ACTIVIST INVESTORS: A LITERATURE REVIEW ON RECENT EVIDENCE

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Abstract

This study reviews, summarizes and synthesizes the most recent findings regarding activist investors. Based on a literature review framework we provide a multidimensional analysis synthesizing the state-of-the-art of activist investor attacks in global financial markets where activist investors increase their number of campaigns and expand their market scope over the last years significantly. For this purpose, 98 articles were identified discussing activist investors in the time period of 2018–2023. Out of this pool, only 25 studies explicitly examine the recent market activities, the strategies and the performance of activist investors. The analysis of the 25 studies reveals new trends of activist investors regarding their investment strategies such as targeting women-led firms and using open activism more frequently. Activists focus on enforcing demands for the sale of the company, changing management composition, influencing corporate governance, and a shift in the strategy of the target. Concerning the investment performance activist investors overall achieve positive abnormal returns. The financial performance of the target firms indicates an ambivalent picture: In the short term, their performance shows strong and poor financial results alike. In the long run, this divergence levels off indicating a more negative impact on financial performance resulting from activist investors.

Keywords: Activist Investors Campaigns, Investment Strategies and Performance, International Perspective, Semi-Systematic Literature Review

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1. INTRODUCTION

In the last two years, 1.139 published activist campaigns took place on a global scale. One of the most particular campaigns by an activist investor was the proxy fight of Engine No. 1 (activist fund of Christopher James) against the management of Exxon Mobile. The activist managed with his campaign to receive three seats on the board of directors just with a 0.02% share of all voting stocks. With this coup, he was able to force the management of Exxon Mobile to shift the corporate strategy towards more power generation by windmills and solar panels. This example illustrates how activist investors operate to achieve their goals: They buy a minor but usually significant share of voting stocks of a corporation and use their participation to influence the management of a company and change its corporate governance structures in order to increase its return and profitability (Schueler, 2016). They also attack when a corporation is performing poorly compared to its competitors.

In such a case it is very likely an activist investor "knocks on the company's management doors" to propose operational changes in order to raise the market value of the firm and to make a profit from it by selling the shares for a higher price at a later point. DesJardine and Durand (2020) quote iconic activist investor Carl Icahn: "You better get that price up, or someone else will do it for you" (p. 1079). Maffett et al. (2022) show that activist investing is a catalyst for companies to change in a notable way as it happened in the case of Exxon Mobile. Activist investors rarely own a controlling stake (holding more than 50% of the voting rights) at a company (Levit, 2019). They usually acquire between 1% and 10% of shares at the targeted company (Stowell, 2018). Another characteristic of the process of activist investing is that there are free-rider problems as the risk of activism only has the activist. All other shareholders profit from the activist campaign when it succeeds (Appel et al., 2019).

Despite any risks, activist investors' campaigns have evolved rapidly as well as their engagement in the corporate world in the past few years. From 2000 until 2014 investor activism campaigns have climbed up by 34% per year (Hinkel et al., 2015). The assets under management have grown steadily over the past two decades: In 2003, activist hedge funds (AHFs) held $12 billion in assets, which soared to $93 billion within ten years and ascended to around $130 billion by the year 2021 (J.P. Morgan, 2015; Hunker, 2021; Quint et al., 2022). This development leads to the research questions, what are the current strategies of activist investors, what are the current essentials in the target selection process of activist investors and what is the impact on target firms and their performance due to activist investors' engagement as well as of how have activist investors performed themselves over the last years.

In alignment with the study by Denes et al. (2017), who conducted a literature review about shareholder activism until 2017, we are scrutinizing the developments in the last five years. First, an overview of recent market activities will be given. Second, the course of action of an activist investors' campaign and their strategies will be illustrated. Depending on the strategy of the activist investor, we will look at their impact on financial and corporate social performance on companies and their investment performance in the short and long term (Sendur, 2020).

Our review uses the framework of a semi-systematic literature review illustrated by Snyder (2019). The review includes the findings of five cases and twenty empirical studies that were published in the year 2018 or after. There is no geographical restriction. The search strategy selects studies for closer investigation by examining whether the findings of the abstract of each study match with market activities, strategies, and investment success of activist investors. As the selected articles survey different types of activist investors, this review splits them into AHFs (eight studies analyzing AHFs) and other activist investors (sixteen studies analyzing this group).

The remainder of this paper is structured as follows. Section 2 provides detailed information about the methodical approach to conducting this semi-systematic literature review (SSLR). Sections 3 to 5 summarize the findings regarding the research strategy that is split into three subsections. Section 3 describes recent market activities. Section 4 illustrates the blueprint of an activist investors' campaign, including their objectives, target companies' characteristics, strategies, and demands. Section 5 sheds light on the short- and long-term consequences of activist involvement in companies regarding financial, investment, and corporate social performance.

2. LITERATURE REVIEW FRAMEWORK

The applied methodology is the framework of a literature review. A literature review, according to Snyder (2019), is "a more or less systematic way of collecting and synthesizing previous research" (p. 333). Research synthesis means summarizing, integrating, and cumulating literature that meets the research question or strategy (Tranfield et al., 2003). In the following, we present the applied procedure of the conducted literature review.

2.1. Semi-systematic literature review

The semi-systematic review is the most appropriate approach for the review of activist investors. Snyder (2019) illustrates the systematic and semi-systematic literature reviews: Characteristics of semi-systematic reviews are that they describe how the field of research has developed over time and how they provide a comprehensible understanding of complex and diverse areas of literature. The more transparent the research process of a semi-systematic review is, the higher the quality of the review becomes (Snyder, 2019). The reason a semi-systematic review is more advantageous than a systematic review is that it is designed to give a better overview of a variety of topics in the field. As research on activist investors varies in terms of perspective, motivation, and geographical location, a broad overview can be achieved by a semi-systematic review about all potential themes and niches that exist in the current state of research (Snyder, 2019). The classification whether a paper fits the relevant criteria has to be carried out on a case-by-case basis (Arksey & O'Malley, 2005).

2.2. Research strategy

The research strategy of this semi-systematic literature review is to provide an overview of the current state of research of activist investors on their recent market activities, their strategies, and the resulting financial, investment, and corporate social performance of target companies, using a pool of carefully selected literature. The additional subtle aim is to develop a conceptual model concerning the current knowledge of the ever-increasing influence of activist investors on companies.

The increase in activist investor campaigns results in both a high media presence and the frequent publication of new empirical evidence on activist investors. In January 2023, there were 6170 search results. Closely related keywords such as "shareholder activism" returned even more results. In order to reduce the number of results, a well-defined search strategy is required (Snyder, 2019). The aim of a specific search strategy is to select a sample of all the literature that exists on activist investors in order not to miss any important subtopics of the field.

In alignment with previous literature reviews in the field of activist investors, the following databases and journals were used: ScienceDirect, Wiley Online Library, Emerald Insight, and the Review of Financial Studies (Goranova & Ryan, 2014; Velte & Obermann, 2021). The keywords of the search strategy are related to activism such as “activist investors”, “activist blockholders”, “activist shareholders”, “shareholder activism”, “investor activism”, “hedge fund activism”, “proxy-based activism” and simply “activism”. The search in ScienceDirect returns 323 results. As it is more profitable for the quality of the literature review to search for literature in different databases, the search query needs to be more specific. There is a lot of literature on activist investors, and shareholder activism has existed in recent years. Denes et al. (2017) provide a thorough review of thirty years of shareholder activism. As their review ends with the year 2017 and this review starts with the year 2018, this review could be seen as a continuation, taking into account the latest findings of studies on activist investors. The time interval of the search query only considers literature published after 1 January 2018 until the end of January 2023. After applying the time frame ScienceDirect presents 184 results, which is a large amount of literature considering that there is approximately the same amount in the other journal and two databases. However, this distinct outnumbering of the results at ScienceDirect comes as no surprise as ScienceDirect is one of the largest academic databases with significantly more content than the other sources. By combining the keywords as, e.g., “activist investor” and “shareholder activism” with an “AND” and including the limited time frame, ScienceDirect presents 48 results.

