.

In defined-contribution plans, fund sponsors contribute a certain percentage of funds to an employee's retirement based upon the amount contributed to it by the employee (Ryan & Schneider, 2002). Thus, the fund sponsor bears no risk of future returns for the employee, and it is the employee's responsibility to manager their money through a third party or individually. The advantage to the employee is they can sell their investments in any poorly performing fund and reinvest those proceeds into a higher performing fund, which is essentially firing the manager of the prior fund (Barr, 1998). Fund sponsors can replace employee investment options if they feel the funds offered to employees are underperforming.

Active/Passive Investing

Another characteristic that may impact the saliency of an II to portfolio firms is whether or not a fund actively or passively manages its portfolio (O'Barr, Conley, & Brancato, 1992). In active management, securities are consistently evaluated for performance, and managers regularly buy and sell stocks based on current and possible future performance. While active investing can lead to wider variance in returns and additional costs including management and transaction costs, there is the potential for a portfolio to produce higher earnings than simply tracking the market in index funds (Foster & Warren, 2016). In addition, securities are often bought and sold in the consistent effort to outperform and outsmart the market.

In passive management, the majority or all of a portfolio is indexed so it tracks the performance of a market (good or bad) such as the Standard and Poor's 500 (Sorensen, Miller, & Samak, 1998). Managers of these funds generally keep all the stocks in the index to maintain a consistent portfolio, and this includes times when the index performs well and when it performs poorly. The benefits of indexing include lower administrative costs, lower transaction costs, and no chance of underperforming the market index in general (Malkiel, 2003). The potential downside is that a portfolio will never outperform the market index either. So, if an active fund is really successful at consistently picking certain stocks that outperform the market, an indexing approach will not exploit that strength in any way.

Four possible reasons exist why passive funds may pursue activism and be more salient to portfolio firms: 1) Since indexed funds do not sell individual stocks in their portfolios as they are passive investors, they are captive owners with incentive to pursue activism to increase the overall value of stocks in their portfolio (Gillan & Starks, 2000; Monks & Minnow, 2001; Montgomery & Leighton, 1993; Romano, 1993); 2) When funds are committed to stocks in portfolio firms with a long time horizon, which most passive funds are, they are more inclined to pursue activism (Brown, 1998); 3) There is evidence that indexed investors have used activism in attempt to increase the overall strength of the market they are invested by targeting high profile firms in their portfolio that other portfolio firms will notice and possibly make changes based on the activism towards the targeted firm (Del Guercio & Hawkins, 1999); 4) Indexed equity funds compete with funds holding other asset classes like bonds and real estate, so while they do not have to outperform active equity funds, they do need to provide more value than other asset classes for business (Black, 1992). Portfolio firms know that when IIs buy and hold, there is some possibility they may pursue activism to get what they want, which may make them

more salient. In addition, prior research suggests high profile firms may be targeted by IIs who are passive initially, but may pursue activism later (Del Guercio & Hawkins, 1999). It is these strategies that portfolio firms are aware of by IIs that may make them more salient.

Internal/External Fund Management

A fund portfolio may be managed internally by the fund sponsor or outsourced to mutual funds, insurance companies, or bank trusts (O'Barr et al., 1992). For example, pension plans may have layers of IIs helping to manage the fund (Brancato, 1997). Whether a fund's portfolio is managed internally or externally can have an impact on the likelihood of them pursuing or rejecting activism (Ryan & Schneider, 2002). If the fund is managed internally, it is just the one fund which means it may not be able to exert a lot of influence on portfolio firms. If a fund is managed externally by a portfolio manager, they are very likely to hold the same stocks across the majority of their portfolios which gives them incentive to pursue activism in all of its forms to increase the values of the portfolios they manage (Tonks, 2005). In addition, divesting the stock has potential to depress the stock prices in their portfolio firms as they most likely own a large percentage of shares across all the portfolios they manage and would incur significant transaction costs (Ryan & Schneider, 2002). Finally, externally managed funds allow portfolio managers to pursue activism without the fund sponsor having a conflict of interest with portfolio firms (Del Guercio & Hawkins, 1999).

Internal/External Proxy Voting Rights

Another characteristic that only applies to pension plans is how the fund handles its proxy voting rights. Pension plan fund sponsors have the option of keeping or delegating their proxy voting rights if they contract out their portfolio management. Private pension fund sponsors feel

that external fund managers should be able to exercise all proxy voting rights despite ERISA saying external managers must be subject to proxy voting guidelines (Anand, 1994; Davey, 1991; Schelberg & Bitman, 1999). Delegating fund sponsors feel that external portfolio managers are better equipped to make informed voting decisions (Davey, 1991) whereas the corporate minority who retain proxy voting rights feel they understand the positions of their beneficiaries better than anyone else, and that corporate proxy voting should be centralized (Walsh & Seward, 1990).

Public pension funds align with the corporate minority and retain 99% of their proxy voting rights even if they delegate the portfolio management of their fund (Del Guercio & Hawkins, 1999). Corporate sponsors believe that separating the proxy voting capabilities from the portfolio management protects themselves and the portfolio manager from potential insider trading where they make bets with their stocks based upon their knowledge of pursuing upcoming activism (Nenova, 2003). Retaining proxy rights may increase the chance of pursuing activism as corporate sponsors value control and the ability to target portfolio firms they feel are under performing (Ryan & Schneider, 2002).

Direct Effects of II Activists on Portfolio Firm Responses

As previously described in the prior work of Ryan and Schneider (2002, 2003), IIs possess characteristics that theoretically should translate into the attributes of SST and impact their overall levels of saliency to portfolio firm managers. More specifically, and described on pages 32-33, Ryan and Schneider (2003) developed a conceptual framework of the differing levels of power, legitimacy, and urgency of IIs as owners and how those attributes may determine differing levels of saliency to portfolio firms. The following theoretical section expands the prior conceptual model of Ryan and Schneider (2003) by theorizing how hedge

funds fit into their framework, placing their framework in an activism context, and developing novel hypotheses to test how the heterogeneity across II groups may drive portfolio firm responses using the lens of Stakeholder Saliency Theory.

Hedge Funds

In Ryan and Schneider's (2002) model of the characteristics of IIs and their propensity to pursue activism, they did not include hedge funds as hedge funds were on the rise during that time. In Ryan and Schneider's (2011) paper, they extended this model to assess the possible antecedents of hedge funds to become shareholder activists. Again, I think many of these characteristics impact the levels of saliency to a portfolio firm that influences how they will respond to hedge funds. In Ryan and Schneider's (2003) framework, they started to translate II characteristics into differing levels of saliency, but they did not include or translate hedge fund characteristics into SST attributes. I will describe the characteristics of hedge funds first, and then I will proceed to theorize hedge funds attributes and level of saliency.

Hedge funds tend to be mixed in size with the largest hedge funds having \$10 billion dollars under management and the average fund being around \$765 million dollars (Sweeney, 2005) (Brav et al., 2008). However, hedge funds purposely stay smaller than many other IIs as size is often viewed to be synonymous with mediocrity and the enemy of performance (Biggs, 2011; Fox, 2005). Further explained, many hedge fund managers feel the size of large II organizations often impedes their ability to beat the financial markets on a consistent basis (Schneider & Ryan, 2011). When it comes to the time horizons of hedge funds, many people assume that hedge funds are short-term investors (Brav, Jiang, & Kim, 2010). Ironically, this is not the case as hedge funds average two years of equity ownership in their portfolio firms from initial purchase to divestment (Brav et al., 2008), which is considered a medium-term

investment. In fact, most hedge funds have a lock up time period where investors cannot liquidate their investment, and that time period is often 2-3 years (Schneider & Ryan, 2011). This means that investors in hedge funds know they are legally committing their resources for a 2-3-year time period without the possibility of withdrawing those funds. Comparatively, pension funds and multiemployer funds generally make long-term investments which are defined as 3-10-year time periods while many mutual funds make shorter term investments of 0-2 years (Ryan & Schneider, 2002). In addition, hedge funds are private firms, so they do not have to report their performance to the public and are shielded from the time pressures that many active IIs feel. Long time horizons and limited legal restraints suggest hedge funds will be highly salient to portfolio firms.

It is theorized that funds with both financial and social agendas are more likely to be activists than funds that are purely financially driven (Ryan & Schneider, 2002) as many funds are founded on the principle of investing in firms that make a profit and benefit communities (Goranova & Ryan, 2014a). However, hedge funds are structured such that activism can easily be pursued despite not having any social agenda (Brav et al., 2008). Rarely, if ever, do hedge funds have any other business dealings with their portfolio firms that would constitute a conflict of interest (Brickley et al., 1988) which allows hedge funds to pursue activism as pressure resistant institutions and would indicate a propensity for high activism activity (Schneider & Ryan, 2011). Hedge funds also take large stakes in their portfolio firms often becoming the largest shareholder of the portfolio firm owning 5-10% of all outstanding equity (Bebchuk, Brav, & Jiang, 2015). In addition, hedge funds often invest in a much smaller number of portfolio firms (Rudin & Morgan, 2006) which results in larger percentages of their fund being invested in

those firms with 17% of cases investing \$100 million dollars or more per portfolio firm when the median hedge fund manages \$765 million (Brav et al., 2008).

It is theorized that funds with the majority of their assets in equities are more likely to be activist than funds that have a higher mix of equities, bonds, real estate, etc. (Schneider & Ryan, 2011). Hedge funds invest in all the aforementioned tools but tend to lean towards greater proportions of equities (Amenc, Goltz, & Martellini, 2005; Getmansky, Lo, & Makarov, 2004). Hedge funds are not subject to ERISA or bankruptcy law conflicts as ERISA only applies to private pension funds (Brancato, 1997). Hedge funds are the one class of II in this study who are opportunistic regarding bankruptcy even though it is a small number of them (Beverini & Cova, 2006). They actively invest in the market for distressed and junk bonds, and then sometimes use these investments in legal proceedings to influence portfolio firms by obtaining large equity positions through debt for equity swaps (Goranova & Ryan, 2014a).

Hedge funds tend to be more active traders rather than passive traders which would suggest lowers levels of activism because anytime a fund is displeased with an investment, they can just sell their position in a firm and invest in another one. As described on pages 44-45, Ryan and Schneider (2002) theorize that funds with a larger portion of their shares managed externally are more likely to be activist than funds that manage most of their shares internally. However, hedge funds do not outsource portions of their portfolios. Hedge funds are structured differently than the other IIs classes as they are legally defined as limited partnerships and cannot have more than 100 limited partners (Brav, Dasgupta, & Mathews, 2016). While the general partners run the fund, limited partners invest in hedge funds with the expectation that the fund will invest aggressively as they have higher expectations of alpha (Till & Gunzberg, 2005), and the general partners are compensated significantly higher compared to other types of fund managers (Klein

& Zur, 2009). Furthermore, hedge funds are increasingly serving as external managers to pension funds and other types of IIs often with an activist expectation (Brittain, 2001). This combination of characteristics suggest hedge funds will be highly salient to portfolio firms.

Ryan and Schneider (2002) theorize that internal proxy voting, which is the retention and exercise of voting rights, is associated with greater activism. Hedge funds are very aggressive proxy voters using their votes to influence corporate managers in ways they feel a company can be improved (Taub, 2003). In addition, hedge funds have been the leaders in developing the process of decoupling ownership of shares from voting rights which allows them to control and vote more proxies than the shares that they own (Hu & Black, 2006) as they are able to borrow or buy voting rights on the derivatives market. This is called new vote buying and allows hedge funds to amplify their influence in corporations that have more than one type of voting shares (Hu & Black, 2006). Multiple types of voting shares allow certain shareholders to possess more voting rights and the ability to have greater influence on proxy statements, boards of directors, and TMT's, for example. This characteristic of internal proxy voting suggests hedge funds will be very salient to portfolio firms and their managers. However, the previous described characteristics need to be translated into the attributes of Stakeholder Saliency Theory that ultimately impact their salience to firm managers and drive firm responses.

Given the aforementioned characteristics above, I will now translate those characteristics into the Stakeholder Saliency Theory model (Mitchell et al., 1997; Ryan & Schneider, 2003a) to predict overall salience and portfolio firm responses. Hedge funds would most likely have strong utilitarian power as they buy large positions in a minimal number of firms with the average ownership percentage being 8.81% in less than ten portfolio firms (Brav et al., 2008). They often become the largest shareholder in their portfolio firms (Brav et al., 2016), and their liquidity

requirements are low as they are not subject to legal requirements of high diversification within their portfolio (Schneider & Ryan, 2011). This allows them to buy large and very focused positions in portfolio firms. Hedge funds normative power is most likely to be high as well as it is important for CEOs to satisfy IIs for prestige and esteem of their peers (Schneider & Ryan, 2011), and hedge funds can have tremendous influence on a firms' and managers' image as they are very active in utilizing the media when firms are not willing to cooperate with their demands (Brav et al., 2008). For coercive power, hedge funds are leaders in utilizing their shareholder rights and the court system if they feel managers are not pursuing the best interests of the firm as they see it (Clifford, 2008). This combination of high levels of utilitarian, normative, and coercive power suggests the overall power level of hedge funds will be high.

Hedge funds are considered legitimate as they are shareholders in their portfolio firms, so they have voting rights and claims to dividends as examples. However, their level of legitimacy will most likely vary at the individual, organizational, and societal levels (Wood, 1991) as suggested by SST (Mitchell et al., 1997). At the individual level, hedge funds are run by very experienced money managers who are predominately educated at top tier institutions...they are known for only hiring the best and brightest (Brav et al., 2010). Some portfolio firm managers contend that hedge fund managers are only out for the success of their own fund and can actually hurt other shareholders, but prior research suggests that is a limited group (Schneider & Ryan, 2011) as nearly all IIs are interested in maximizing shareholder value of their holdings. In addition, managers question the abilities of hedge fund managers to judge how a company should be run (Ryan & Schneider, 2003a).

At the organizational level, society has demonstrated confidence in hedge funds represented by the billions of dollars flowing into their funds, and organizations like pension

funds and high net worth investors are consistently looking to add hedge funds to diversify their portfolios (Fung & Hsieh, 2000) (Schneider & Ryan, 2011). This has caused significant growth in the assets under management (AUM) of hedge funds as well as they have tended to outperform the market especially when the market downturns (Brav et al., 2008). In fact, AUM have grown from \$118 billion dollars in 1997 to \$3.2 trillion in 2017, which is up from \$2 trillion in 2013 (Barclayhedge.com, 2017). However, some investors have moved away from hedge funds the past couple years as they have had poorer performance than indexes and fund manager compensation is very high (Bebchuk et al., 2015). But, they are still viewed as viable options by many investors to help their funds diversify (Schneider & Ryan, 2011) which is clearly demonstrated by the AUM growth.