By applying the same search query to the other databases, a total of 98 papers are considered for the final filter. The number of papers is shown in Table 1 below:

Table 1. Number of articles in databases

Source	*No. of articles*
ScienceDirect	48
Wiley Online Library	18
Emerald Insight	22
Review of Financial Studies	10
Sum	98

The final filter for choosing which of these articles to look at more closely is to read the abstract of each paper and check whether the paper is consistent with the research strategy. Each paper is classified into one of four categories according to how well it fits with the research strategy. The categories are in descending order of relevance: “very relevant”, “relevant”, “less relevant”, or “irrelevant”. Table 2 shows the number of articles in each category.

Table 2. Number of articles regarding relevance

Relevance	*No. of articles*
Very relevant	25
Relevant	19
Distantly relevant	17
Irrelevant	37
Sum	98

Twenty-five of the articles are categorized as “very relevant”. The “relevant” category consists of 18 articles, and the category “distantly relevant” of 17 articles. Finally, there are 37 articles classified as “irrelevant”. Articles in the “very relevant” category had to fulfill a certain criterion. First, the abstract of the article had to contain “activist investor”, “shareholder activism”, or closely related keywords (e.g., activist blockholders) in its research objective. Second, the main findings in the abstract had to be consistent with the research strategy by mentioning current activities, strategies, or the financial, investment, or corporate social performance of activist investors. The research objective of most articles was the financial and investment performance of activist investors. Articles are classified as “relevant” if the keywords “activist investor”, “shareholder activism”, or closely related keywords (e.g., “activist blockholders”, “activist shareholders”, “investor activism”, “hedge fund activism”, “proxy-based activism” or simply “activism”) are included in the research objective of the article but are not consistent with the content of the research strategy. If neither of these aspects is mentioned in the abstract, although the topic of the article is somehow related to activist investing, the article is classified as “distantly relevant”. In these cases, the research objective of the articles shows some links to activist investing. Finally, all the articles that do not correlate in any way with the keywords, the research strategy, or have any relationship to activist investing are considered irrelevant.

2.3. Research analysis

From the 25 articles identified, the main findings that can be linked to the research strategy are documented in a reference evaluation file. The file contains the following attributes:

1) year (see Table 5);
2) author;
3) title;
4) relevance (see Table 2);
5) research objective;
6) findings;
7) time period (empirical studies);
8) methodology;
9) type of activist (see Table 4);
10) market location (see Table 3);
11) database or journal (see Table 1).

A simplified reference evaluation table with the most important attributes is provided in the Appendix. The table includes the authors, the name of the journal where the article was published, the type of activist investor, the location, the period, and the main findings. Table 3 shows the geographic market location of the articles. Most of the authors of the articles focus on the United States or activist investors worldwide in general.

Table 3. Geographical location of the selected articles

Geographical location	*No. of articles*
Brazil	1
Germany	2
Japan	1
Pakistan	1
South Africa	1
United States	11
Rest of the world	8
Sum	25

Table 4 gives a survey on the types of activists that were examined. Most of the articles focus on AHFs or activism in publicly listed companies in general. Two articles deal with active institutional investors, and only one article deals with private activist investors.

Table 4. Type of activist investor

Activist type	*No. of articles*
Activist investor	14
Activist hedge funds	8
Active institutional investors	2
Private activist investor	1
Sum	25

The next table shows the number of articles published each year. On average, a little more than 4 articles (exact average amounts to 4.16) are published each year. Despite the small peak in 2019 the number of published articles in the field of investor activism is almost evenly distributed throughout the last years. For 2023, it must be considered that the publication from beginning of the year is included in the list.

Table 5. Articles published in year

Published years	*No. of articles*
2018	5
2019	6
2020	4
2021	4
2022	5
2023	1
Sum	25

The research strategy is divided into three subtopics below. The first subtopic, "Recent Global Activity", presents general figures on different geographical market activity. Within this subtopic, the activities of activist investors in the markets of Brazil, Japan, Pakistan, and South Africa are examined in more detail. The second subtopic summarizes the process of activist investor campaigns. It covers their objectives, choice of target companies, strategies, and the demands on management in order to achieve their goals (e.g., increasing shareholder value). The third subtopic illustrates the investment success of activist investors in the short and long term by comparing financial performance, investment performance, and the company's corporate social performance.

3. RECENT GLOBAL ACTIVITY OF ACTIVIST INVESTORS

Activist investor campaigns have proliferated over the past decade (Maffett et al., 2022) especially after the financial crisis in 2007–2008 (Barros et al., 2023). As the number of activist investors has grown each year, they have received increasing attention in the press, business, politics, and academia (Swanson et al., 2022). Activism towards real estate investment trusts (REITs) has also been reported more frequently by the press in recent years although REITs are well-defended fortresses (Downs et al., 2019). In addition, there have been major shifts in corporate ownership in recent years. Ownership by institutional investors has gone up significantly, while the relevance of institutional investors has steadily decreased (Appel et al., 2019). For example, AHFs are active institutional investors. Moreover, AHFs are the type of activists that have the highest average abnormal returns compared to other financial schemes (Chen et al., 2021). In the research sample used by Francis et al. (2021) from 2003 to 2018, 26% of American companies were targeted at least once by an AHF. In the year 2014 alone, AHFs conducted 344 campaigns against public companies (Downs et al., 2019). Between 2011 and 2015, AHFs targeted approximately every second company listed in the U.S. Standard and Poor's 500 (S&P 500) (Chen & Feldman, 2018). Environmental activism is also playing a more important role and is not only focused on companies based in the U.S. but an increase in other countries has been noted (Viviers & Mans-Kemp, 2021; Barros et al., 2023). To broaden the insights about the activist's activities first a global overview and afterwards the activities in different regions of the world by presenting the developments of a representative country will be provided in the following subsections.

3.1. Global

From a global perspective, there has been a significant increase in activist investors and their campaigns around the world (Maffett et al., 2022). To highlight the increase in activism globally, there have been more than 1000 activist campaigns against companies in Australia and Canada, compared to less than two dozen campaigns in the previous decade (Maffett et al., 2022). Whether activist investor campaigns increase in a particular country depends on the domestic governance regulations that the country has put in place.

Maffett et al. (2022) find an increase in activist campaigns of over 55% and that countries with pro-shareholder activism regulations have between 23% and 65% more activist cases than countries with less pro-shareholder regulations. These findings also explain that the number of activist campaigns in Australia and Canada has increased so rapidly because they have adopted governance rules that favor activist investor campaigns; when corporate governance changes that give shareholders more opportunities to engage and exercise their rights, the foreign and the domestic activism increases (Maffett et al., 2022).