At the societal level, shareholders have historically been ignored (Agrawal & Knoeber, 1996), and it is the rise in the size and influence of the II industry (Goranova & Ryan, 2014b) that has given shareholders greater voice and is helping to hold portfolio firms accountable to serving their shareholders. Evidence of societal legitimacy is demonstrated in \$70 trillion dollars of assets under management by IIs around the world (www.bcgperspectives.com, 2016). Based upon their current levels of legitimacy at the individual, organizational, and societal levels, evidence suggests their overall legitimacy would be high.

For urgency, hedge funds have longer time horizons on average holding their position within a firm for two years (Schneider & Ryan, 2011). This is in contrast to general thought that hedge funds prefer a pump and dump strategy (Bebchuk et al., 2015). This allows their time sensitivity not to be pressured by immediate returns, so there is very little reason for them to sell their positions. In fact, they often add to their positions over time (Brav et al., 2016). However, they do expect portfolio firms to respond to their activism over their time of investment;

otherwise, it is theorized that the escalating process of activism occurs (Gantchev, 2013). Hedge funds have their timelines built in and expect portfolio firms to respond accordingly as do other IIs. This translates to hedge fund activism being highly critical to their firms. Hedge funds often take positions seeking change in a firm and willing to escalate to activism if necessary (Gantchev, 2013). Hedge fund managers' compensation, fund performance, and maintenance of investors depends on their limited portfolio firms increasing their value in those two-year time frames. Thus, hedge fund claims and expectations are critical to the performance of their funds. Per SST, with time sensitivity being long yet criticality being high, SST would suggest the urgency level of hedge fund activists will be high.

Thus, extending the conceptual framework of Ryan and Schneider (2003), I suggest that the theorized cumulative effect of high power, high legitimacy, and high urgency of hedge funds will result in their overall saliency being high to portfolio firm managers. As a high level of overall salience suggests portfolio firm responsiveness, I contend that portfolio firms are likely to respond positively to hedge fund activism leading to my first hypothesis.

Hypothesis 1: Institutional investor activism by hedge funds will be positively related to the likelihood that a portfolio firm response complies with the activist investor's request.

Pension Plans

Pension plans account for a very large percentage of institutional investing with \$36 trillion dollars in assets under management (www.williswatson.com) , and they have a legal obligation to plan participants during their retirement (Kidwell, PETERSON, & David, 1993). Pension fund management has several important groups that affect a fund (Conrad, 1988). The fund sponsor is the employer that creates and administers the retirement fund. The fund

manager is primarily responsible for overseeing the fund and is usually an employee of the fund sponsor. The portfolio manager buys and sells securities, is usually external to the firm but may be internal, and sometimes has proxy voting authority which is an important element for activism.

Public Pension Plans

Public pension funds are the retirement plans of public sector employees for state and local governments. This term refers to state and local employees only as federal pension plans hold little to none corporate equity, are pay as you go systems, and whose payments to beneficiaries come directly from taxes (U.S. General Accounting Office, 2017). In addition, federal pension plans do not have the level of risk of being unable to pay beneficiaries as some public pensions at the state and local levels have been experiencing throughout the United States (Novy-Marx & Rauh, 2009) causing budget crisis for state and local governments (Biggs, 2016). Thus, federal pension plans are not characterized as IIs, and they most certainly are not investor activists (Ryan & Schneider, 2002). Public pension funds at the state and local levels represent a large portion of institutional equity holdings and millions of beneficiaries (Employee Benefits Research Institute, 2016), and there are approximately 4000 public pension funds in the United States (Morningstar, 2013), but the largest are usually monolithic.

Public pensions funds at the state and local levels tend to be the largest IIs in the world and hold the largest equity holdings of the group with \$32 trillion in assets under management (Biggs, 2016). In addition, they have predominantly long time horizons which allows their fund managers to view their investments as long term in portfolio firms (Brown, 1998; Monks & Minow, 1996), and this is demonstrated by their low asset turnover and holding their stocks longer than other IIs (Brancato, 1997). In addition, many public pension funds have social

agendas in addition to financial performance (Johnson & Greening, 1999; Romano, 2000), and they are generally pressure resistant to portfolio firms as they are public in nature with the sole goal of benefitting their beneficiaries (Blair, 1995; Brickley et al., 1988). Public pensions dedicate about 60% of their assets to equity investments and are not subject to any federal regulation, ERISA, or bankruptcy conflicts (Martin, 1990; Woods, 1996). Their plans tend to be defined-benefit (Andrews & Hurd, 1992), managers usually take passive management approaches to their portfolios (Sorensen et al., 1998), and they generally retain their proxy voting rights (Del Guercio & Hawkins, 1999).

Per the Ryan and Schneider (2003) framework, this combination of characteristics should result in public pension plans being high in power, legitimacy, urgency, and overall saliency. More specifically, their fund size, their lack of pressure sensitivity and legal restraint, percentage of firm stock they typically own, and their maintaining proxy voting rights suggest they would be very high in overall power. Their performance expectations being both financial and social in nature suggest they would be high on legitimacy as investors value funds for their financial returns along with investing for socially accepted causes (Ryan & Schneider, 2003a). In addition, the majority of pension funds being defined-benefit suggest they would be high on legitimacy as sponsoring companies bear the financial risk, not its beneficiaries. Lastly, their lengthy time horizons, passive investing strategies, and significant investment in a limited number of firms suggests they would be high on urgency. Thus, the cumulative saliency for public pensions funds should be high based upon them being high in the three areas of power, legitimacy, and urgency. This high overall level of saliency suggests that public pension funds are likely to receive positive responses from their portfolio firms when using activism leading to my second hypothesis.

Hypothesis Two: Institutional investor activism by public pension funds will be positively related to the likelihood that a portfolio firm response complies with the activist investor's request.

Multiemployer Pension Plans

Multiemployer pension systems include private sector Taft-Hartley plans and TIAA-CREF. Taft-Hartley pension plans are administered by member's unions rather than their employers as employees do not feel they can trust management to have their best interests at heart in running a pension for them (Ryan & Schneider, 2002), and more than \$450 billion dollars is invested in Taft-Hartley union plans in the United States (www.piononline.com, 2017). TIAA-CREF was originally established for educators by Andrew Carnegie and oversees \$900 billion in assets (www.tiaa.org, 2017) making it the largest pension system in the United States. In addition, TIAA-CREF currently serves over 5 million active and retired employees at more than 16,000 institutions (www.tiaa.org, 2017).

Taft-Hartley Funds

Examples of Taft-Hartley funds include medium-sized regional teamsters' funds and smaller AFL-CIO funds. Characteristics of this class of funds include longer time horizons, having both financial and union driven goals (Swoboda, 1999), and are highly pressure resistant to their portfolio firms (Brown, 1998; Monks & Minow, 1996). These funds have around 50% of their assets invested in equities (www.piononline.com, 2017), are split between defined-benefit and defined-contribution funds, and often hold a significant amount of stock of their beneficiaries' employers suggesting active portfolio management (Moberg, 1998). Lastly, union funds usually have their portfolios managed externally, retain their proxy voting rights, and are not subject to ERISA (Ryan & Schneider, 2002).

Following Ryan and Schneider (2003) conceptual model, the combination of long time horizons, possessing significant holdings in their beneficiaries' companies, not being subject to ERISA, and retention of their proxy voting rights suggests Taft-Hartley funds will have high levels of power and urgency with their portfolio firms. Their power comes from their significant holdings which can be focused on their selective portfolio companies, willingness to vote their proxy rights, and having no pressure sensitivity to their portfolio firms. While their long-time horizons do not indicate time sensitivity, their significant holdings suggest these investments are critical to the success of their portfolios. When funds criticality is really high, that suggests that their overall urgency is high as well as this attribute has the two components of time sensitivity and criticality. These funds are considered moderately legitimate as they are well accepted at the organizational and societal levels (Wood, 1991), but there are questions at the individual level as the internal administrators of these funds have been known to seek advantages for their beneficiaries sometimes at the expense of the overall portfolio firm (Ryan & Schneider, 2003a). Overall, the high levels of power and urgency along with moderate legitimacy suggests Taft-Hartley funds will be highly salient to their portfolio firms.

TIAA-CREF

TIAA-CREF is the largest pension in the United States with assets of \$900 billion dollars (TIAA-CREF, 2017). This fund has long time horizons for its offerings (Brown, 1998; Monks & Minow, 1996) and offers funds that are considered socially responsible for educators who want parts of their portfolios allocated to these funds (TIAA-CREF, 2016). TIAA-CREF invests approximately 50% of its assets in equities with retirement plans that are defined-contribution (Schloss & Abildsoe, 2001; Wisniewski, 1999), not subject to ERISA, are internally managed, retain their proxy voting rights (Byrne, 1999), and offer members funds that are both passively

and actively managed (Pellet, 1998). This mixture of CREF's characteristics suggests they will have countervailing effects on their overall level of salience to portfolio firms.

The funds large size, long time horizons, freedom from regulation, and retention of proxy voting rights suggest they would be very salient to portfolio firms. However, the fund is defined-contribution, managed internally, financial performance oriented, 50% invested in equity, and uses both active and passive investment strategies. These differences in characteristics tend to weaken their potential level of saliency to portfolio firms.

For the normative power of TIAA-CREF, they are very large in size because they collect contributions from many different educational institutions and tend to overweight their portfolios towards those employers. In addition, they are not subject to high regulations compared to other investors which allows them to use coercive power if necessary. These combinations of characteristics suggest TIAA-CREF will be high in power. As argued in the majority of all other IIs, all of them have at least a moderate level of legitimacy (Ryan & Schneider, 2003a), and this is where TIAA-CREF falls. While they are considered a definitive stakeholder, their characteristic of being defined-contribution where their clients bear the risk for the firms' investments gives them a lower ranking compared to public pension funds. From an urgency standpoint, TIAA-CREF has long time horizons and represents current and retired educators which means they are less time sensitive, but their investments in firms are more critical which translates to high levels of urgency.

Overall, the cumulative effect of high power, moderate legitimacy, and high urgency suggests TIAA-CREF will be highly salient overall to portfolio firms. This, in addition, to the high level of salience for Taft-Hartley funds suggests that multiemployer pension funds will be

highly salient and thus likely to elicit positive firm responses from their portfolio firms leading to my third hypothesis.

Hypothesis Three: Institutional investor activism by private multiemployer funds will be positively related to the likelihood that a portfolio firm response complies with the activist investor's request.

Private Pension Plans

Private pension plans are the retirement vehicles of private sector employees. Private pension plans account for five trillion dollars of assets under management and 693,000 private sector pension plans in the United States (U.S. Census Bureau, 2016). The majority of these funds cover single employers like General Motors or General Electric, but public pension plans tend to dwarf private plans in terms of size (Banks & Emmerson, 2000).

Private pension plans have a more mixed characteristic profile (Ryan & Schneider, 2002) than public pension plans which suggests it will lower their level of saliency (Ryan & Schneider, 2003a). Private pension plans are generally small to medium in fund size, possess long time horizons (Brown, 1998; Monks & Minow, 1996), usually invest for financial performance, and have limited pressure sensitivity. Private pension funds average 38% of their funds invested in equities with the other 62% being invested in bonds (U.S. Census Bureau, 2016), are primarily defined-contribution which are free from ERISA (Andrews & Hurd, 1992; Bodie & Crane, 1998), tend to be active traders (Brancato, 1995; O'Barr et al., 1992), and predominantly delegate their proxy voting rights to the portfolio managers handling their accounts rather than keeping their voting rights internal (Anand, 1994; Davey, 1991).

From a stakeholder salience standpoint (Mitchell et al., 1997), private pension funds are mixed in every characteristic except investment time horizon, which is high, and performance expectations, which is low. Their mixed fund size, average size holdings in their portfolio firms, and mix of most other characteristics suggests their power and legitimacy would be moderate. However, urgency is categorized as high primarily because private pension funds are active traders which means their time sensitivity is very important. They need and hope firm managers will respond quickly; otherwise, they may have to sell their positions at a loss. Private pensions moderate level of power and legitimacy plus the high level of urgency suggest their overall salience to be moderate (Ryan & Schneider, 2003a). It is important to note that this moderate level exists within the SST framework of being a definitive stakeholder. However, a focus of this dissertation is to parse out the differences among IIs. Given private pension funds limiting characteristics and predicted moderate levels of saliency to portfolio firm managers, I suggest that portfolio firms will be less accommodating to this activist group leading to my fourth hypothesis.

Hypothesis Four: Institutional investor activism by private pension funds will be negatively related to the likelihood that a portfolio firm response complies with the activist investor's request.

Mutual Funds

Mutual funds account for a large percentage of institutional holdings. Open-ended mutual funds are diversified portfolios managed by investment companies that buy and sell shares to customers in any quantity demanded (Radcliffe, 1990). Mutual funds that invest in equity securities are classified as IIs. In 2016, there were 9260 equity mutual funds in the United States worth \$15.65 trillion dollars held by 50% of the United States Population (Statista, 2016).

Mutual funds have a mixed characteristic profile in terms of fund size with many funds being smaller in size, yet there are a few very large outliers like the Vanguard 500 index fund and the Fidelity Magellan fund. In addition, mutual funds have very high legal restraints, but they are not subject to ERISA. This means they have to have very high liquidity requirements as mutual fund clients must be able to buy and sell their shares at any time even in very large blocks (Jones, Lee, & Tompkins, 1997). Furthermore, since short term performance is very important for mutual funds, they have short time horizons (Brancato, 1995) meaning they usually sell their positions in a portfolio firm rather than engage in activism. Also, they are pressure resistant and usually pursue purely financial interests (Davis & Trent, 1993). By far, the majority of mutual funds invest all or a major portion in equity not dealing with bonds or other financial instruments. Mutual funds have no conflicts with bankruptcy laws (Roe, 1994), and fund managers usually ignore proxy voting (Brancato, 1997). While mutual funds offer indexed funds, they majority of their funds are actively managed (Johnson & Collins, 2000).

From a SST standpoint (Mitchell et al., 1997), mutual funds are limited by regulation and because of their liquidity requirements, they will often sell their position rather than pursue activism. In addition, mutual funds are unlikely to impact the image of managers or a firm or use the media to express their displeasure (Ryan & Schneider, 2003a), which limits their normative power. For coercive power, mutual funds face serious regulatory restrictions on their ability to hold large blocks of stock. Yet, since some funds are large in size, they have greater resources and expertise to undertake legal action on their shareholder rights in the form of lawsuits if necessary (Ryan & Schneider, 2002). This mixed bag of characteristics results in mutual funds having a moderate level of power.

For legitimacy, mutual funds are predominantly defined-contribution meaning their clients bear the risk of fund performance, and mutual funds suffer (as do other IIs) from general challenges from corporate managers on their ability to advise them how to properly run a firm (Donlon & Gutfreund, 1998; Useem, 1996). In addition, mutual funds generally do not usually focus on social issues, which may help elevate their legitimacy status.

For urgency, mutual funds have short time horizons which makes them more time sensitive to increases in their shares. Historically, if mutual funds pursue activism against a firm, they try and get their demands met sooner rather than later (Cvijanović, Dasgupta, & Zachariadis, 2016). Otherwise, they may be forced to sell their position possibly at a depressed stock price. In addition, fund managers' compensation and career ladders are often measured by fund performance on a quarterly basis (Ryan & Schneider, 2003a) meaning they need to drive short term results. Thus, they often sell their positions in pursuit of better investments for the short term. To a lesser extent, their criticality is lower as they are not passive, long term investors who are dependent upon portfolio firms to make changes to increase the value of their shares. Thus, the urgency of mutual funds is high as the level of time sensitivity is pronounced.

Overall, mutual funds are theorized to be moderate in power, moderate in legitimacy, and high in urgency resulting in their overall salience as being moderate (Ryan & Schneider, 2003a). Similar to the theorizing for hypothesis four, mutual funds mixed characteristics leading to moderate levels of saliency suggests that portfolio firm managers will not pay as much attention to them as more salient IIs. This suggests that firm managers are more likely to reject activism brought by mutual funds leading to my fifth hypothesis.

Hypothesis 5: Institutional investor activism by mutual funds will be negatively related to the likelihood that a portfolio firm response complies with the activist investor's request.

Direct Effect of II Activist' Tactics on Portfolio Firm Responses

The nature of activism suggests that not all types of activism may be as equally effective in acquiring a positive response from portfolio firms (David et al., 2001; Neubaum & Zahra, 2006). In the relationship between II activists and portfolio firm responses, IIs get to decide what form of activism they use by how they choose to communicate with their portfolio firms. In addition, prior research suggests that activism is an escalating process with IIs placing calls to management, writing letters, seeking meetings, or making public announcements, which is considered non-proxy-based activism, and then escalating to filing shareholder proposals and initiating proxy fights, which is considered proxy-based activism (Gantchev, 2013). The groupings into proxy-based and non-proxy-based activism correspond with prior researchers' groupings of confrontational and nonconfrontational activism (Prevost & Rao, 2000) and subsequent researchers' groupings of hostile and non-hostile activism (Bebchuk et al., 2015; Brav et al., 2010; Brav et al., 2008). I will use proxy and non-proxy-based measures in this study as there is high correspondence among the research on a dual grouping of activism forms, and the proxy and non-proxy-based measures have been applied to broader ranges of IIs compared to other studies (Chowdhury & Wang, 2009b; David et al., 2001).

Proxy-based activism is formally documented in proxy materials sent to all shareholders, more direct as it communicates IIs' dissatisfaction with management (David et al., 2007), suggests non-proxy-based attempts have failed (Gantchev, 2013), and has been shown to be more effective in prior research. For example, David (2001) found that proxy-based activism helped increase R&D inputs whereas non-proxy-based activism had no effect. Gillan and Starks (2000) found that shareholder proposals (proxy-based activism) sponsored by IIs tend to garner significant voting support in annual general meetings. And, Chowdhury and Wang (2009) found

that proxy-based IIA is stronger on contingent CEO compensation, and that its effects span a longer time-period than non-proxy-based activism.

Stakeholder Saliency Theory (Mitchell et al., 1997) would likely suggest that proxy-based activism would possess more power (Etzioni, 1964), legitimacy (Suchman, 1995; Weber, 1947), and urgency (Wood, 1991) compared to non-proxy-based activism. Proxy-based activism may have more coercive power as it can be seen as a potential threat to management control with the ability to impact management compensation (utilitarian power) and high costs to the firm to fight the activism which may symbolize the dissatisfaction of IIs with management to other portfolio firms (normative power). In addition, it sends a signal to the public that management and the organization may not be acting in the desired interests of its shareholders (Wood, 1991) thus possibly impacting the individual legitimacy of managers and their ability to run a company and the organizational legitimacy and its ability to satisfy its shareholders (Mitchell et al., 1997; Ryan & Schneider, 2003a). Lastly, proxy-based activism inherently has the urgency bases of time sensitivity and criticality (Wood, 1991) built into the requests as proxy-based activism requires a response from management within a set time based upon the tactic. The combination of the three heightened attributes of power, legitimacy, and urgency suggest that proxy-based activism will possess high levels of saliency to portfolio firm managers.

Conversely, non-proxy-based activism, which is not required to be documented nor distributed to all shareholders, often leads to frequent breakdowns in the negotiation process and dissatisfaction between IIs and managers as the process can become very time consuming which can lead to a weakening of its effects (Chowdhury & Wang, 2009b; Goranova & Ryan, 2014a). Furthermore, the effects of examples like media reports or meetings between IIs and managers, phone calls to management, or business suggestions in presentations by IIs are more likely to be

diffuse, less explicit to shareholders, and thus, likely to be less salient (Chowdhury & Wang, 2009b; David et al., 2001; Goranova & Ryan, 2014a). And historically, firm managers have been reluctant to receive advice on how to run their companies (Gillan & Starks, 2000), which may suggest a less forceful activism form may not be as effective.

Stakeholder Salience Theory would most likely suggest that non-proxy-based activism would have less power, legitimacy, and urgency. Non-proxy-based activism does not use Etzioni's (1964) bases of power as effectively as proxy-based activism. For example, non-proxy-based activism does not use the coercive power of shareholder rights, it may only "suggest" material or incentive-based changes which limits its utilitarian power, and it may limit its normative power as fewer shareholders and companies may even know about the activism pursued towards a portfolio firm. Furthermore, this lack of awareness of non-proxy-based activism suggests that the individual, organizational, and societal bases of legitimacy (Wood, 1991) will be muted as these levels all require information to reach audiences for perceptions of legitimacy to be developed. Lastly, the urgency levels of non-proxy-based activism would most likely be lower as IIs may want immediate action, but non-proxy-based activism suggests IIs are willing to be less time sensitive (Eyestone, 1978; Wartick & Mahon, 1994) for portfolio firms to respond or they would have initiated proxy-based activism first, which has timelines built in for each tactic. In addition, managers may use the time to stall, deflect, or even use window dressing effects (Agarwal, Gay, & Ling, 2014) to retard the activism process. For criticality (Hill & Jones, 1992; Williamson, 1985), a similar argument can be made that IIs could lead with proxy-based activism to ensure their concerns are addressed rather than ignored, but research does not suggest this pattern (Gantchev, 2013). Furthermore, portfolio firm managers may not feel the same level of urgency from non-proxy-based activism compared to proxy-based activism which compels a

response. This overall combination of weaker power, legitimacy, and urgency for non-proxy-based activism suggests non-proxy-based activism, with its lower cumulative effective of attributes, will have a weaker effect on its ability to elicit positive firm responses.

Overall, the SST attributes of power, urgency, and legitimacy suggest that proxy-based activism is more likely to be highly salient to portfolio firm managers than is non-proxy-based activism, and since saliency is being determined by positive portfolio responses, this leads to my sixth hypothesis.

Hypothesis Six: Proxy-based tactics will be positively related to the likelihood of a positive portfolio firm response.

Moderator

In addition to having a direct effect on portfolio firm responses, I suggest it is likely that proxy-based activism will interact with II types to amplify their relationships with portfolio firm responses. SST theorizes that the additive effects of power, legitimacy, and urgency determine the level of saliency of shareholders to firm managers (Mitchell et al., 1997). Hedge funds, public pension funds, and private multiemployer funds have been theorized about, starting on page 55, to have attributes with high levels of power, legitimacy, and urgency. The one exception is private multiemployer funds possess moderate legitimacy (Ryan & Schneider, 2003a). They have high levels of power because they often are the largest shareholder in their portfolio firms (Bebchuk et al., 2015), have a limited number of legal restraints (Ryan & Schneider, 2002), and have no conflicts of interest with their holdings (Schneider & Ryan, 2011). They possess high legitimacy as they are IIs, represent state and local employees, high net worth investors, and are viewed as adept in giving voice to shareholders (Rubach & Sebor, 2009;

Tonks, 2005). Private multiemployers are the slight exception as they are considered moderate in legitimacy as they are IIs, but their portfolios may be defined contribution or focused on their beneficiaries' benefits above overall portfolio performance. The group possesses high levels of urgency as their substantial investments are critical to their portfolios, and they are mid to long-term investors with high performance expectations (Brav et al., 2010; Novy-Marx & Rauh, 2009). Overall, this group is theorized to be highly salient to portfolio firms (Ryan & Schneider, 2003a).

As theorized on page 71, SST may suggest that proxy-based activism is likely to have greater power, legitimacy, and urgency than non-proxy-based activism. It has more power and legitimacy as it is a formally-based process that communicates to all shareholders the dissatisfaction of the IIs with management, it is highly likely that non-proxy-based activism has been attempted unsuccessfully (David et al., 2001), costs the IIs and the portfolio firm more money for the process (Gantchev, 2013), and is often publicly broadcasted in the media when this stage is reached (Gillan & Starks, 2007). For urgency, proxy-based activism has formal deadlines often pertaining to the proxy statement and annual meeting where the activism items must be addressed (Chowdhury & Wang, 2009b).

When combining or interacting the aforementioned SST attributes of hedge funds, public pension funds, and private multiemployer funds, with the SST attributes of proxy-based activism, SST would suggest their overall levels of saliency would be higher to portfolio firms than if the II and tactic-type were not combined. In fact, SST explicitly states it is the combination and levels of its attributes that will determine overall levels of saliency to corporate managers. The interactions of these attributes suggest that IIs are more likely to receive positive

firm responses when combined with proxy-based activism than when IIs and proxy-based activism stand alone.

Private pension funds and mutual funds were theorized, starting on page 71, to have moderate levels of power and legitimacy, and a high level of urgency resulting in a moderate level of overall saliency (Ryan & Schneider, 2003a). Private pension funds have smaller portfolios, are heavily invested in bonds, and are very active traders (Banks & Emmerson, 2000). Their lack of size in assets, smaller positions in portfolio firms, and willingness to sell equities rather than pursue activism is why they are theorized to be moderate in power and legitimacy, yet high in urgency. Mutual funds vary in size and size of equity holdings, are defined contribution meaning their clients own the risk of portfolio performance rather than their company, and historically have been active traders (Davis & Kim, 2007). These characteristics result in their SST attributes being moderate in power and legitimacy, and high in urgency. Thus, these IIs were hypothesized to have a negative relationship with the likelihood of positive firm responses.

However, when private pension fund and mutual fund attributes are interacted with proxy-based activism, that relationship may change. As previously stated, proxy-based activism is likely to be high in the SST attributes of power, legitimacy, and urgency. When these attributes are interacted with moderate levels of power and legitimacy, and high urgency, SST suggests the moderate attributes would be enhanced. To what level, we do not know, but we do know it is the combination of attributes and levels of those attributes that drive saliency for portfolio firms. Thus, while it is unlikely that proxy-based activism would elevate private pension funds and mutual funds to the theorized salience levels of the other IIs, it is likely that proxy-based activism would weaken the negative hypothesized relationships for private pension

funds and mutual funds with portfolio firm responses. Following is an example of how proxy-based activism may interact with the different types of IIs.

A hedge fund, which is already theorized as highly salient to portfolio firms, needs to file a shareholder proposal in attempt to get a portfolio firm to respond positively to its demand. SST suggests that the interactive effect of the attributes of hedge funds with the attributes of proxy-based activism would most likely have a greater effect on a positive firm response than using non-proxy-based activism. Another example is a mutual fund or private pension fund, who are theorized to have moderate levels of attributes to portfolio firms, initiating a proxy fight with a portfolio firm suggests their discontentment that they would escalate their demand to this level. SST would suggest that using proxy-based activism, which has stronger attributes, interacting with moderate mutual fund or private pension fund attributes would make them more salient than if they used non-proxy-based activism (See Figures 4 & 5). These prior arguments lead to the following hypotheses:

Hypothesis 7a: Proxy-based activism will strengthen the positive effect between hedge funds and the likelihood that a portfolio firm response complies with the activist investor's request.

Hypothesis 7b: Proxy-based activism will strengthen the positive effect between public pension funds and the likelihood that a portfolio firm response complies with the activist investor's request.

Hypothesis 7c: Proxy-based activism will strengthen the positive effect between private multiemployer funds and the likelihood that a portfolio firm response complies with the activist investor's request.

Hypothesis 7d: Proxy-based activism will weaken the negative effect between private pension plans and the likelihood that a portfolio firm response complies with the activist investor's request.

Hypothesis 7e: Proxy-based activism will weaken the negative effect between mutual funds and the likelihood that a portfolio firm response complies with the activist investor's request.