Major activist investors were up in arms when Snapchat announced its initial public offering with no voting shares (Govindarajan & Srivastava, 2018). Large activist investors were up in arms when Snapchat announced no shareholder rights for its shareholders (Govindarajan & Srivastava, 2018). The Investor Stewardship Group (ISG) (a 16-member coalition of the largest asset management giants such as BlackRock Inc. and Vanguard Group) calls for voting rights proportional to shareholders' economic interests (Govindarajan & Srivastava, 2018). For activism to work properly, shareholders need rights. Otherwise, they will not be able to influence and change the structures of the company.

3.2. Brazil

The reason for lower activism in Latin America may be due to the high ownership concentration of firms. The high ownership concentration of the companies is fading due to more hybrid ownership structures and obligations that require Brazilian companies to list only voting stocks (Guimaraes et al., 2019). Voting stock gives shareholders the right to vote, for example, in the elections of managers. Hybrid ownership concentration is the presence of different types of owners (institutional investors, family-controlled firms, individual investors) in order to increase the diversity of shareholders. Moreover, Vargas et al. (2018) and Crisóstomo and González (2006) observed an increase in activist participation of institutional shareholders in Brazil.

3.3. Japan

In the Japanese culture, it is impolite to confront someone for their misconduct. The social norm regarding corporate culture in Japan would rarely confront the management. It is more difficult for activist investors to implement their demands due to governance regulations (Hamao & Matos, 2018). Despite these limitations, 30.1% of the stocks listed on the Tokyo Stock Exchange were foreign-owned by 2017 and have remained around this level (Japan Exchange Group, n.d.; Ministry of Finance Japan, 2023). Japan's most iconic activist investor of Japan would be Yoshiaki Murakami. He is one of the most prominent hostile and domestic activist investors in Japan. There are other activist investors who specialize in Japanese companies. Table 6 below distinguishes between hostile, non-hostile, domestic, and foreign activist investors (Hamao & Matos, 2018).

Table 6. Activist investors of Japan

	Hostile	*Non-hostile*
Domestic	Yoshiaki Murakami	Sparx
Foreign	Steel Partners	Taiyo Pacific Partners

In terms of the investment's success of activist investors in Japan, the average abnormal returns are significantly lower compared to the U.S. Hamao and Matos (2018) argue that the reason for this could be that the restriction of Japanese institutions on the regulatory structure of firms from the year 2010 mitigates the influence of minority shareholders on Japanese firms.

3.4. South Africa

Research articles revealing detailed insights about activist investors in South Africa are rare. Not surprisingly, there is only one article that examines the investment success of a major private activist investor, the Old Mutual Investment Group (OMIG). OMIG focuses its investments mainly on the emerging markets of South Africa. Private activist investors are difficult for academics to analyze because the data on their private engagement with companies is confidential and not available to the public. Fortunately, OMIG released its private activism data from 2014 to 2018, with an overall high success rate (60.42%) of their private campaigns (Viviers & Mans-Kemp, 2021). Therefore, the advantages of private engagements are that a bad reputation and unfavorable share price reactions are prevented (Viviers & Mans-Kemp, 2021). A bad reputation is reduced because if an activist investor were to publicly announce the changes to be made, public criticism from others would be inevitable. By engaging with the company privately, public media criticism is reduced, as is the potential damage to the activist's reputation. It also prevents adverse share price reactions, as past activist research shows that the announcement of an activist investor leads to large short-term share price increases (Downs et al., 2019; Jiang et al., 2019; Swanson et al., 2022). In general, South Africa's emerging market enjoys an increased trend of activism (Viviers & Mans-Kemp, 2021).

3.5. Pakistan

Shareholder activism in Pakistan is, at best, an evolving process due to the high proportion of family and state ownership in public companies. Fatima et al. (2018) suggest that institutional activism can promote corporate governance principles in Pakistan-based companies, such as better shareholder rights to improve their organizational structures.

4. ACTIVIST INVESTOR CAMPAIGN

Activist investors all follow a general agenda in how they conduct their activist campaigns on target companies. This section uses the selected articles to illustrate the different possible aspects that activist investors can choose for their campaign. The agenda starts with the activists' objectives. The most common objective is to reduce agency costs in undervalued companies to increase shareholder value. Other objectives are socially or environmentally related. As the selected literature only examines financial motivations, social and environmental motivations are not part of this review. The second step is to select the company to target. The third step is to implement the most efficient set of strategies to achieve their objectives. The fourth step is to implement the most efficient demands on management. The demands are based on the strategies the activist investor chooses to pursue. Every activist investor will eventually pass through these stages if they want to conduct a thorough campaign at a company.

It is now up to management to agree or disagree with the changes proposed by the activist investor. If not, the activist investor may decide to start to use more aggressive and influential demands, such as a proxy contest. With the help of other shareholders, they can put pressure on management to implement their changes. Another option could be to decide to exit the company by selling their shares. In the following sections, the agenda for running an effective activist investor campaign is explained in more detail.

4.1. Objectives

Why do activist investors suddenly acquire stakes to influence a company? An objective would be that an activist investor wants to improve the operational efficiency of a company in order to enhance their profitability. Many of the authors conducted research on activist investors regarding their impact on the company's financial performance (Guimaraes et al., 2019; Aiken & Lee, 2020; DesJardine & Durand, 2020; Chen et al., 2021; Francis et al., 2021; Bessler & Vendrasco, 2022a; Maffett et al., 2022; Barros et al., 2023).

Another objective that the majority of the selected article's authors state is to increase shareholder value, as evidenced by their findings on the investment performance of companies under the influence of activist investors (Hamao & Matos, 2018; Downs et al., 2019; Jiang et al., 2019; Aiken & Lee, 2020; DesJardine & Durand, 2020; Francis et al., 2021; Bessler & Vendrasco, 2022a; Swanson et al., 2022). Increasing shareholder value can be achieved by improving the operational efficiency of companies. This can be done by reducing the agency costs of a target firm. According to the principal-agent theory (Jensen & Meckling, 1976), the shareholders (owners) are the principals, and the management (managers) are the agents. As both parties have asymmetric knowledge about the firm, agents can use this to their advantage and focus on personal interests. The more they focus on personal interests, the higher the agency costs are. Activist investors try to identify companies where agency costs are high. This means that when they eliminate agency costs, there is a large increase in shareholder value. The most common campaign of activist investors in EREITs (equity real estate investment trusts) is the pursuit of maximizing shareholder value (Downs et al., 2019).

Shareholder value can also be increased by using companies' resources to boost short-term share prices at the expense of future investments. This is called "myopic activism" (short-sighted activism). Large institutional investors, such as BlackRock and State Street, do not support myopic activism because they are long-term-oriented, which means that any short-term activist engagement could hurt them in the long run (Appel et al., 2019).

A third objective would be political agendas that improve the company's corporate social performance or environmental aspects. None of the authors focus on the environmental objectives of activist investors. A few authors examine corporate social performance (Chen et al., 2021; DesJardine & Durand, 2020).

Throughout the years of activist investing, their objectives have become more ambitious, and their success rate has increased (Appel et al., 2019). Overall, the high abnormal return from the investments is appealing to activist investors, which is why they engage in these hazardous investments in the first place.

Activist investing has major motivational challenges: Agency problems, as mentioned, conflicts of interest, lack of collective action, and the cost of monitoring and intervention. Activist investors are dependent on the support from other shareholders because they usually acquire smaller stakes, up to 5%, which is not enough to influence the management by themselves. If other shareholders have different objectives or are not interested in taking part in influencing the management, it is more difficult for the activist investors to achieve their objectives. In Pakistan, for example, active institutional investors are only motivated to intervene in the company if they have large shareholding, meaning holding at least 10% of the shares (Fatima et al., 2018).