Independent Variables

Dependent Variable

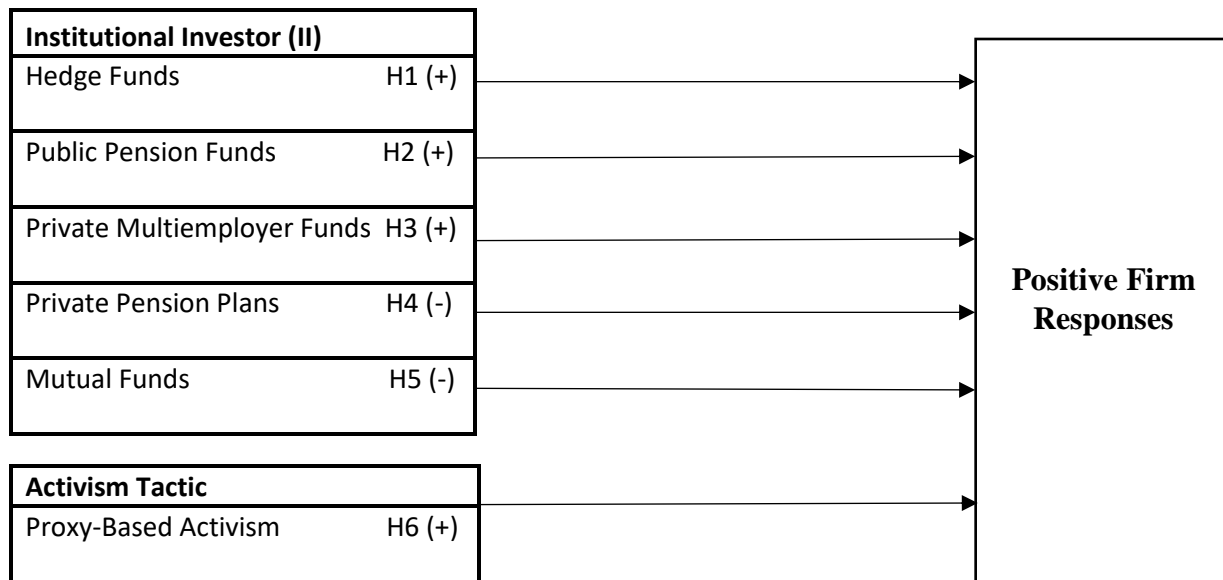


Figure 4. Theoretical Model – Direct Effects

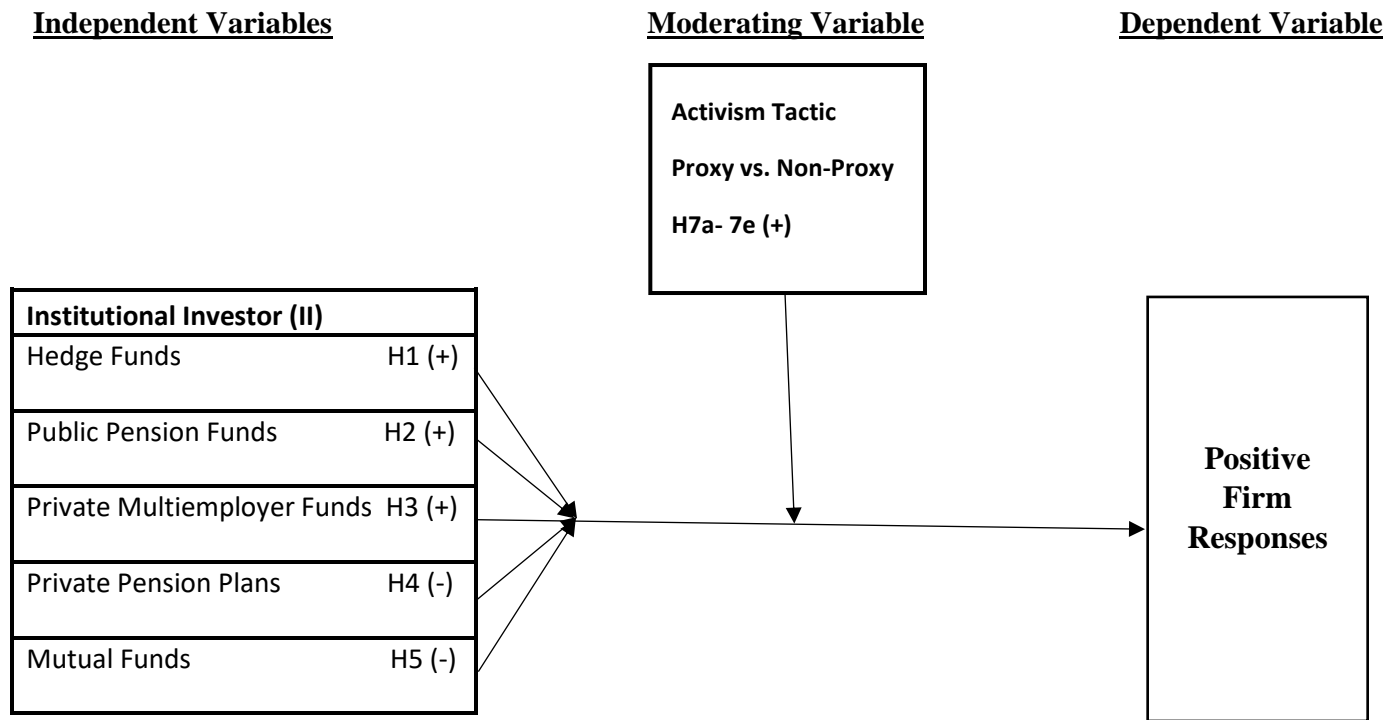


Figure 5. Theoretical Model – Moderation Effects

CHAPTER FOUR: METHODOLOGY

Data and Measures

To test my hypotheses, I built a database of activism events by IIs. For comparison purposes, I limited my database to activism events that occurred within the United States. The database included completed activism events from 2010-2017 with completed activism events being defined as II demands that had been resolved (either positively or negatively) within four years. The sample was randomly selected for hedge funds using a random number generator but used all activism events for public pension plans, private multiemployer funds, private pension funds, and mutual funds as their activism events were fewer compared to hedge fund activism activity. The sample ended up being 750 IIA events spread across the five different types of IIs with the unit of analysis being the II-portfolio firm dyad. This is the unit of analysis as each observation requires an II who has pursued activism (IIA) and a portfolio firm in which it owns equity.

The sample of 750 activism events is larger than the initially projected number of 500, but it adds additional power to the study and still limited the time for hand collection of data as it can become exceedingly onerous. In addition, the sample events accounted for each type of II to ensure each type of II had enough power and proxy and non-proxy-based activism events (See Table X). The sample included 316 non-proxy-based tactics and 434 proxy-based tactics used within the 750 activism events. I used data and databases from *Activist Insight*, *Thomson Reuters*, *S&P Capital IQ*, *the Investor Responsibility Research Center (IRRC)*, *Institutional Shareholder Services (ISS)*, and *Lexis-Nexis* to collect my data. Portfolio firm-level data came from *Standard & Poor's Compustat* annual dataset. The resulting database was comprised of 224

II activists and 412 portfolio companies, and three activism events were dropped for incomplete information prior to the final 750 IIA events (See Table 3).

Table 3. Non-Proxy/Proxy Tactic used by each II Type

II Type	Non-Proxy ProxyTactic		Total
	0	1	
Hedge Funds	88	98	186
Public Pension Plans	51	113	164
Private Pension Funds	50	80	130
Private Multiemployer Funds	55	77	132
Mutual Funds	72	66	138
Total	316	434	750

Dependent Variable

The dependent variable for this dissertation is the *Portfolio Firm Response* to the II type which acts as proxy for II saliency. Stakeholder Saliency Theory indicates that the higher the level of saliency of the II, the more likely they are to receive a positive firm response. In 2006, Eesley and Lenox operationalized a binary portfolio firm response by using the saliency of the stakeholder to determine whether or not the firm yields to the demands of the activist who makes a request. This operationalization fits well for this study; however, I have added a third category for partially positive responses from portfolio firms which captures more variance and is reflected in newer databases like Activist Insight. Thus, a full, positive firm response was coded as two if the portfolio firm's response fully complied with the II demands, coded as one if the firm response partially complied, and zero otherwise. All demands were resolved within four years or they were dropped from the data. When an II made multiple demands of its portfolio firm, each demand was considered a unique observation and was coded with the aforementioned

coding scheme. I did insert a control variable for multiple demands of a portfolio firm which is discussed in the control variables section.

SST would suggest that fully, positive responses by portfolio firms is a result of greater saliency than partially positive responses, which is why I added the additional measure for portfolio firm responses. However, it is likely that there may be variance in the effects of different combinations and orderings of portfolio firm responses and II demands. I leave that to future analysis as those situations merit their own studies (as very little work has been done in this area) and are beyond the scope of this dissertation. But, I do attempt to control for variance in II demands which is discussed in the control variable section and results (Chapter Five).

Independent Variables

The independent variables are the five institutional investor types that participated in activism events which are *hedge funds*, *public pension plans*, *private pension funds*, *private multiemployer funds*, and *mutual funds*. Hypotheses 1-5 test the main effects of these different types of IIs and how salient they are to their portfolio firms. For hypotheses H1-H5, I will be using dummy variables coded as one for each type of II when they pursue an activism event and zero otherwise. A categorical variable could have been used instead of dummy variables for II type, but the results end up being the same. What has been theorized (Ryan & Schneider, 2003b) is that the varying characteristics of each type of II translate differently into the three attributes of power, legitimacy, and urgency of Stakeholder Salience Theory (Mitchell et al., 1997). The categorization of the II variables should encapsulate the variance that exists among them. Thus, the coding follows categorization of these II types by classic definitions of institutional investors and Ryan and Schneider (2002, 2003). In addition, the II type coding schemes used in the databases of Activist Insight, Thomson Reuters, and Audit Analytics follow the works of Ryan

and Schnieder (2002, 2003). Hypothesis 6 tests the type of II tactics and their direct effects on positive firm responses. Proxy-based activism was coded as one, and non-proxy-based activism was coded as zero. Prior research supporting this operationalization of proxy-based and non-proxy-based activism (Chowdhury & Wang, 2009a; David et al., 2001; Ryan & Schneider, 2002) was detailed in literature review, theory section, and is revisited in the following section (Moderator).

Moderator

Hypotheses 7a-7e predict how proxy-based activism and non-proxy-based activism moderate the relationship between each of the five types of II (hedge funds, public pension plans, private multiemployer funds, private pension funds, mutual funds) and them receiving positive firm responses. Proxy-based activism was coded as one, non-proxy-based activism was coded as zero, and the variable is called *nonproxy/proxy tactic*. Proxy-based activism included instances initiated through the formal proxy machinery including shareholder proposals and proxy contest initiations. Non-proxy-based activism includes public announcements, instances of negotiation reported to the press, letter writing campaigns, and private negotiations (Goranova & Ryan, 2014b). These two categories provide for a volume of activism events to be accrued while still capturing important variance between formal and information activism events. Future research is needed to further disentangle these two categories and is discussed in the future research section.

Control Variables

Prior research in shareholder activism commonly uses portfolio firm size as a control variable (Denes, Karpoff, & McWilliams, 2017; Eesley & Lenox, 2006) as it can indicate the resources at the disposal of an organization. Total assets, book value of assets, and market value

of equity have all been extensively used variables for firm size in the past. Although II own equity in firms of all sizes, prior research suggests they tend to own equity in larger firms (Denes et al., 2017) although owning equity in mid-sized or smaller firms may allow for greater influence over a portfolio firm (Schneider & Ryan, 2011). I will use *portfolio firm market value* of equity at the time of the activism event as a measurement of firm size and log this variable as there may be wide variance here. Using market capitalization captures firm size on the precise day the activism event occurs. These financial data were acquired from YCharts.com.

A portfolio firm's past performance may have an impact on the dependent variables in this study, and prior research suggests that a firm's prior performance (good and bad) may influence the actions of IIs (Denes et al., 2017; Goranova & Ryan, 2014a). *Portfolio Firm Return on assets* is the most widely used accounting measure of performance in prior IIA research (Denes et al., 2017) and fits well with this study as well. As such, I controlled for past performance using a one-year lag of the firm's return on assets and log this variable. Return on assets is calculated as net income/total assets using data from Compustat. In addition, *portfolio firm age* is often used in activism research (Brav et al., 2008; Gillan & Starks, 2007; Goranova & Ryan, 2014a) as older firms may have processes in place and experience in dealing with activists. Thus, I used and controlled for firm age defined as number of years since a firm's inception, and then I logged the variable as there was overdispersion of the data and to create greater symmetry in its distribution.

IIs make numerous *types of demands* of portfolio firms that need to be condensed into more general categories for research purposes. Four commonly used types of demands include requesting firms for seats on the board, mergers/acquisitions/spinoffs, changes in strategy, and changes in shareholder rights (Brav et al., 2010; Denes et al., 2017; Gillan & Starks, 2007).

Some types of demands may be more successful than others because requests vary in their uncertainty surrounding the costs and benefits of complying (Eesley & Lenox, 2006). However, limited to no comprehensive empirical research or theorizing has been done in disentangling all the different types and effects of each demand (Denes et al., 2017; Goranova & Ryan, 2014a). But, activism databases have started to cluster certain demands and their categories together following the aforementioned academic research (Insight, 2016). As such, I will follow those clusters as used in prior research and the databases of Activism Insight, Thomson Reuters and S&P Capital IQ. The demands in the databases I am using fall into four broad categories: board related issues, firm sales/mergers/acquisitions/spinoffs, strategic changes, and shareholder rights. However, since there is no real theoretical justification for a very specific ordering or combination of demands at this point, I will include dummy variables that represent each of the aforementioned demands although this area may be fruitful for future research.

Responsiveness from portfolio firms may depend on the industry and time period of the activism. It is common in the investment community (Insight, 2016) and research to classify industries by *investment sector* (Harrison, 2003; Sassen, 1990), which I did for the control variable of industry. Nine sectors were represented in the activism dataset including basic materials, conglomerates, consumers, financial, healthcare, industrials, services, technology, and utilities. I utilized dummy variables to account for each of the nine industry sectors. In addition, the calendar year may have an influence on activism events and/or the number of activism events (Denes et al., 2017). Thus, I included dummy variables for each of the years from 2010-2017 that the activism event was initiated.

With activism events, periodically, multiple activists will coordinate their efforts towards a portfolio firm and coordinated activism has been shown to be more salient than individual

instances of activism (Brav et al., 2016; Neubaum & Zahra, 2006; Song & Szewczyk, 2003). Thus, *institutional investor coordination* was controlled for and coded as 1 if coordination occurred between and amongst the institutional investors in my dataset. In addition, it is possible that *multiple requests by institutional investors* of a portfolio firm by a specific II may cause variance in firm responses and has some research to verify this (Eesley & Lenox, 2006). Thus, I controlled for multiple requests by an II activist on a portfolio firm by coding multiple requests as 1 for any additional requests above their initial demand. Prior research suggests *portfolio firm response time* is an important variable in activism research and accounted for in many prior studies (Bebchuk et al., 2015; Brav et al., 2016; Brav et al., 2010; Brav et al., 2008). Thus, I controlled for length of time for portfolio firms to respond to their II activists following prior research (Brav et al., 2016; Gillan & Starks, 2007) and coding length of time in terms of months. Research suggests firms respond within 11 months (Brav et al., 2010; Goranova & Ryan, 2014b).

While the sample is derived from activism events in the United States, either the II activist or portfolio firm may be headquartered in another country but publicly listed on a stock exchange in the United States. While the activism mechanisms are constant within the United States, perhaps there is potential variance or boundaries on international II activists or portfolio firms that differ from II activists and portfolio firms located in the United States. To control for these possibilities, I used an *institutional investor international headquarter* and *portfolio firm international headquarter* variable coded as 1 whenever the II activist or portfolio firm were headquartered outside of the United States, and 0 otherwise. I will monitor this variable to assess if any type of robustness checks may be needed based upon preliminary results.

The final control variable is the *institutional investor holdings* of its portfolio firm at the time of the activism event. II activists are not interested in owning their portfolio firms, but they

do want to influence them to make changes they deem fit. Equity holdings are the one consistent measure that are listed on the 13D, 13G, or 13F and is used in prior II activism research (Goranova & Ryan, 2014b). Resource Dependency Theory (Hillman, Withers, & Collins, 2009; Pfeffer, 1987; Pfeffer & Pfeffer, 1981) suggests there may be a possible power relationship between II activists' assets and portfolio firm' assets. However, with the exception of public pension funds, the other II activists are not required by law or regulation to report their assets under management. This causes any self-reported data to be very unreliable and is the primary reason most studies in II activism do not include a relational variable associated with resource dependency. In addition, part of the theorizing in this dissertation addresses how II fund size may or may not play a significant role in its likely saliency. For example, hedge funds are usually smaller in assets under management than public pension funds, yet prior research has found them to have significant effects on a number of firm outcomes (Bebchuk et al., 2015; Brav et al., 2016; Brav et al., 2010; Brav et al., 2008).

Analysis

The data for this dissertation call for the use of ordinal logistic regression as the dependent variable of portfolio firm responses is trichotomous. Ordinal logistic regression accounts for a natural rank ordering of the dependent variable when the distance between categories is uncertain. The three portfolio firm responses are rejecting/ignoring an IIs demand, a partially positive response, and a fully positive response. While there may be an assumed natural ordering, the distance among the responses is unclear. Each model predicted the likelihood that a portfolio firm will respond positively to the activism, and each observation represented a unique activism event. The models were analyzed using the statistical analysis program *Stata*. The code used in *Stata* for this analysis was *ologit*. Multicollinearity is a concern as it may hamper the

ability to attribute variation in specific predictor variables. A Variance Inflation Factor (VIF) analysis produces an index used to quantify the multicollinearity of the regression model. The *Collin* function in *Stata* was used to run this analysis. Kutner, Nachtsheim, & Neter (2004) have proposed that a VIF factor of less than 10 is an acceptable threshold for multicollinearity. All the models were checked for multicollinearity, and all models had VIF scores of 5 or less.

Results of the outlined statistical analysis of the data follow in the subsequent chapter.

CHAPTER FIVE: RESULTS

Analysis

Following the methods outlined in chapter four, a statistical analysis of the data provided testing of the hypotheses. The data for the dependent variable fit an ordered logit distribution due to portfolio firm responses to IIA being in three categories: no response, partially positive response, and fully positive response. Ordered logistic regression assumes a natural ordering between categories, but the distance between those categories is uncertain. Using the statistical analysis software, STATA version 15, the data was analyzed using ordered logistic regression models. Ordered logistic regression is an appropriate model to analyze data with a categorical dependent variable that is greater than just two categories in which case logistic regression models would be used. In STATA, the code used for ordered logistic regression was *ologit*.

The models included a number of control variables including: the log of *institutional investor holdings* at the time of the activism event, the log of *portfolio firm age*, *portfolio firm returns on assets* one year prior to the activism event, the log of *portfolio firm market value* at the time of the activism event, *multiple requests by institutional investor* of a portfolio firm, *year* of the activism event, *institutional investor coordination*, *portfolio firm response time* in months, *investment sector codes*, *international headquarter* controls for both II activists and portfolio companies, and type of II activist *demand* control. The logarithm of *institutional investor holdings*, *portfolio firm age*, and *portfolio firm market value* was used due to the overdispersion of data observations among the sample firms.

Descriptive statistics and correlations among the variables were run to assess the level of relationship among variables. Overall, the variables in the model did not have significant

correlation among one another to an extent that would justify concern. The descriptive statistics and the correlation matrix are shown in Table 4.

Table 4. Correlation Matrix

	Mean	Std. Dev.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
1 Portfolio Firm Responses	0.876	0.9538538	0	2	1																
2 Hedge Funds	0.248	0.43214	0	1	0.1265	1															
3 Public Pension Plans	0.2186667	0.4136178	0	1	0.2516	-0.3038	1														
4 Private Multiemployer Funds	0.176	0.3810743	0	1	-0.2631	-0.2654	-0.2445	1													
5 Private Pension Funds	0.1733333	0.3787878	0	1	-0.1326	-0.263	-0.2422	-0.2116	1												
6 Mutual Funds	0.184	0.3877428	0	1	-0.0213	-0.2727	-0.2512	-0.2195	-0.2174	1											
7 NonProxy/Proxy Tactic	0.5786667	0.4941023	0	1	0.1411	-0.0602	0.1182	0.0044	0.0341	-0.0966	1										
8 Institutional Investor Holdings	3.936867	6.756099	0.01	57.7	0.1005	0.2601	-0.2943	-0.2688	0.0559	0.2337	-0.1014	1									
9 Portfolio Firm Age	49.33733	40.92847	3	274	-0.0527	-0.0365	-0.0134	0.174	-0.0412	-0.0757	0.0302	-0.1106	1								
10 Portfolio Firm Return on Assets	-0.0308691	0.5283771	-12.45238	1.85106	0.0269	-0.07	0.0412	0.0613	-0.0283	0.0014	-0.0348	-0.0608	0.0801	1							
11 Portfolio Firm Market Value	21723.32	56897.51	1.5424	438702	-0.0987	-0.1422	0.02	0.156	-0.0032	-0.013	0.0502	-0.1975	0.1178	0.0417	1						
12 Multiple Requests by Institutional Investor	0.3986667	0.4899506	0	1	-0.1798	-0.291	-0.2002	0.1743	0.1595	0.2107	-0.1214	0.1057	0.0024	0.0179	-0.0168	1					
13 Institutional Investor Coordination	0.1133333	0.3172114	0	1	-0.055	-0.1664	0.2586	-0.0327	-0.0081	-0.0504	-0.0612	-0.1487	0.0243	0.0287	0.0827	0.0525	1				
14 Portfolio Firm Response Time (Months)	4.24	5.132789	1	45	-0.0858	0.1338	-0.182	-0.1827	-0.0098	0.234	-0.0959	0.1451	-0.0346	-0.0437	-0.0797	0.0001	0.0038	1			
15 Institutional Investor International Headquarter	0.0626667	0.2425242	0	1	-0.0183	-0.0338	-0.0969	-0.0906	0.0851	0.147	0.0981	0.0586	-0.0176	-0.0061	-0.0422	0.0254	0.0117	0.0276	1		
16 Portfolio Firm International Headquarter	0.032	0.1761175	0	1	-0.0081	0.071	-0.0779	-0.084	0.0568	0.031	-0.0443	0.052	-0.0371	0.0108	-0.0393	-0.0552	-0.0411	-0.0218	0.3593	1	
N = 750 observations	Correlations less than and greater than -0.05 and 0.05 respectively, are significant at the p<0.05 level																				

One measure with three categories of the dependent variable, *Portfolio Firm Response*, was assessed for each hypothesis. In the next section are the results for the hypothesized main effects followed by results for the interaction effects which are displayed in Table 5.

Table 5. Ordered Logistic Regression of Institutional Investor Activists on Portfolio Firm Responses

VARIABLES	Model 1	S.E.	Model 2a	S.E.	Model 2b	S.E.	Model 2c	S.E.	Model 3a	S.E.	Model 3b	S.E.
Institutional Investor Holdings	0.142***	(0.032)	0.101**	(0.039)	0.101**	(0.039)	0.110**	(0.039)	0.115**	(0.039)	0.115**	(0.039)
Portfolio Firm Age	-0.158	(0.107)	-0.147	(0.111)	-0.147	(0.111)	-0.150	(0.113)	-0.163	(0.114)	-0.163	(0.114)
Portfolio Firm Return on Assets	0.220	(0.189)	0.166	(0.171)	0.166	(0.171)	0.194	(0.175)	0.211	(0.182)	0.211	(0.182)
Portfolio Firm Market Value	-0.023	(0.037)	-0.023	(0.039)	-0.023	(0.039)	-0.026	(0.039)	-0.029	(0.039)	-0.029	(0.039)
Multiple Requests by Institutional Investor	-0.735***	(0.161)	*-0.377*	(0.184)	-0.377*	(0.184)	-0.326+	(0.186)	-0.281	(0.188)	-0.281	(0.188)
Institutional Investor Coordination	-0.152	(0.255)	-0.547*	(0.280)	-0.547*	(0.280)	-0.454	(0.283)	-0.515+	(0.287)	-0.515+	(0.287)
Portfolio Firm Response Time (Months)	-0.345***	(0.091)	-0.307**	(0.095)	-0.307***	(0.095)	-0.314***	(0.096)	-0.327***	(0.097)	-0.327***	(0.097)
Institutional Investor International Headquarter	-0.114	(0.352)	0.030	(0.358)	0.030	(0.358)	-0.162	(0.363)	-0.220	(0.367)	-0.220	(0.367)
Portfolio Firm International Headquarter	-0.434	(0.467)	-0.322	(0.481)	-0.322	(0.481)	-0.141	(0.485)	-0.040	(0.489)	-0.040	(0.489)
Hedge Funds (H1)			0.107	(0.249)	0.000	(omitted)	0.093	(0.251)	0.196	(0.349)	0.000	(omitted)
Public Pension Plans (H2)			1.151***	(0.306)	1.045***	(0.304)	1.021***	(0.311)	1.881***	(0.471)	1.684***	(0.465)
Private MultiEmployer Funds (H3)			-1.080**	(0.359)	-1.187***	(0.373)	-1.153**	(0.364)	-0.543	(0.500)	-0.740	(0.505)
Private Pension Funds (H4)			-0.538*	(0.267)	-0.645*	(0.273)	-0.599*	(0.270)	-0.555	(0.430)	-0.751+	(0.428)
Mutual Funds (H5)			0.000	(omitted)	-0.107	(0.249)	0.000	(omitted)	0.000	(omitted)	-0.196	(0.349)
NonProxy/Proxy Tactic (H6)							0.622***	(0.174)	1.107**	(0.365)	0.858**	(0.307)
Hedge Fund X NonProxy/Proxy Tactic (H7a)									-0.249	(0.471)	0.000	(omitted)
Public Pension Plan X NonProxy/Proxy Tactic (H7b)									-1.304*	(0.535)	-1.055*	(0.501)
MultiEmployer Fund X NonProxy/Proxy Tactic (H7c)									-1.014+	(0.603)	-0.766	(0.571)
Private Pension Fund X NonProxy/Proxy Tactic (H7d)									-0.187	(0.551)	0.062	(0.518)
Mutual Fund X NonProxy/Proxy Tactic (H7e)									0.000	(omitted)	0.249	(0.471)
Year Dummies	Included		Included		Included		Included		Included		Included	
Sector Dummies	Included		Included		Included		Included		Included		Included	
Demand Dummies	Included		Included		Included		Included		Included		Included	
Observations	750		750		750		750		750		750	
LR chi2	(28) 104.28		(32) 168.2		(32) 168.2		(33) 181.18		(37) 189.61		(37) 189.61	
Prob > chi2	0		0		0		0		0		0	
Log Likelihood	-623.617		-591.656		-591.656		-585.167		-580.955		-580.955	
Pseudo R2	0.0772		0.1245		0.1245		0.1341		0.1403		0.1403	
+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001												
Numbers in parentheses are standard errors												

Results: Control Variables and Institutional Investor Activists

In Table 6, it shows the regression analysis with the control variables and the dependent variable of *portfolio firm responses*. The dependent variable is shown with the likelihood of partially positive responses and fully positive responses as outcomes 1 and 2 in relation to the base response of 0, which means the *portfolio firm response* rejected the II activist demand. These types of responses are the same in all the models in table 6. Model one examines the relationships between the control variables and their likelihood to elicit a positive portfolio firm response. The relationship between *Institutional Investor Holdings* and *Portfolio Firm Responses* was positive and significant ($b=0.142$; $p=.001$); the relationship between *Multiple Requests by Institutional Investor* and *Portfolio Firm Responses* was negative and significant ($b=-0.735$; $p=.001$); and, the relationship between *Portfolio Firm Response Time* and *Portfolio Firm Responses* was negative and significant ($b=-0.345$; $p=.001$). The remaining control variables showed no significant relationships with *portfolio firm responses*.

Model 2a

Model 2a introduces the five different types of institutional investors into the ordinal regression analysis in addition to the control variables. The model shows the results of the regression analysis for each of the five different types of institutional investors on *portfolio firm response* and its three different categories of responsiveness. The model indicated that *hedge funds* was not significant and positive in receiving a positive *portfolio firm response* ($b=.0.107$) as was predicted in Hypothesis 1. Thus, in model 2a, Hypothesis 1 was not supported. Model 2a also shows the regression analysis of *public pension plans* on the dependent variable of *portfolio firm responses*. The relationship between *public pension plans* and *portfolio firm responses* was

positive and significant at the $p < .001$ level ($b = 1.151$). This finding provides support for Hypothesis 2.

Next, Model 2a shows the ordinal logistic regression analysis of *private multiemployer funds* on *portfolio firm responses*. The relationship between *private multiemployer funds* and *portfolio firm responses* is negative and significant at the $p < .01$ level ($b = -1.080$). However, Hypothesis 3 predicted the aforementioned relationship would be significant and positive whereas the regression analysis suggests this is a significant but negative relationship. Thus, Hypothesis 3 is not supported. Continuing on, Model 2a shows the ordinal logistic regression analysis of *private pension funds* on *portfolio firm responses*. The relationship between *private pension funds* and *portfolio firm responses* is negative and significant ($b = -0.538$; $p < .01$), which is in line with Hypothesis 4 which predicts that *private pension funds* will be negatively related to the likelihood that a *portfolio firm response* will comply with the *private pension funds'* request. Thus, Hypothesis 4 is supported. Lastly, *mutual funds* are omitted from Model 2a for reasons of multicollinearity. One of the institutional investors must always be dropped in ordinal logistic regression as one of the variables acts as the baseline or referent group. Model 2b accounts for mutual fund activism and is detailed in that model.

Model 2b

Model 2b includes the five different types of institutional investors into the ordinal regression analysis in addition to the control variables. However, *hedge funds* are omitted in this model so that Hypothesis 5 can be tested in regard to *mutual fund* activism. *Hedge fund* activism was dropped and acted as the reference category in this model, so no further evidence regarding *hedge funds* can be gleaned from this model. Model 2b shows the ordinal regression analysis of *public pension plans* on the dependent variable of *portfolio firm responses*. The relationship

between *public pension plans* and *portfolio firm responses* was positive and significant at the $p<.001$ level ($b=1.045$). This finding provides support for Hypothesis 2.

Next, Model 2b shows the ordinal logistic regression analysis of *private multiemployer funds* on *portfolio firm responses*. The relationship between *private multiemployer funds* and *portfolio firm responses* is negative and significant at the $p<.001$ level ($b=-1.187$). However, Hypothesis 3 predicted the aforementioned relationship would be significant and positive whereas the regression analysis suggests this is a significant but negative relationship. Thus, Hypothesis 3 is not supported. Continuing on, Model 2b shows the ordinal logistic regression analysis of *private pension funds* on *portfolio firm responses*. The relationship between *private pension funds* and *portfolio firm responses* is negative and significant ($b=-0.645$; $p<.01$), which is in line with Hypothesis 4 which predicts that *private pension funds* will be negatively related to the likelihood that a *portfolio firm response* will comply with the *private pension funds'* request. Thus, Hypothesis 4 is supported. Lastly, the relationship between *mutual funds* and *portfolio firm responses* is negative and nonsignificant ($b=-0.107$; $p=n.s.$). Hypothesis 5 predicted the relationship between *mutual funds* and *portfolio firm responses* would be negative and significant. Thus, Hypothesis 5 is not supported.