Overall, the main goal of activist investors in the U.S. is to improve the performance of their targeted firms and to increase the shareholder value thereby increasing their investment performance (Barros et al., 2023). Three main objectives can be found among the selected articles: Financial performance, investment performance, and corporate social performance.

4.2. Selection of target companies

When the objective has been decided by the activist investor, the next step is to target potential companies that best match their objective. This subsection summarizes the findings of the twenty-five selected articles regarding the parameters that influence their decision in picking the potential company. Furthermore, the likelihood of activist engagement regarding the properties of the company will be examined. First, the targets of activist investors in general, then domestic, followed by the targets of AHFs in general, then domestic, are illustrated. Second, the likelihood of an activist targeting REIT is highlighted.

4.2.1. Selection of target companies by activist investors (Without hedge funds)

Activist investors target companies with low market capitalization, high institutional ownership, a sound liquidity situation, and a lower Tobin's Q (Swanson et al., 2022). Activists in the U.S. tend to focus on companies with a larger market capitalization as the percentage of concentrating on larger companies increased from 20.5% to 25.3% in 2020 (Barros et al., 2023). In Brazil, activist investors focus on operational, relatively low, efficient companies (Guimaraes et al., 2019).

In Japan, activist investors are, on average, likelier to target companies that have more liquid stocks. If the Japanese company is owned by foreign shareholders, the likelihood of that company being targeted by activist investors also increases. As companies in Japan have high cash balances, activist investors smell the opportunity to reduce cash holdings, increase dividends, and introduce share repurchases in order to increase the value of the company. As a result, companies with high cash balances and under-leverage are more likely to get targeted by activist investors (Hamao & Matos, 2018).

4.2.2. Selection of target companies by activist hedge funds

AHFs focus notably on companies that have a lower market capitalization and higher institutional ownership, as well as companies with lower dividend yield than non-hedge-fund activists (Swanson et al., 2022).

AHFs in the U.S. target undervalued companies whose value has the greatest difference when comparing it to its potential value (Francis et al., 2021). The potential value is given by comparing similar companies that have approximately the same size and target the same market. Hedge funds now want to unlock that missing value, and therefore they invest in the company and encourage the managers of the company to execute their strategies to enhance shareholder value (Chen & Feldman, 2018). AHFs target significantly more corporations with woman CEOs compared to corporations with men CEOs (Francis et al., 2021).

Women-led firms have a 52% higher chance of getting targeted by AHFs according to Francis et al. (2021). In addition, higher CEO compensation relative to other CEOs makes firms more likely to be targeted by AHFs (Choi & Gong, 2020).

In Germany, AHFs favor smaller firms with less ownership concentration, higher financial visibility, higher sales growth, higher profitability, lower leverage (the firm is more financed by its own capital and less by borrowing), greater diversification, and high institutional ownership (Bessler & Vendrasco, 2022b). Hedge funds usually target firms that are poorly governed. If the company has a high analyst coverage, AHFs are more likely to target it. The more analyst coverage a company has, the more information about future estimates of the company is available making the company more attractive to investors (Bessler & Vendrasco, 2022b). Conglomerates are companies that are made up of multiple unrelated businesses that are more likely to be targeted by AHFs. The higher the stock liquidity at a company is, the more attractive it will be for investors. That is because AHFs acquire a large number of shares at once. So, if there is low stock liquidity, it will be harder to quickly gain the wanted stake (Bessler & Vendrasco, 2022b).

In summary, activist investors in general and AHFs focus on many different kinds of financial metrics to choose their targets.

4.2.3. Selection of real estate investment trust

Downs et al. (2019) examine the relationship between activist investors and REITs. REITs focus on diversified real estate portfolios in which investors can invest without having to own or manage the properties. REITs are not easy to infiltrate by activist investors. They are like a fortress for several reasons. The rule of the Internal Revenue Service (IRS) prohibits "five or fewer" shareholders from owning 50% or more shares of a firm. REIT management is protected by so-called "excess share provisions". If an individual owns more than a certain threshold (around 10%), they will lose the ability to use their shareholder rights and will be suspended from their dividends. Last but not least, the state of Maryland in the United States has law protection rules against unsolicited takeover bids. According to the authors, REITs also have to pay out 90% of their taxable income to their shareholders as dividends. Agency costs of free cash flow in REITs are therefore very low, making it rather unattractive for activist investors because most of the value of free cash flow is already distributed to the shareholders (Downs et al., 2019).

An increase in the frequency of REIT-related activism in recent media news suggests an increase in shareholder activism at REITs. Downs et al. (2019) differentiate between equity and mortgage REITs because mortgage REITs are similar to financial firms. It was found that equity REITs (EREITs) are targeted by activist investors just as likely as other public financial firms. Another finding of this article is that EREITs are not targeted by a specific type of activist. The same patterns as for other public firms occur. With one exception: The Land and Buildings Investment, LLC specializes in targeting EREITs, although only 6.4% of the EREITs in the sample were targeted by that company (Downs et al., 2019).

As a result, although REITs are more difficult to take control of, there are certain metrics that determine the likelihood of an activist investor engagement. Between the time from the initiation of the attack and 18 months, EREITs are three times more likely to be taken over compared to a matched sample of EREIT firms that were not targeted by activist shareholders (Downs et al., 2019).

To sum up, activist investors choose their targets depending on location and financial properties. Also, companies that have high regulatory defense mechanisms against attacks from activists, like EREITs, does not seem to discourage activist from targeting them.

4.3. Activist investor strategies

From here, activist investors have chosen their objective and target company. The next step is to look into the different kinds of strategies that activist investors can use. The following nine strategies have been analyzed by the authors of the selected articles that were published in the last five years: accumulation strategy, open activism, private voice strategy, public voice strategy, exit strategy, "wolf pack" strategy, women-led companies, and myopic activism. Women-led companies are classified as a target and a strategy because it is very profitable to activist investors depending on their overall objective.

4.3.1. Accumulation strategy

The accumulation strategy consists of the accumulation of the targeted company as long as the number of shares has a relevant impact on the company's strategic decisions. AHFs in the U.S. generally acquire between 1% and 10% (Stowell, 2018).

Doing the acquirement in silence is crucial as tag-along investors would also invest, increasing the share price also for the activist investor, which they want to avoid. This is called the "free-rider problem": The risk of activism only has the activist itself. All other shareholders profit from the activist campaign when it succeeds (Appel et al., 2019).

By using cash-settled equity swaps, AHFs can bypass and exceed the 5% threshold without the public noticing the approach (Stowell, 2018). An equity swap is when a second party (typically a bank) agrees to pay the returns of the stock ownership, whereas the hedge fund pays the bank a fixed interest rate typically linked to the London Inter-Bank Offered Rate (LIBOR). With these equity swaps, hedge funds, for example, can buy 4.9% of shares by themselves and another 4.9% via equity swap without being noticed by the public. When later announced, they have a surprise effect to their advantage to immediately pressure the management to their wanted operational changes (Stowell, 2018).

4.3.2. Open activism

Open activism campaigns are where the activist investors have started communicating with the company before filing a Schedule 13D. A Schedule 13D has to be submitted to the U.S. Securities and Exchange Commission (SEC) when an investor exceeds the threshold of 5% ownership of the company and intends to actively engage with its management within ten days of acquisition.

If the threshold of 20% ownership is exceeded, the investor has to file a Schedule 13D, regardless of active or passive intent (Stowell, 2018).