Model 2c

Model 2c contains the five different types of institutional investors, the control variables, and introduces the *non-proxy/proxy tactic* variable. The model shows the results of the ordinal logistic regression analysis. The model indicated that *hedge funds* was not significant and positive in receiving a positive *portfolio firm response* ($b=0.093$; $p=n.s.$) which was not predicted in Hypothesis 1. Thus, in model 2c, Hypothesis 1 was not supported. This model also shows the ordinal regression analysis of *public pension plans* on the dependent variable of *portfolio firm*

responses. The relationship between *public pension funds* and *portfolio firm responses* was positive and significant at the $p < .001$ level ($b = 1.021$). This finding provides support for Hypothesis 2.

Next, Model 2c shows the ordinal logistic regression analysis of *private multiemployer funds* on *portfolio firm responses*. The relationship between private multiemployer funds and *portfolio firm responses* is negative and significant at the $p < .01$ level ($b = -1.853$). However, Hypothesis 3 predicted the aforementioned relationship would be significant and positive whereas the regression analysis suggests this is a significant but negative relationship. Thus, Hypothesis 3 is not supported. Continuing on, Model 2c shows the ordinal logistic regression analysis of *private pension funds* on *portfolio firm responses*. The relationship between *private pension funds* and *portfolio firm responses* is negative and significant ($b = -0.599$; $p < .05$), which is in line with Hypothesis 4 which predicts that *private pension funds* will be negatively related to the likelihood that a *portfolio firm response* will comply with the *private pension funds* request. Thus, Hypothesis 4 is supported. Lastly, *mutual funds* are omitted from Model 2c for reasons of multicollinearity. Lastly, Model 2c shows the results of the ordinal logistic regression of the relationship between *nonproxy/proxy tactic* and *portfolio firm responses*. The results show a positive and significant effect of using proxy-based activism in relation to portfolio firm responses ($b = .622$; $p < .001$). The results indicate that Hypothesis 6 is supported.

Model 3a

Model 3a contains the five different types of institutional investors, the control variables, the *non-proxy/proxy tactic* variable, and the interaction effect between each of the five types of institutional investor and their use of proxy-based activism. This model shows the results of the ordinal logistic regression analysis. The model indicated that *hedge funds* was not significant and

positive in receiving a positive *portfolio firm response* ($b=0.196$; $p=n.s.$) which was not predicted in Hypothesis 1. Thus, in Model 3a, Hypothesis 1 was not supported. This model also shows the ordinal regression analysis of *public pension funds* on the dependent variable of *portfolio firm responses*. The relationship between *public pension funds* and *portfolio firm responses* was positive and significant at the $p<.001$ level ($b=1.881$). This finding provides support for Hypothesis 2.

Next, Model 3a shows the ordinal logistic regression analysis of *private multiemployer funds* on *portfolio firm responses*. The relationship between *private multiemployer funds* and *portfolio firm responses* is negative but not significant ($b=-0.543$; $p=n.s.$). Thus, Hypothesis 3 is not supported in this model. Continuing on, Model 3a shows the ordinal logistic regression analysis of *private pension funds* on *portfolio firm responses*. The relationship between *private pension funds* and *portfolio firm responses* is negative but not significant ($b=-0.555$; $p=n.s.$). Thus, Hypothesis 4 is not supported in this model. Lastly, *mutual funds* are omitted from Model 3a for reasons of multicollinearity. Model 3a also shows the results of the ordinal logistic regression of the relationship between *nonproxy/proxy tactic* and *portfolio firm responses*. The results show a positive and significant effect of using proxy-based activism in relation to *portfolio firm responses* ($b=1.107$; $p<.01$). The results indicate that Hypothesis 6 is supported.

Model 3a includes the interaction effects between each type of institutional investor and their use of proxy-based activism to elicit a portfolio firm response. The interaction between *hedge funds* and *nonproxy/proxy tactic* was negative and not significant ($b = -0.249$; $p=n.s.$) in relation to *portfolio firm responses*. Hypothesis 7a predicted that *hedge funds* and proxy-based activism would be positively related to the likelihood of receiving a positive firm response. Thus, Hypothesis 7a was not supported. The interaction between *public pension funds* and

nonproxy/proxy tactic was negative and significant ($b = -1.034$; $p < .05$) in relation to *portfolio firm responses*. Hypothesis 7b predicted that *public pension plans* and proxy-based activism would be positively related to the likelihood of receiving a positive firm response. Thus, Hypothesis 7b was not supported.

The interaction between *private multiemployer funds* and *nonproxy/proxy tactic* was negative and significant ($b = -1.014$; $p < .10$) in relation to *portfolio firm responses*. Hypothesis 7c predicted that *private multiemployer funds* and proxy-based activism would be positively related to the likelihood of receiving a positive firm response. Thus, Hypothesis 7c was not supported. The interaction between *private pension funds* and *nonproxy/proxy tactic* was negative and nonsignificant ($b = -0.187$; $p = n.s.$) in relation to *portfolio firm responses*. Hypothesis 7d predicted that *private pension funds* and proxy-based activism would be negatively related to the likelihood of receiving a positive firm response. Thus, Hypothesis 7d was not supported. The *mutual fund* interaction with *nonproxy/proxy tactic* was omitted from this model as its inclusion would have caused multicollinearity, so it acted as the base/reference group in this model but was accounted for in Model 3b.

Model 3b

Model 3b contains the five different types of institutional investors, the control variables, the *nonproxy/proxy tactic* variable, and the interaction effect between each of the five types of institutional investor and the *nonproxy/proxy tactic*. This model shows the results of the ordinal logistic regression analysis. The main effect of *hedge funds* and their interactions with the *nonproxy/proxy tactic* were omitted from this model as they acted as the base or reference groups. To include these variables would have resulted in multicollinearity for both variables. This model shows the ordinal regression analysis of *public pension plans* on the dependent

variable of *portfolio firm responses*. The relationship between *public pension plans* and *portfolio firm responses* was positive and significant at the $p < .001$ level ($b = 1.684$). This finding provides support for Hypothesis 2.

Next, Model 3b shows the ordinal logistic regression analysis of *private multiemployer funds* on *portfolio firm responses*. The relationship between *private multiemployer funds* and *portfolio firm responses* is negative but not significant ($b = -0.740$; $p = n.s.$). Thus, Hypothesis 3 is not supported in this model. Continuing on, Model 3b shows the ordinal logistic regression analysis of *private pension funds* on *portfolio firm responses*. The relationship between *private pension funds* and *portfolio firm responses* is negative and significant ($b = -0.751$; $p < .10$). Thus, Hypothesis 4 is supported in this model. Lastly, *mutual funds* and their relationship with *portfolio firm responses* was negative and nonsignificant ($b = -.196$; $p = n.s.$). Thus, Hypothesis 5 was not supported in this model. Model 3b also shows the results of the ordinal logistic regression of the relationship between *nonproxy/proxy tactic* and *portfolio firm responses*. The results show a positive and significant effect of using proxy-based activism in relation to *portfolio firm responses* ($b = 0.858$; $p < .01$). The results indicate that Hypothesis 6 is supported.

Model 3b includes the interaction effects between each type of institutional investor and their use of proxy-based activism to elicit a *portfolio firm response*. The interaction between *hedge funds* and the *nonproxy/proxy tactic* was omitted as it acted as the reference group in this model to eliminate multicollinearity. The interaction between *public pension plans* and *nonproxy/proxy tactic* was negative and significant ($b = -1.055$; $p < .05$) in relation to *portfolio firm responses*. Hypothesis 7b predicted that *public pension plans* and proxy-based activism would be positively related to the likelihood of receiving a positive firm response. Thus, Hypothesis 7b was not supported.

The interaction between *private multiemployer funds* and *nonproxy/proxy tactic* was negative and nonsignificant ($b = -.766$; $p=n.s.$) in relation to *portfolio firm responses*. Hypothesis 7c predicted that *private multiemployer funds* and proxy-based activism would be positively related to the likelihood of receiving a *positive firm response*. Thus, Hypothesis 7c was not supported. The interaction between *private pension funds* and *nonproxy/proxy tactic* was negative and nonsignificant ($b = -0.062$; $p=n.s.$) in relation to *portfolio firm responses*. Hypothesis 7d predicted that *private pension funds* and proxy-based activism would be negatively related to the likelihood of receiving a *positive firm response*. Thus, Hypothesis 7e was not supported. The *mutual fund* interaction with *nonproxy/proxy tactic* was positive and nonsignificant ($b=.249$; $p=n.s.$). Hypothesis 7e predicted that proxy-based activism would weaken the negative effect of *mutual fund* activism on *portfolio firm responses*. This did not occur, so Hypothesis 7e was not supported. See Table 7 for a summary of hypotheses support.

Table 6. Ordered Logistic Regression by Individual Institutional Investor Activists on Portfolio Firm Responses

VARIABLES	Model 4	S.E.	Model 5a	S.E.	Model 5b	S.E.	Model 5c	S.E.	Model 5d	S.E.	Model 5e	S.E.	Model 5f	S.E.
Institutional Investor Holdings	0.142***	(0.032)	0.141***	(0.035)	0.174***	(0.033)	0.0713*	(0.034)	0.139***	(0.032)	0.141***	(0.032)	0.110**	(0.039)
Portfolio Firm Age	-0.158	(0.107)	-0.158	(0.107)	-0.158	(0.109)	-0.093	(0.109)	-0.195	(0.108)	-0.156	(0.107)	-0.150	(0.113)
Portfolio Firm Return on Assets	0.220	(0.189)	0.220	(0.189)	0.184	(0.183)	0.204	(0.192)	0.200	(0.172)	0.218	(0.189)	0.194	(0.175)
Portfolio Firm Market Value	-0.023	(0.037)	-0.023	(0.037)	-0.027	(0.039)	-0.014	(0.038)	-0.026	(0.037)	-0.022	(0.037)	-0.026	(0.039)
Multiple Requests by Institutional Investor	-0.735***	(0.161)	-0.732***	(0.172)	-0.535***	(0.167)	-0.574***	(0.166)	-0.666***	(0.163)	-0.750***	(0.166)	-0.326+	(0.186)
Institutional Investor Coordination	-0.152	(0.255)	-0.151	(0.257)	-0.581	(0.276)	-0.346	(0.260)	-0.107	(0.256)	-0.151	(0.255)	-0.454	(0.283)
Portfolio Firm Response Time (Months)	-0.345***	(0.091)	-0.345***	(0.091)	-0.252**	(0.093)	-0.370***	(0.090)	-0.356***	(0.092)	-0.352***	(0.092)	-0.314***	(0.096)
Institutional Investor International Headquarter	-0.114	(0.352)	-0.112	(0.354)	0.015	(0.354)	-0.127	(0.351)	-0.053	(0.357)	-0.128	(0.353)	-0.162	(0.363)
Portfolio Firm International Headquarter	-0.434	(0.467)	-0.435	(0.469)	-0.173	(0.476)	-0.523	(0.461)	-0.415	(0.479)	-0.432	(0.467)	-0.141	(0.485)
Hedge Funds (H1)			0.008	(0.214)									0.093	(0.251)
Public Pension Plans (H2)					1.638***	(0.239)							1.021***	(0.311)
Private MultiEmployer Funds (H3)							-1.510***	(0.292)					-1.153**	(0.364)
Private Pension Funds (H4)									-0.625**	(0.220)			-0.599*	(0.270)
Mutual Funds (H5)											0.089	(0.212)	0.000	(omitted)
NonProxy/Proxy Tactic (H6)													0.622***	(0.174)
Year Dummies	Included		Included		Included		Included		Included		Included		Included	
Sector Dummies	Included		Included		Included		Included		Included		Included		Included	
Demand Dummies	Included		Included		Included		Included		Included		Included		Included	
Observations	750		186		164		132		130		138		750	
LR chi2	(28) 104.28		(29) 104.28		(29) 155.1		(29) 133.97		(29) 112.59		(29) 104.46		(33) 181.18	
Prob > chi2	0		0		0		0		0		0		0	
Log Likelihood	-623.617		-623.617		-598.210		-608.775		-619.464		-610.234		-585.167	
Pseudo R2	0.0772		0.0772		0.1148		0.0991		0.0833		0.097		0.1341	
+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001														
Numbers in parentheses are standard errors														

Table 7. Ordered Logistic Regression Interactions by Individual Institutional Investor Activists on Portfolio Firms

VARIABLES	Model 6	S.E.	Model 7a	S.E.	Model 7b	S.E.	Model 7c	S.E.	Model 7d	S.E.	Model 7e	S.E.
Institutional Investor Holdings	0.142***	(0.032)	0.154***	(0.035)	0.188***	(0.034)	0.088*	(0.035)	0.155***	(0.033)	0.157***	(0.033)
Portfolio Firm Age	-0.158	(0.107)	-0.166	(0.108)	-0.184+	(0.111)	-0.091	(0.111)	-0.208+	(0.110)	-0.154	(0.108)
Portfolio Firm Return on Assets	0.220	(0.189)	0.252	(0.190)	0.219	(0.188)	0.234	(0.194)	0.216	(0.170)	0.247	(0.194)
Portfolio Firm Market Value	-0.023	(0.037)	-0.025	(0.038)	-0.029	(0.039)	-0.022	(0.038)	-0.028	(0.038)	-0.024	(0.038)
Multiple Requests by Institutional Investor	-0.735***	(0.161)	-0.655***	(0.174)	-0.451**	(0.170)	-0.514**	(0.169)	-0.5936935***	(0.165)	-0.677***	(0.168)
Institutional Investor Coordination	-0.152	(0.255)	-0.079	(0.260)	-0.565*	(0.283)	-0.277	(0.264)	-0.037	(0.260)	-0.077	(0.258)
Portfolio Firm Response Time (Months)	-0.345***	(0.091)	-0.347***	(0.092)	-0.257**	(0.094)	-0.370***	(0.092)	-0.351***	(0.093)	-0.360***	(0.094)
Institutional Investor International Headquarter	-0.114	(0.352)	-0.309	(0.358)	-0.188	(0.360)	-0.344	(0.357)	-0.280	(0.361)	-0.391	(0.360)
Portfolio Firm International Headquarter	-0.434	(0.467)	-0.211	(0.475)	0.078	(0.481)	-0.301	(0.469)	-0.181	(0.485)	-0.176	(0.474)
Hedge Funds (H1)			-0.062	(0.294)								
NonProxy/Proxy Tactic (H6)			0.636***	(0.196)								
Hedge Fund X NonProxy/Proxy Tactic (H7a)			0.204	(0.360)								
Public Pension Plans (H2)					2.275***	(0.404)						
NonProxy/Proxy Tactic (H6)					0.765***	(0.192)						
Public Pension Plan X NonProxy/Proxy Tactic (H7b)					-0.996*	(0.439)						
Private Multiemployer Plans (H3)							-1.038*	(0.427)				
NonProxy/Proxy Tactic (H6)							0.770***	(0.181)				
MultiEmployer Fund X NonProxy/Proxy Tactic (H7c)							-0.731	(0.513)				
Private Pension Plans (H4)									-0.856*	(0.378)		
NonProxy/Proxy Tactic (H6)									0.660***	(0.179)		
Private Pension Fund X NonProxy/Proxy Tactic (H7d)									0.317	(0.460)		
Mutual Funds (H5)											-0.142	(0.299)
NonProxy/Proxy Tactic (H6)											0.590***	(0.185)
Mutual Fund X NonProxy/Proxy Tactic (H7e)											0.552	(0.404)
Year Dummies	Included		Included		Included		Included		Included		Included	
Sector Dummies	Included		Included		Included		Included		Included		Included	
Demand Dummies	Included		Included		Included		Included		Included		Included	
Observations	750		186		164		132		130		138	
LR chi2	(28) 104.28		(31) 122.17		(31) 178.81		(31) 152.49		(31) 131.05		(31) 124.09	
Prob > chi2	0		0		0		0		0		0	
Log Likelihood	-623.617		-614.676		-589.856		-599.512		-610.234		-613.712	
Pseudo R2	0.0772		0.0904		0.1271		0.1128		0.097		0.0918	
+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001												
Numbers in parentheses are standard errors												

Table 5 included all models that placed all institutional investors and their interactions together in the models which provided evidence for both statistical significance and comparisons of the institutional investors. However, it can be theorized and debated that each institutional investor and its interaction with the non-proxy/proxy tactic should be entered separately into the ordinal logistic regression models for a more direct response to my hypotheses. Thus, Tables 6 & 7 were created to display the control variables with each institutional investor and its interaction entered separately. Following is the description of those results.

Table 6

In Table 6, model 4 shows the regression analysis with the control variables and the dependent variable of *portfolio firm responses*. The dependent variable is shown with the likelihood of partially positive responses and fully positive responses as outcomes 1 and 2 in relation to the base response of 0, which means the *portfolio firm response* rejected the II activist demand. These types of responses are the same in all the models in table 6. Model one examines the relationships between the control variables and their likelihood to elicit a positive portfolio firm response. The relationship between *Institutional Investor Holdings* and *Portfolio Firm Responses* was positive and significant ($b=0.142$; $p=.001$); the relationship between *Multiple Requests by Institutional Investor* and *Portfolio Firm Responses* was negative and significant ($b=-0.735$; $p=.001$); and, the relationship between *Portfolio Firm Response Time* and *Portfolio Firm Responses* was negative and significant ($b=-0.345$; $p=.001$). The remaining control variables showed no significant relationships with *portfolio firm responses*.

Model 5a

Model 5a introduces *hedge funds* into the ordinal regression analysis in addition to the control variables. The model shows the results of the regression analysis for hedge funds on

portfolio firm response and its three different categories of responsiveness. The model indicated that *hedge funds* was not significant and positive in receiving a positive *portfolio firm response* ($b=.008$; ns) as was predicted in Hypothesis 1. Thus, in model 5a, Hypothesis 1 was not supported.

Model 5b

Model 5b shows the regression analysis of *public pension plans* on the dependent variable of *portfolio firm responses*. The relationship between *public pension plans* and *portfolio firm responses* was positive and significant at the $p<.001$ level ($b=1.638$). This finding provides support for Hypothesis 2.

Model 5c

Model 5c shows the ordinal logistic regression analysis of *private multiemployer funds* on *portfolio firm responses*. The relationship between *private multiemployer funds* and *portfolio firm responses* is negative and significant at the $p<.001$ level ($b=-1.510$). However, Hypothesis 3 predicted the aforementioned relationship would be significant and positive whereas the regression analysis suggests this is a significant but negative relationship. Thus, Hypothesis 3 is not supported.

Model 5d

Continuing on, Model 5d shows the ordinal logistic regression analysis of *private pension funds* on *portfolio firm responses*. The relationship between *private pension funds* and *portfolio firm responses* is negative and significant ($b=-0.625$; $p<.01$), which is in line with Hypothesis 4 that predicts that *private pension funds* will be negatively related to the likelihood that a *portfolio*

firm response will comply with the *private pension funds*' request. Thus, Hypothesis 4 is supported.

Model 5e

Lastly, the relationship between *mutual funds* and *portfolio firm responses* is positive and nonsignificant ($b=.089$; $p=n.s.$). Hypothesis 5 predicted the relationship between *mutual funds* and *portfolio firm responses* would be negative and significant. Thus, Hypothesis 5 is not supported.

Model 5f

Model 5f contains the five different types of institutional investors, the control variables, and introduces the *non-proxy/proxy tactic* variable. The model shows the results of the ordinal logistic regression analysis. The model indicated that *hedge funds* was not significant and positive in receiving a positive *portfolio firm response* ($b=0.093$; $p=n.s.$) which was not predicted in Hypothesis 1. Thus, in model 5f, Hypothesis 1 was not supported. This model also shows the ordinal regression analysis of *public pension plans* on the dependent variable of *portfolio firm responses*. The relationship between *public pension funds* and *portfolio firm responses* was positive and significant at the $p<.001$ level ($b=1.021$). This finding provides support for Hypothesis 2.

Next, Model 5f shows the ordinal logistic regression analysis of *private multiemployer funds* on *portfolio firm responses*. The relationship between private multiemployer funds and *portfolio firm responses* is negative and significant at the $p<.01$ level ($b=-1.153$). However, Hypothesis 3 predicted the aforementioned relationship would be significant and positive whereas the regression analysis suggests this is a significant but negative relationship. Thus,

Hypothesis 3 is not supported. Continuing on, Model 5f shows the ordinal logistic regression analysis of *private pension funds* on *portfolio firm responses*. The relationship between *private pension funds* and *portfolio firm responses* is negative and significant ($b=-0.599$; $p<.05$), which is in line with Hypothesis 4 which predicts that *private pension funds* will be negatively related to the likelihood that a *portfolio firm response* will comply with the *private pension funds* request. Thus, Hypothesis 4 is supported. Lastly, *mutual funds* are omitted from Model 2c for reasons of multicollinearity. Lastly, Model 5f shows the results of the ordinal logistic regression of the relationship between *nonproxy/proxy tactic* and *portfolio firm responses*. The results show a positive and significant effect of using proxy-based activism in relation to portfolio firm responses ($b= .622$; $p<.001$). The results indicate that Hypothesis 6 is supported.

Table 7

Model 7a displays the control variables, *hedge funds*, the *non-proxy/proxy tactic* variable, and the interaction effect between *hedge funds* and their use of proxy-based activism. This model shows the results of the ordinal logistic regression analysis. The model indicated that *hedge funds* was not significant and positive in receiving a positive *portfolio firm response* ($b=-.062$; $p=n.s.$) which was not predicted in Hypothesis 1. Thus, in Model 7a, Hypothesis 1 was not supported. Model 7a also shows the results of the ordinal logistic regression of the relationship between *nonproxy/proxy tactic* and *portfolio firm responses*. The results show a positive and significant effect of using proxy-based activism in relation to *portfolio firm responses* ($b=.636$; $p<.001$). The results indicate that Hypothesis 6 is supported. The interaction between *hedge funds* and *nonproxy/proxy tactic* was positive and not significant ($b = 0.204$; $p=n.s.$) in relation to *portfolio firm responses*. Thus, Hypothesis 7a was not supported as it predicted this relationship would be enhanced by the use of proxy-based activism.

Model 7b

Model 7b displays the control variables, *public pension plans*, the *non-proxy/proxy tactic* variable, and the interaction effect between *public pension plans* and their use of proxy-based activism. This model shows the results of the ordinal logistic regression analysis. The model indicated that *public pension plans* was significant and positive in receiving a positive *portfolio firm response* ($b=2.275$; $p<.001$.) which was predicted in Hypothesis 2. Thus, in Model 7b, Hypothesis 2 was supported. Model 7b also shows the results of the ordinal logistic regression of the relationship between *nonproxy/proxy tactic* and *portfolio firm responses*. The results show a positive and significant effect of using proxy-based activism in relation to *portfolio firm responses* ($b=.765$; $p<.001$). The results indicate that Hypothesis 6 is supported. The interaction between *public pension plans* and *nonproxy/proxy tactic* was negative and significant ($b = -0.996$; $p<.05$) in relation to *portfolio firm responses*. Thus, Hypothesis 7b was not supported as it predicted this relationship would be enhanced by the use of proxy-based activism.

Model 7c

Model 7c displays the control variables, *private multiemployer plans*, the *non-proxy/proxy tactic* variable, and the interaction effect between *private multiemployer plans* and their use of proxy-based activism. This model shows the results of the ordinal logistic regression analysis. The model indicated that *private multiemployer plans* was significant and negative in receiving a positive *portfolio firm response* ($b=-1.038$; $p<.05$.) which was not predicted in Hypothesis 3. Thus, in Model 7c, Hypothesis 3 was not supported. Model 7c also shows the results of the ordinal logistic regression of the relationship between *nonproxy/proxy tactic* and *portfolio firm responses*. The results show a positive and significant effect of using proxy-based activism in relation to *portfolio firm responses* ($b=.770$; $p<.001$). The results indicate that

Hypothesis 6 is supported. The interaction between *private multiemployer plans* and *nonproxy/proxy tactic* was negative and nonsignificant ($b = -0.731$; $p=n.s.$) in relation to *portfolio firm responses*. Thus, Hypothesis 7c was not supported as it predicted this relationship would be enhanced by the use of proxy-based activism.

Model 7d

Model 7d displays the control variables, *private pension plans*, the *non-proxy/proxy tactic* variable, and the interaction effect between *private pension plans* and their use of proxy-based activism. This model shows the results of the ordinal logistic regression analysis. The model indicated that *private pension plans* was significant and negative in receiving a positive *portfolio firm response* ($b=-.856$; $p<.05$) which was predicted in Hypothesis 4. Thus, in Model 7d, Hypothesis 4 was supported. Model 7d also shows the results of the ordinal logistic regression of the relationship between *nonproxy/proxy tactic* and *portfolio firm responses*. The results show a positive and significant effect of using proxy-based activism in relation to *portfolio firm responses* ($b=.660$; $p<.001$). The results indicate that Hypothesis 6 is supported. The interaction between *private pension plans* and *nonproxy/proxy tactic* was positive and nonsignificant ($b = .317$; $p=n.s.$) in relation to *portfolio firm responses*. Thus, Hypothesis 7d was not supported.

Model 7e

Model 7e displays the control variables, *mutual funds*, the *non-proxy/proxy tactic* variable, and the interaction effect between *mutual funds* and their use of proxy-based activism. This model shows the results of the ordinal logistic regression analysis. The model indicated that *mutual funds* was nonsignificant and negative in receiving a positive *portfolio firm response* ($b=-.142$; $p<.05$) which was not predicted in Hypothesis 5. Thus, in Model 7e, Hypothesis 5 was

supported. Model 7e also shows the results of the ordinal logistic regression of the relationship between *nonproxy/proxy tactic* and *portfolio firm responses*. The results show a positive and significant effect of using proxy-based activism in relation to *portfolio firm responses* ($b=.590$; $p<.001$). The results indicate that Hypothesis 6 is supported. The interaction between *mutual funds* and *nonproxy/proxy tactic* was positive and nonsignificant ($b = .552$; $p=n.s.$) in relation to *portfolio firm responses*. Thus, Hypothesis 7e was not supported.

Table 8 shows the comparison between the institutional investor models where all the variables are entered together which allows for some comparison to one another, and the institutional investor models where they are entered individually. The findings and support of the hypotheses are nearly identical. Only private pension funds have slight variance between receiving partial support and full support for Hypothesis 4. The analysis conducted of both methods of regression provide robust support for the accuracy of my hypotheses.

Table 8. Summary of Hypotheses Support

	All II Variables Included Models	Individual II Variables Included
Hypothesis	Support Level	Support Level
<i>Hedge Funds (H1)</i>	<i>Not Supported</i>	<i>Not Supported</i>
<i>Public Pension Plans (H2)</i>	<i>Fully Supported</i>	<i>Fully Supported</i>
<i>Private Multiemployer Funds (H3)</i>	<i>Not Supported</i>	<i>Not Supported</i>
<i>Private Pension Funds (H4)</i>	<i>Partially Supported</i>	<i>Fully Supported</i>
<i>Mutual Funds (H5)</i>	<i>Not Supported</i>	<i>Not Supported</i>
<i>NonProxy/Proxy Tactic (H6)</i>	<i>Fully Supported</i>	<i>Fully Supported</i>
<i>Hedge Fund Interaction (H7a)</i>	<i>Not Supported</i>	<i>Not Supported</i>
<i>Public Pension Plan Interaction (H7b)</i>	<i>Not Supported</i>	<i>Not Supported</i>
<i>Private Multiemployer Interaction (H7c)</i>	<i>Not Supported</i>	<i>Not Supported</i>
<i>Private Pension Interaction (H7d)</i>	<i>Not Supported</i>	<i>Not Supported</i>
<i>Mutual Fund Interaction (H7e)</i>	<i>Not Supported</i>	<i>Not Supported</i>

CHAPTER SIX: DISCUSSION

Discussion

In this dissertation, I considered the relationship between five major types of institutional investor activists (hedge funds, public pension plans, private multiemployer funds, private pension funds, and mutual funds) and their relationship to receive favorable responses to their activism from their portfolio firms. Drawing from Stakeholder Salience Theory (Mitchell et al., 1997), I proposed novel hypotheses that tie institutional investor activist types, as measured categorically, to firm responses from portfolio firms.

For Hypotheses 1 through 6, the results varied by model depending on whether the focus was the main effects' models or the interaction models. Thus, there was some variance in the results of the statistical analysis. However, the execution of two different approaches using ordinal logistic regression provided robust findings.

For Hypothesis 1, I found no support for hedge funds receiving positive responses from their portfolio firms in the main effects models nor the interaction models. This is counter to numerous others studies on hedge fund activism and a fairly general consensus in the global marketplace that hedge funds have significant influence on their portfolio firms (Bebchuk et al., 2015; Brav et al., 2016; Brav et al., 2010; Brav et al., 2008). This may be true for some firm outcomes like stock prices and some aspects of firm performance, but my research is showing that is not the case in getting the portfolio firm responses hedge funds desire. It is often theorized that the majority of II activism, including hedge fund activism, transpires in private where no leaking of information ever reaches the media and is thus difficult to capture (Goranova & Ryan, 2014b); that may be what is occurring in regard to hedge fund activism.