About 24% of the activist campaigns in the sample of 727 campaigns between the years 2000 and 2015 in the U.S. are categorized as "open activism", meaning that they have communicated with the company before filing their 13D. The finding of this article by Aiken and Lee (2020) shows that if the activist engages with the company in advance the likelihood of subsequent proxy contests at the company increases.

4.3.3. Private voice mechanisms

If the activist investor has acquired a decent number of stocks at the targeted company, they can now "voice" their concerns. Activist investors have to be sophisticated in the way they communicate with the management in order to increase their chances that the management will comply with their demands (Levit, 2019). According to Brav et al. (2009), the most common strategy of AHFs is to communicate with the managers of the targeted firm in order to increase shareholder value. Voice mechanisms can be differentiated between public and private voice mechanisms. Public voice is the act of publicly announcing the changes the activist investor wants the management to make. Private voice is the approach of communicating with the management in private.

A survey held by Deloitte (2015) found that more than 60% of the chief financial officers of companies had said that the activist investor has directly communicated with their management. According to McCahery et al. (2016), 63% of institutional investors directly dealt with the management of their targeted companies without using public campaigns or a proxy fight. Brav et al. (2008) found out that about 50% of activist campaigns include communication with the management as part of their strategy. According to these sources, private communication with the management is a common practice under activist investors.

Regarding private negotiations of AHF campaigns, it is found that women-led companies are likelier to communicate and cooperate with the AHFs efficiently (Francis et al., 2021).

In South Africa institutional activists' first step is not to discredit the company in public but by privately engaging and requesting changes. This makes possible research difficult because private voice mechanisms are often confidential and not openly accessible by the public or researchers. If the company does not comply, the activists use public voice mechanisms to build pressure on the company's management in order to execute their wanted changes. This is done by filing shareholder proposals (Viviers & Mans-Kemp, 2021).

4.3.4. Public voice mechanisms

Public voice strategies include having the ability to vote, ask questions at shareholder meetings to undermine the management raising concerns at other shareholders about the company in social media to express underperforming values of the company, thus initiating proxy fights and also legal proceedings to enforce shareholder rights (Viviers & Mans-Kemp, 2021).

The ultimate goal of public voice mechanisms for activist investors is to persuade other shareholders to team up with them so that the management is forced to concede and conduct the demands. The reason for an activist investor to use a public voice mechanism is that there were ineffective behind-the-scenes communications between the two parties (Levit, 2019).

Voting and dual-class stocks

Voting is a shareholder right. Usually at annual company meetings, there are a few operational directions that the management proposes to undertake for the following year. The shareholders have the right to vote for or against the operational direction. Shareholder votes are frequently used by activists as it is a way to express their intentions. Shareholder votes regarding say on pay on executives' compensation significantly increased after an intervention by AHFs (Choi & Gong, 2020). Say on pay votes give the shareholders an opportunity to voice their opinion about the level of compensation for the management. Without the initiative of an activist investor, many shareholders would not get to vote and would not get to address important topics of interest. Such topics may be that activist investors force higher payouts for shareholders that would otherwise be expropriated by the management (Maffett et al., 2022).

Companies are aware of the fact that after their initial public offering, there is always the chance of getting attacked by activist investors who have different plans than the company's management. A way to prevent activist investors is to implement dual-class stocks. Usually, a shareholder receives a vote for each share they own and can influence the operations of the company by electing a board of directors or the CEO's compensation. Dual-class shares give certain group shareholders more votes for their share, which harms the democratic aspect of corporate governance (Govindarajan & Srivastava, 2018).

Additionally, dual-class stocks are not new. Nike, Comcast, Berkshire Hathaway, New York Times and Fort are examples of companies that have had dual-class stocks for over twenty years. More and more companies have a dual-class stock system. Examples of companies are Facebook, Google, Alibaba, LinkedIn and DreamWorks among many others. Research on dual-class stocks documents lower stock returns of firms compared to single-class firms due to significantly higher CEO compensation and lower credibility of the company's earnings. On the other hand, dual-class stocks lead to higher sales growth and more consistent, undisturbed profits (Govindarajan & Srivastava, 2018).

In summary, dual-class stocks have two sides. One side of the argument is that the company wants to focus on long-term investments and innovations without having to deal with activist investors who disturb the process. On the contrary, the Investor Stewardship Group (ISG) (a 16-member coalition consisting of the largest asset management giants like BlackRock Inc. and Vanguard Group) demands single-class stocks to enhance shareholder democracy (Govindarajan & Srivastava, 2018).

Shareholder proposals

The main way of disagreeing with the managers publicly is by propounding shareholder proposals (Viviers & Mans-Kemp, 2021). Shareholder proposals are recommendations from shareholders addressed to the management for consideration. Shareholders can recommend a wide range of topics such as corporate governance, environmental or social issues, and managements' compensation. However, shareholder proposals are non-binding, meaning the management does not have to implement these. Shareholder proposals are the most frequently used public voice mechanism by activist investors. In fact, shareholder proposals related to the compensation of executives have increased their presence at public companies' annual meetings (Choi & Gong, 2020).

Proxy contests and passive ownership

Proxy contests (or proxy fights) are another important mechanism for activist investors to make their voices heard in the media. If shareholders are dissatisfied with current management decisions, they can try to persuade other shareholders to vote their proxies in order to replace members of management with candidates more open to implementing the changes proposed by shareholders. A proxy contest is not commonly the first strategy an activist investor would consider as proxy fights are quite costly, often exceeding $10 million per fight (Appel et al., 2019). Actually, their main motivation is to increase the shareholder value of the company instead of forcing the company to pay for costs that could've been avoided if the management had been responsive to the activist investor's intentions in the first place.

Whether a proxy contest is won by the management, or the activist investor depends on the communication with the other shareholders. In this context, the investor's presentation is of high relevance. It summarizes the main and most important arguments and evidence that their future strategy for the company is better than that of the other team, hoping that the presentation persuades most of the shareholders to support their side (He, 2021). If the activist investor is the first contestant to hold the presentation, they have a 60% chance to win the contest which is 30 percentage points higher if they present second. Another finding is that the contestant who holds the presentation first and wins has eleven percentage points more retail investor ownership in their audience. Lower concentrations of sophisticated ownership mean that the first-presenting party is winning due to inattention. Inattention because retail investors have fewer resources and not as much experience as institutional investors do when it comes to proxy contests in a company (He, 2021).

Passive ownership has a large impact on the likelihood of activist investors beginning a proxy fight. Passive ownership means owning shares that do not influence management. If the passive ownership increases by 3.6 percentage points (1 standard deviation), activist investors will be 150% more likely to launch a proxy contest in order to gain a seat at the targeted company's board. The increase in passive ownership will give the activist investor one extra board seat added to the average board seat of the sample's average of 0.76 seats (Appel et al., 2019). In addition, a passive ownership increase of 3.6 percentage points leads to an increase of 16–20 percentage points increase in proxy fight settlements. Also, activists gain a 0.27–0.35-seat increase. The percentages are sizable because only 7% of the campaigns lead to a settlement with just 0.11 board seats won (Appel et al., 2019).

4.3.5. Exit strategy

Apart from communicating with the management privately, trying to persuade other shareholders publicly, or waging proxy contests against the management, the activist investor has the choice to use the exit strategy. This means that if managers do not move in the direction the activists want the company to go, the activist investor is prepared to sell some or all of their shares. The threat of selling is also included in the strategy. Managers are put under pressure because if the activist investor sells their shares the price of the share will drop as the supply increases and so will the value of the company. This is not in favor of the management (Viviers & Mans-Kemp, 2021).