For Hypothesis 2 on public pension plans, the results stayed consistent in both the main effects' models and interaction models that public pension funds do receive strong support in the likelihood of garnering positive responses from their portfolio firms. Thus, Hypothesis 2 was fully supported. Hypothesis 3 looked at the influence of private multiemployer funds on portfolio firm responses. Multiemployer funds did receive support for the likelihood of receiving portfolio firm responses in the main effects models, but that support became non-significant once proxy-based activism was introduced in the interaction models. However, the significant support in the main effects' models was in the opposite direction predicted in Hypotheses 3. I predicted that multiemployer funds would have a positive and significant relationship with the likelihood of receiving positive firm responses. However, the results show multiemployer funds are less likely to receive fully positive firm responses. Thus, Hypothesis 3 was not supported. It is possible that private multiemployer firms may have more conflicts of interest with their portfolio firms than previously thought and that portfolio firms may be opposed to acquiescing to third party organizations that represent a significant number of their own employees as it may send a signal of weakness by the portfolio firm.

Hypothesis 4 considered the relationship between private pension funds and portfolio firm responses. Private pension funds did receive significant and negative support in five of the six main effects models, and the non-significant effect trended in the proper direction. Thus, Hypothesis 4 received strong and robust support and suggests private pension funds are less likely to receive positive responses from their portfolio firms when pursuing institutional investor activism.

Hypothesis 5 considered the relationship between mutual funds and their portfolio firm responses. Mutual funds did not receive any significant support in not receiving favorable

responses from their portfolio firms in any of the regression models. The author predicted that mutual funds would have a negative and significant relationship with portfolio firms in receiving positive responses. However, the results do not support this prediction for Hypothesis 5.

Hypothesis 6 predicted that proxy-based activism would be positively related to positive responses from portfolio firms. The results showed very strong and robust support that proxy-based activism is positively related to receiving positive portfolio firm responses. Thus, proxy-based activism is more likely to garner successful firm responses than non-proxy-based activism. As result of these findings, Hypothesis 6 is fully supported.

In addition to the direct effects, interaction effects were considered as well. Hypotheses 7a-7e assessed the moderating effects of proxy-based activism on the institutional investors activist – portfolio firm response relationship. Hypothesis 7a predicted that the positive relationship between hedge funds and portfolio firm responses would be strengthened by proxy-based activism. This hypothesis was not supported. This means proxy-based activism did not enhance the likelihood of a hedge fund receiving a favorable portfolio firm response.

Hypothesis 7b suggested the positive relationship between public pension plans and portfolio firm responses would be enhanced by the use of proxy-based activism. While the testing of this hypothesis was significant, the direction was negative meaning public pension plans weakened their likelihood of receiving positive portfolio firm responses when they used proxy-based activism. Thus, Hypothesis 7b was not supported. Public pension plans usually have long-standing relationships with their portfolio firms. Thus, engaging in very public, proxy-based activism may cause portfolio firm entrenchment and the rejection of very public advances by the pension plans. Hypothesis 7c predicted that the positive relationship between private multiemployer funds and positive firm responses would be enhanced by proxy-based activism.

Two interaction models were run, and model 3a indicated a significantly negative effect while model 3b showed no effect meaning the results were mixed, and that in the case of the significant model, proxy-based activism strengthened the negative effect of multiemployer plans on portfolio firms. This likely suggests that the unwillingness of portfolio firms to acquiesce to third party, private representation of their employees (as described for Hypothesis 3) may be strengthened when proxy-based activism is present. However, the results were mixed, and the significant finding was a weaker effect being significant at the .10 level. Thus, Hypothesis 7c was not supported with mixed findings and results in the opposite direction of the prediction.

Hypothesis 7d predicted that proxy-based activism would weaken the negative effect between private pension funds and portfolio firm responses. The results indicated that proxy-based activism does not have a significant effect on the relationship between private pension funds and portfolio firm response. Thus, Hypothesis 7d was not supported. Lastly, Hypothesis 7e predicted that proxy-based activism would weaken the negative effect on the relationship between mutual funds and positive firm responses. No support was found in this relationship. Thus, Hypothesis 7e was not supported as proxy-based activism did not assist mutual fund activists in weakening their predicted negative relationship with portfolio firm responses.

Contributions

Several contributions across the shareholder activism literature are accomplished by this research. This dissertation contributes to our understanding of institutional investor activism by assessing the differences in institutional investor types and how those differences influence portfolio firm responses. Ryan and Goranova (2014) suggested these relationships have not been fully explored as most activism research has tended to lump all institutional investors together or only study one of them at a time. This dissertation seeks to fill this gap in the extant research and

provide more nuanced insight on this topic by answering the call of Ryan and Goranova (2015) to examine important institutional investor differences and their differing effect on portfolio firms. Supporting limited prior research that hedge funds may not have the assumed industry effect of success (Gantchev, 2013), this research suggests hedge funds were not advantageous over other institutional investors in their ability to generate positive portfolio firm responses even when using proxy-based activism. Counterintuitively, public pension plans may hurt their chances of getting their demands fulfilled when they use proxy-based activism, and private multiemployer funds may not be as salient to their portfolio firms as theorized by Ryan and Schneider (2003). Private pension funds may harm their chances of positive portfolio firm responses when they pursue activism, and mutual funds have non-effective relationships with their portfolio firms when activism is pursued. These findings are all more nuanced understandings of the shareholder activism phenomenon than what was known before this study.

This dissertation contributes to the literature on Stakeholder Salience Theory by showing that different types of relationships exist among institutional investor activists and their portfolio firms by the types of responses each activist receives. Prior research has not fully considered the differences amongst institutional investor activists as an important differentiator in relation to portfolio firm responses. This research is an important first step to understanding this relationship.

This dissertation theorized how the characteristics of hedge funds translate into the attributes of power, legitimacy, and urgency of Stakeholder Salience Theory, which had not been done before. Prior research had considered the power, legitimacy, and urgency of secondary stakeholders (Eesley & Lenox, 2006), and Ryan and Schneider (2003) started the research on how investor characteristics may translate into Stakeholder Salience Theory by developing a

preliminary framework for those ideas. I extended this framework by adding the asset class of hedge funds and theorized how their characteristics translate into power, legitimacy, and urgency. Furthermore, I tested how their theorized levels of saliency would result in portfolio firm responses by empirically testing them. Hypothesis 1 found no support for hedge funds and their portfolio firm responses which is counter to prior research on hedge funds as prior research has found support for hedge funds moving stock prices (BEN-DAVID, Franzoni, Landier, & Moussawi, 2013) and acquiring board seats (Klein & Zur, 2009). However, my results suggest hedge funds may not be as influential in receiving the portfolio firm responses that anecdotal evidence and common thought in financial centers proposit to be true (Schneider & Ryan, 2011).

I suggested that activism tactics would have a direct effect on portfolio firm responses and found robust support for Hypothesis 6. Furthermore, I suggested that activism tactics would moderate the relationships between institutional investor activist types and portfolio firm responses in Hypotheses 7a-e. While I did not find positive support of my hypotheses for proxy-based activism, the research revealed where proxy-based activism may harm institutional investor activists in their attempt to increase the likelihood of receiving positive firm responses from portfolio firm; public pension plans and private multiemployer funds may harm their activism pursuits by using proxy-based activism. In addition, measuring portfolio firm response using three different categories is an important contribution as no prior research has broken the firm response dependent variable into three levels which captures more variance than its previous researched binary variable (Eesley & Lenox, 2006).

Another unique contribution is offered through the use of broad shareholder activism data from five different types of II classes in one study as this is very rare. This study gave us a rare glimpse into the differences among IIs and how those differences are related to portfolio firm

responses. Hedge funds and mutual funds did not receive significant support at any level of firm response, model, or when using proxy-based activism. Every other type of II either received significant support of one or more hypotheses or showed significance of II type and tactic in the opposite theorized direction as is the case for public pension plans and private multiemployer funds. The use of this data offers some of the first evidence that the heterogeneity of IIs matters and needs to be considered when conducting II activism research.

Limitations and Future Research

In conducting this research, this paper is based on a number of assumptions that might be considered limitations. This dissertation considers the differences amongst II activists who have pursued activism events. However, it is likely that not all activists are created equal and pursue activism or the same volume of activism as other IIs. Stakeholder Saliency Theory is a descriptive theory, and this dissertation reflects that by focusing on IIs who partook in activism events, not those that did not. As a result of this approach, all IIs, except for hedge funds, may be overrepresented in the data and driving the results. However, these activism events are reflective of the real world as my dataset from Activism Insight accounts for approximately 99% of all global activism events between 2010-2017. Future research can look into why some firms elect to participate in activism while other firms do not, and do we see substantial differences in the aforementioned area by II type. Furthermore, do some II activists pursue activism more often than others as a part of their ethos or investment policy statement, and if so, why? As II activism research is fairly nascent and underrepresented in the management literature, the body of knowledge has not broached these questions yet as more basic relationships, as conducted in this dissertation, are still being established.

With Stakeholder Salience Theory being a descriptive theory, it and this dissertation focus on events that actually transpire rather than why they occur or the motivations behind them. More specifically, the motivations of how, when, and why portfolio firms respond to II activists has yet to be researched (Denes et al., 2017; Goranova & Ryan, 2014b). There has been some prior research on the possible motivations of II activists (Rubach & Sebor, 2009; Ryan & Schneider, 2002), but the portfolio firms' motivations need further research. Historically, portfolio firms have been hesitant to respond to shareholders activists for fear of having other activists see them as weak (Goranova & Ryan, 2014b). In addition, CEOs and TMTs have historically displayed patterns of allowing little to no outside influence in how they steer the firms they manage (Romano, 1993). However, current anecdotal evidence suggests there has been some change in portfolio firms listening to II activists and even initiating conversations with them as they can be large shareholders and even have good ideas on how a firm can perform better (Insight, 2016). Reports of these types of behaviors have been occurring over the last ten years with a theorized increase in this type of firm behavior. Future research in this area would be very beneficial.

Research drawing upon Stakeholder Salience Theory often categorizes its stakeholders through logic and argument (Ryan & Schneider, 2003b). Capturing this same type of information through other data collection methods (i.e., surveys or interviews) may buttress the current theorizing as displayed and used in this paper by prior researchers such as Ryan and Schneider (2002, 2003). While these methods would be too cumbersome for this current study, future research could work on establishing theorized and empirically tested rankings of stakeholders, and more specifically, IIs for research in II activism. Research on IPOs has a ranking system of investment banking firms as they lend credibility to the strength of an IPOs offering (Ritter &

Welch, 2002). This type of ranking system by type of II and within each type of II would make a tremendous contribution to the shareholder activism literature.

This dissertation focused using a trinary variable for portfolio firm responses, which is an extension of the binary variable used in previous nascent research (Eesley & Lenox, 2006).

While this dissertation helped make an important contribution on this front, this begs the question of why portfolio firms would be more likely to fully acquiesce or reject an II activist's demands rather than compromising on a demand. This seems like a definite area of opportunity for future research as differences among portfolio firm rejection versus partially or fully acquiescing to an II activists' demand has yet to be disentangled.

Additional studies examining the possible resource dependency between II types and portfolio firms are needed. However, the data for assets (which is a common measure) is very difficult to acquire for most IIs with the exception of public pension plans. The other IIs do not have to report their assets or assets under management, and this is especially true of hedge funds. This makes assessing resource dependency very difficult as data that is reported by most of the IIs is self-report, spotty, not representative of the total assets of an II, and/or is not required by the Securities and Exchange Commission. These facts are why the majority of II activism research does not include a resource dependency variable, but still controls for firm size. I was able to acquire and use the IIs holdings in its portfolio company at the time of the activism event which provides some measure of relational dependency, but this is a limitation of this study and could use future work as data becomes more available for all IIs. Many of these IIs are private firms and do not have to file public financials. Activism Insight confirmed this data issue prior to me conducting my analysis.

Lastly, multiple requests of the same firm were statistically significant and negative in 60% of the models run. Thus, II activists that made multiple requests of their portfolio firms actually decreased their chances of receiving a favorable response. Further research could investigate the effects on portfolio firms into why rejection may become the norm in these instances. Do multiple requests take up too much time? Resources? Are the II activists perceived as pests? There is plenty of room for research to disentangle the orderings and numbers of demands as the expanded control variables suggests that all demands and volume of demands are not all equal.

The sample selected for this dissertation was 750 II activism events. The activism events were randomly selected for hedge funds, yet the data reflect IIs that participate in many more activism events on a regular basis than IIs that are not involved or very limited in their activism pursuits. While this is not ideal as the samples had a smaller number of II activists generating the majority of activism events, this is also very reflective of the real world which is in line with the descriptive theory of Stakeholder Saliency. Activist Insight has collected 99% of all activism events since 2010, so the sample is accurate and realistic but driven by a smaller number of IIs. This is a limitation and reflection of the real world. Future research can attempt to discriminate among IIs that are very active in the activism space from firms that only participate periodically. However, finding sufficient data in this area is limited for now and may take more time for future activism events to accumulate.

For my sample, I included only a sample of activism events that occurred in the United States from 2010-2017. However, some of the II activists and/or portfolio firms were located outside of the United States but were listed on a U.S. stock exchange. While I did include a control variable for international headquarters, II activism is growing globally, and we do not

fully understand all the differences that international companies bring to activism and how this might influence their tactics, strategies, and ideas on how to partner with portfolio firms. While II activism research is a fairly nascent field (Goranova & Ryan, 2014b), activism research in international contexts is very limited and offers wide opportunity to assist us in understanding international differences among II activists (Denes et al., 2017).

Lastly, an area of future research that is needed not only in the academic community, but the private sector is calling for assistance as well, is in how to help portfolio companies better interact with II activists so that shareholder concerns are valued and in-line with a firm's future objectives. CEO surveys over the last three years have shown shareholder activism is one of their top three concerns, and that they have a keen interest in what strategies they should use to work with II activists (Insight, 2016). Consulting firms such as McKinsey and Boston Consulting Group have developed specialized units to work with companies that are preparing for or are being engaged by activists (Insight, 2016). Further anecdotal evidence of this trend is Activist Insight creating a risk profile for companies and the likelihood that II activism will be brought against them in the next 1-2 years. CEOs care about this subject as it can affect company strategy, stock price, executive compensation, and CEO tenure (Insight, 2016).

Conclusion

This research seeks to explore the relationship between institutional investor activist types and the likelihood of them receiving partially granted or fully granted portfolio firm responses. Using data collected on 750 activism events, I empirically demonstrated that a number of relationships exist. Furthermore, this paper explores the moderating effect of proxy-based activism upon this main effect. As a result, this paper contributes to scholarship in shareholder activism and Stakeholder Salience Theory. Among several contributions, this

dissertation provides an important step in understanding relationships between the characteristics and attributes of institutional investor types, and how their portfolio firms respond to them.

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VITA

Jason Cavich is originally from Kalamazoo, Michigan. He holds a Bachelor's degree in Sport Management from the University of Michigan – Ann Arbor, a Master of Divinity from Oral Roberts University, and a Master of Business Administration from Oklahoma State University. He was a former Vice President at CitiBank and has previously taught university courses for The University of Texas at San Antonio. He plans to continue to study Shareholder Activism as he pursues a career in higher education. His teaching interests include strategic management, corporate governance, and shareholder activism.