The likelihood of activist investors using the exit strategies will be determined by comparing the purchase price with the current price. If the activist investor can back out of the attack by receiving a higher price for their shares, they do not have a high incentive to conduct a public campaign and will retreat more likely by selling their portion of shares (Levit, 2019). Nevertheless, the bargaining power of activist investors is much higher which increases the communication with the management (Levit, 2019). Also, the credibility of the activist investors' intentions is strengthened when not divesting its stake in the corporation. If the activist does not divest its shares, the activist investors are likely to retrieve a higher return from their investment by influencing the management than by just selling the shares for a profit. Not exiting also means that the activist investor receives more support from other shareholders due to higher credibility (Levit, 2019). The effectiveness of exit strategies depends on various properties. Managers are put under more pressure if their compensation is tied to the stock price. A fall in stock value could also harm their personal wealth and then a collaboration of the activist and the management is more likely (Levit, 2019).

In summary, activists who voice their concerns are more likely to be successful regarding the transformation of the company compared to activists who use an exit mechanism (Levit, 2019; Viviers & Mans-Kemp, 2021).

4.3.6. Merger arbitrage

Merger arbitrage is an investment strategy used mainly by institutional investors who profit from expected price differentials that arise when a merger or acquisition is announced. Buying the stock at a pre-merger price and hoping that the price will increase after the merge is completed. Looking from the other perspective, activist investors also block merger deals if they are not convinced by its potential value. By using their shareholder rights, they can express their thoughts on M&A (mergers and acquisitions) deals and can vote for modifying or even terminating the M&A deal (Jiang et al., 2019). In fact, activist investors have blocked 36% of all targeted acquisition deals because of low efficiency and overpayment (Jiang et al., 2019). Activist investors push the acquiring company into making more profitable deals for them. In 17% of the cases the activist investors were able to push the terms in favor of the acquirers, including lowering the bids (Jiang et al., 2019). If the company is not targeted by an activist investor 91% of the M&A deals are completed (Jiang et al., 2019). Activist investors that pursue the strategy regarding merger arbitrages are less likely to contact the firm prior to the 13D filing. This finding vanishes if the merger takes place after three months of the 13D filing (Aiken & Lee, 2020). A recent example of merger arbitrage would be the merger of the two large companies Dow Chemical and DuPont. This merger was induced by Trian Fund Management and Third Point (Stowell, 2018).

4.3.7. "Wolf pack"

Almost all of the time AHFs targeting U.S. companies acquire low stakes (1–10%). To have more influence on the management, activist investors try to persuade other shareholders to use their proxy votes. When investors group together against the management it is called "wolf packs". Effective activist campaigns need the support of other large shareholders to succeed, otherwise, it will be very difficult for the activist to put pressure on the management. In order to get the support from others activist investors can initiate public voice campaigns, make shareholder proposals or start proxy contests (Stowell, 2018).

4.3.8. Women-led firms

Research shows that women leaders are significantly better at building relationships, communicating within a team, and connecting to the outside world (Francis et al., 2021). Therefore, when targeting a women-led company, AHFs are less likely to use hostile strategies and are more likely to gain seats on the board; even proxy fights are likelier to get settled before the showdown voting. This is because women CEOs schedule more board meetings and have a lower likelihood of implementing "poison pills" or issuing rebuttal letters (Francis et al., 2021). Poison pills are implemented to fend off activist investors by issuing a large number of new shares to existing shareholders that decrease the influence the activist investor has. Rebuttal letters are written by the management that are against the demand of the activist investor. Overall, AHFs achieve all or more of their goals at a women-led firms than at a men-led company. Subsequently, women-led firms are likelier to get targeted by HFAs on average (Francis et al., 2021).

4.3.9. Myopic activism

Myopic or short-term activism is when AHFs increase the stock price of the targeted company in the short term at the cost of future investments. In recent years there has been a lot of criticism against activist investors targeting firms in the U.S. in public media that demand the company to buy back shares. The reason for this is that activist investors take advantage of the positive stock price reaction when announcing their share repurchase demand. Moreover, the company stock price will increase in the short-term because of share repurchases but investments into R&D will decline and the long-term profitability of the company as well as its stock price decrease (Autore et al., 2019).

Activists claim that open market share repurchases (OMRs) are not detrimental to the firm in the long term. Likewise, activist investors pretend not to reduce future investments at the targeted company when demanding OMRs as they intend to sustain the competitiveness of the company. They rather demand OMRs when there is a lot of excess cash or when the company's stock is undervalued. By comparing cash holdings and stock valuation with the firm performance of activist OMRs and non-activist OMRs, it is found that the criticism against myopic activist investors is not proven (Autore et al., 2019).

4.4. Activists demands

This section discusses the kind of demands (from the research of the past five years) that activist investors can make to the management. The authors of the selected articles all propose a variety of demands an activist investor or AHFs can make. Swanson et al. (2022) use six categories of activist demands.

Table 7. Overview demands of activist investors

Demands		
Sale	Engage management	Board composition
Corporate governance	Corporate strategy	Other

Source: Swanson et al. (2022).

The sale demand is when the company is forced to sell the company or parts of it to either the activist investor or a third party (Appel et al., 2019). The second demand is the engagement with management (Guimaraes et al., 2019). Activist investors intend to communicate with the management to discuss where the shareholder value can be improved. The third demand is when the activist investor aims to change the composition of the board. They request representation on the board of directors (Guimaraes et al., 2019) or they request that one or more existing directors resign. The fourth demand is corporate governance which does not include board composition demands. An example of this demand is increasing transparency or removing takeover defenses by eliminating poison pills (Appel et al., 2019). The fifth demand is influencing the corporate strategy of the company. This can be done by implementing a more tax-efficient capital structure or by removing products from their offering. The sixth demand contains all the demands that do not fit into the categories above (Swanson et al., 2022). In the next subsections, the demands of Swanson et al. (2022) and the other authors are explained in more detail depending on the type of activist, geographical location, and type of strategy.

4.4.1. Sale of company

The sale of all or part of a company is when the activist investors demand the management to sell the company to the activist or a third party. In case a third party wants to buy the company the activist acts as the intermediary. For activist investors targeting EREIT or companies in general the sale demand creates the most value for shareholders (Downs et al., 2019; Swanson et al., 2022). Activist investors (AHFs excluded) are twice as likely to sell parts or all of the company in comparison to AHFs, which is surprising because Klein and Zur (2009) found out that AHFs were more likely to demand the sale of a company. Consequently, the higher the level of passive ownership in a company the higher the chance activist investors demand for a sale of the respective company (Appel et al., 2019).

4.4.2. Activism within the management board

Management engagement means that the activist investor wants to raise the shareholder value by communicating with the management without proposing a specific plan to achieve that objective. The findings of the selected articles do not mention specific activists' demands towards the management in that context. In 2015, 355 activist campaigns took place against U.S. companies; 127 of them were able to at least obtain one board seat or the right to choose a new director (Stowell, 2018). The activist investors' demand to gain a board representation at the targeted company depends on the shareholdings of passively managed mutual funds in the respective company. According to Appel et al.'s (2019) analysis leads passive ownership which is 3.6 percentage points or more above the average of 9.4% of passive ownership to a 30–36 percentage point probability increase by the activist investors to demand a board representation. If there are large proportions of passive investors in the shareholder composition, activist investors are more likely to demand board representation. Monitoring costs by board representation or board control arise for the activist investor.

Regarding the relationship between the company's profitability and the changing board composition, Barros et al. (2023) figured out that securing a board representation is the most efficient demand for the profitability of the firm. If the activist takes a step further and secures complete control of the board, the positive profitability effect is contrary, meaning losing the potential profitability gains from before.

When AHFs target U.S. companies the CEO replacement chance ("during the two-year period after the hedge fund investment") is at 39.4% whereas the general CEO replacement rate is at 27.8% (Choi & Gong, 2020, p. 2). Although the likelihood of a CEO turnover is higher when an AHF engages with the company, there is no significant performance improvement between targeted companies and other companies. AHF-controlled companies that exchanged the CEOs accomplished higher buy-and-hold abnormal returns compared to their peers within a three-year period. Furthermore, approximately 47% of the CEOs of companies that were targeted by AHFs were replaced while AHFs in the U.S. try to reduce executives' compensation in order to maximize shareholder value (Choi & Gong, 2020). This has been observed in companies like Applebee's, CSX and Home Depot.

In summary, the likelihood of activist investors using the board composition demand increases sizably if the proportion of passively managed mutual funds increases. Also, if an AHF has infiltrated the management of the target company, CEO turnovers increase.

4.4.3. Corporate governance

When a company's governance is relatively weak compared to the enhanced implemented governance afterwards, the number of activist investor campaigns significantly increases (Maffett et al., 2022). According to the results of a study by Hamao and Matos (2018) some Japanese targeted companies experience changes in their corporate governance. More board independence is introduced, where the majority of the board of directors' members are not related for example to the founders of the company. Furthermore, U.S. "committee-based" boards of directors were introduced to several targeted Japanese companies (Hamao & Matos, 2018). The committee's purpose is to guide the board of directors at certain events as they will only focus on special occasions (Hamao & Matos, 2018).

4.4.4. Corporate strategy

Another demand refers to substantially influencing the corporate strategy. This can be done by divesting divisions implementing a more tax-efficient capital structure, removing products from their offering (Swanson et al., 2022). Further examples are listed in Table 8.

Table 8. Corporate strategy demands

Demands		
Spin-off a division	M&A	Opposing a proposed sale
More tax-efficient capital structure	Company restructuring	Cost reduction
Share repurchases	Payouts (dividends)	Leverage increase
Cutbacks on investments	CEO remuneration	

AHFs acquiring small stakes is sufficient to lead to the sale of subsidiaries, divestment of specific assets, or spin-offs (Bessler & Vendrasco, 2022a). Therefore, AHFs frequently influence corporate strategy by demanding that managers divest divisions or businesses to focus on the main business increasing shareholder value (Chen & Feldman, 2018).

Choi and Gong (2020) discovered that AHFs targeting U.S. companies increase the compensation of newly hired CEOs significantly (mostly through bonus growth, when achieving performance goals) whereas they keep the compensation of incumbent CEO's pay nearly the same. Similarly, according to Viviers and Mans-Kemp (2021), the most common demand from OMIG in South Africa was related to executive compensation. The activist investors sought to implement more incentive-based compensation for the managers and have more disclosure about the relationship between executive compensation and company performance. The study found that 49.47% of all engagements by OMIG were focused on executive compensation. In Germany, AHFs' demands are typically either distributing higher dividends, share repurchases, or increasing the leverage (Bessler & Vendrasco, 2022a).

The main finding regarding myopic activism by Autore et al. (2019) is that activist investors in the U.S. demand share repurchases do not have a myopic motive. Likewise, firms, where activist investors have intervened, have more cash holdings, are more undervalued, experience better subsequent stock performance and similar improvements in operating performance, and eventually repurchase more shares compared to firms that are not under the influence of activist investors (Autore et al., 2019).

In Japan, the most frequent and successful (meaning increase in shareholder value) demands by activist investors targeting Japanese listed companies are increasing dividends and share repurchases. Less frequent and successful demands of activist investors targeting Japanese listed companies were major reorganizations and operational changes (Hamao & Matos, 2018).

Chen and Feldman (2018) show evidence that divestitures impelled by AHFs are more positively associated with shareholder value than divestitures by comparable companies with no AHFs involvement. The duration of the positive association starts at the announcement of the divestiture until up to 21 months after the completion of the divestiture. In 2015, major companies like General Electric, AIG, Dow Chemical, DuPont, Qualcomm, Alcoa, Symantec, eBay, Yahoo!, Amgen and others were considering or undertaking divestitures because of an AHF intervention (Chen & Feldman, 2018).

5. PERFORMANCE

What is the activist investors' impact on the financial performance of the targeted company? Depending on targets, strategies and demands what are the most effective campaigns with the highest investment success? Do activist investors positively affect the corporate social performance of companies? The selected articles differentiate between activist investors, AHFs, different geographical markets and various constellations of campaigns containing objectives, targets, strategies and demands. In the following, the findings of the selected articles regarding financial, investment performance and corporate social performance will be illustrated from short- and long-term perspectives. Afterwards, we discuss whether the criticism against myopic activists is justified.

The findings will be illustrated in the following order: international, national AHFs international, and national AIs.

5.1. Financial performance

The financial performance is overall assessed by the ability to generate profits as well as cash (actually free cash flows, but the metric cash holdings as a result of free cash flow will be used in the analyses). In detail, the analyzed and for performance assessment purposes used metrics are cash holdings, future investments, leverage, operational performance, and operational improvement.

Bessler and Vendrasco (2022a) find that AHFs have decreased the profitability, cash holdings and investments of targeted German companies. Their leverage increased meaning the company now finances itself more with loaned money than with its own capital (Bessler & Vendrasco, 2022a). The table below summarizes the findings, whereas "-" means a negative effect, "+" means a positive effect and "/" means no effect observed.

Table 9. Financial performance summary

Pos./Neg.	*Financial metrics*	*Authors*
-	Profitability	Bessler and Vendrasco (2022a)
-	Cash holdings	Bessler and Vendrasco (2022a)
-	Investments	Bessler and Vendrasco (2022a)
+	Leverage	Bessler and Vendrasco (2022a)
+	Operational performance	Francis et al. (2021)

5.1.1. Short-term financial performance

AHFs that target companies around the world increase their profitability between 1.10 and 1.50 percentage points in the first and second years (DesJardine & Durand, 2020). More importantly is the fact that although AHFs on average have a positive performance effect on companies located in the U.S. their effect is stronger if the firm did not experience a high level of employee resignations (Chen et al., 2021). Regarding activist investors in the U.S., Barros et al. (2023) found that they decrease the firms' profitability in the short run. According to the authors, activist campaigns are disrupting the current flow and plans of the management of the company. Managers have to engage with the activists and adjust their leadership accordingly. The time used for restructuring reduces the time needed for executing the plans that were planned beforehand. This causes a drop in the profitability of the company right after the activist campaign (Barros et al., 2023). Activist interventions also do not improve the company's performance measured in return on equity (ROE) and return on assets (ROA) (Barros et al., 2023).

Table 10. Short-term financial performance summary

Pos./Neg.	*Financial metrics*	*Authors*
+	Profitability	DesJardine and Durand (2020)
+	Performance	Chen et al. (2021)
-	Profitability	Barros et al. (2023)
/	ROE, ROA	Barros et al. (2023)

5.1.2. Long-term financial performance

DesJardine and Durand (2020) provide detailed evidence of the profitability of AHFs around the world in the long term considering financial metrics like cash flow, operating cash, investment spending, workforce, operating expenses and capital expenditures. Companies' cash flow decreased by 15.82% after year two and by 27.12% after year five compared to the amount of cash flow they had shortly before the AHF intervention. The operating cash also decreases and during the period between the first and the fifth year, the firm steadily decreases the operating expenses, R&D investments, and capital expenditures. This is in contrast to the activist intention and assertation not to reduce R&D investments in favor of OMRs. As a result of those R&D cutbacks companies gain a cash surplus of $53 million. After three years the company suffered an average cash deficit of $61 million. The decline of R&D investments of activist investors influenced firms in the long run. Maffett et al. (2022) have similar findings, stating that R&D investments declined by approximately 11%. Nevertheless, there is weak evidence for the U.S. that activist investors demanding OMRs led to a small increase in Tobin's Q and the ROA for two years starting at the submission of the 13D filing (Aiken & Lee, 2020). In the emerging market of Brazil, there is no evidence of an impact on the long-term efficiency of a targeted company (Guimaraes et al., 2019). Hamao and Matos (2018) observe similar evidence in Japan where activist investors have no impact on the performance metrics ROA and sales growth (Hamao & Matos, 2018).

In summary, AHFs decrease cash flow, workforces, operating expenses, R&D investments, and capital expenditures. Activist investors targeting companies in the U.S. slightly increase Tobin's Q and ROA, whereas in Brazil and Japan, no impact is measured.

Table 11. Long-term financial performance summary

Pos./Neg.	*Financial metrics*	*Authors*
-	Cash flow	DesJardine and Durand (2020)
-	Operating cash	DesJardine and Durand (2020)
-	Operating expenses	DesJardine and Durand (2020)
-	R&D investments	DesJardine and Durand (2020)
-	Capex	DesJardine and Durand (2020)
-	Cash deficit	DesJardine and Durand (2020)
-	R&D investments	Maffett et al. (2022)
+	Tobin's Q	Aiken and Lee (2020)
+	ROA	Aiken and Lee (2020)
/	Efficiency	Guimaraes et al. (2019)
/	ROA	Hamao and Matos (2018)
/	Sales growth	Hamao and Matos (2018)

5.2. Investment performance

Bessler and Vendrasco (2022a) found AHFs exploiting high returns in Germany before the financial crisis in 2007–2008. This was due to the banks' huge influence historically on firms and low corporate governance standards in the respective companies. They also discovered that AHF campaigns in times of financial crisis periods are almost never successful. The only strategy that worked was by demanding higher payouts in dividends or share repurchases, which increased the stock price in a short-term perspective but with negative impacts in the long-run performance. Bessler and Vendrasco (2022a) also unveil that firms targeted by activist investors before the financial crisis in 2008 had a relatively high institutional ownership share compared to peers increasing the company's value on average by 24.42% in comparison to 0.00% if there was low institutional ownership. Overall, the effects of activism led to the following impacts on the undergone investments:

Table 12. Investment performance summary

Pos./Neg.	*Financial metrics*	*Authors*
+	Profit	Bessler and Vendrasco (2022a)
-	Successfulness	Bessler and Vendrasco (2022a)
+	Company value	Bessler and Vendrasco (2022a)

In order to obtain a more detailed overview, the investment performance will be examined in the next two subsections, differentiating between short-term and long-term investment performance.

5.2.1. Short-term investment performance

The short-term investment performance findings of the selected articles of AHF, then of activist investors in general, will be presented.

After the first year regarding the data of the sample set of AHFs between 2000 and 2016, the market value of the corporation rose on average by 7.66% (DesJardine & Durand, 2020). If AHFs follow an aggressive behavior, they could generate higher returns than non-aggressive AHFs. This phenomenon can only be confirmed at the beginning of the activist campaign; after the announcement of the campaign, the significantly higher returns fade (Bessler & Vendrasco, 2022a). Even when the campaign is over the share price continues to stay high. AHFs in the U.S. (2003–2018) that targeted women-led companies could make higher short-term abnormal market returns than men-led companies (Francis et al., 2021).

The study by Swanson et al. (2022) finds that if activist investors announce they are going to sell their shares in the target company the price surged by 17.36%. Stock prices also increased when active investors announced the bid for a change in corporate strategy (6.53%), engaging with their management (4.16%), influencing board composition (3.99%), and influencing their corporate governance (3.72%). Additionally, the difference in short-term investment performance is examined between AHFs and activist investors (AHFs excluded) in general. Companies approached by activism gain an abnormal return of up to 5.05% within 16 days after the announcement. Activist investors (AHF excluded) gain an increase of 5.5%, whereas AHF returns are about 1% lower though the difference is not statistically significant (Swanson et al., 2022). A significant difference can be seen if the two groups demand a sale of the targeted company. Activist investors (AHF excluded) receive a short-term return of 21.42%, whereas hedge funds only receive a short-term return at the amount of 9.77%. In contrast to AHFs other active investors only demand a sale if the time, rationale and returns seem reasonable (Swanson et al., 2022).

In respect to communication open activism refers to a professional, respectful and goal-oriented communica-tion with the company before the investment (open activism). Such an approach will be acknowledged with abnormal stock returns at least in the U.S. (Aiken & Lee, 2020). Considering a data set of worldwide activist arbitrageurs' engagements, risk-adjusted average abnormal returns are 5.7% higher in the time period of 20 days after the disclosure of the activist investment involvement in comparison to firms without such involvement (Jiang et al., 2019). In accordance with the previous findings, EREIT stock price increased on average when the activist expressed its involvement in the company (Downs et al., 2019).

Investments into Japanese companies entail average abnormal returns of 1.8% if activist investors announce share purchases exceeding the threshold of 5%. Moreover, if activist investors purchase a significantly higher share within the respective company, a positive abnormal return of 3.8% can be achieved (Hamao & Matos, 2018).

Table 13. Short-term investment performance summary

Pos./Neg.	*Financial metrics*	*Authors*
+	Market value	DesJardine and Durand (2020)
+	Shareholder value	Bessler and Vendrasco (2022a)
+	Anormal market returns	Francis et al. (2021)
+	Stock price	Swanson et al. (2022)
+	Abnormal returns	Swanson et al. (2022)
+	Abnormal returns	Swanson et al. (2022)
+	Return	Swanson et al. (2022)
+	Return	Swanson et al. (2022)
+	Stock price	Aiken and Lee (2020)
+	Abnormal returns	Jiang et al. (2019)
+	Stock price	Downs et al. (2019)
+	Stock price	Hamao and Matos (2018)
+	Abnormal returns	Hamao and Matos (2018)
+	Abnormal returns	Hamao and Matos (2018)

In summary, market value, shareholder value, returns, abnormal returns, and stock price are all financial metrics to determine investment performance. A positive trend for activist investors at different geographic locations at a similar time span is seen, although Japanese-targeted companies do not gain the same amount of short-term abnormal returns compared to companies targeted in Germany or the U.S.

5.2.2. Long-term investment performance

Next, the long-term investment performance findings of AHFs and activist investors in general will be illustrated.

The market value of targeted companies by AHFs after the first year (short-term) increased by 7.66%. After year four, the percentage dropped by 4.92%, and after year five by 9.71% (DesJardine & Durand, 2020). This finding does not apply to AHFs targeting German companies. Those investments raise long-term shareholder value (Bessler & Vendrasco, 2022a). In the same way, AHFs targeting women-led companies accomplish higher abnormal market returns in the long run (three to five years) (Francis et al., 2021).

Conversely, data evidence from Swanson et al. (2022) shows that activist investors targeting companies around the world increase long-term shareholder value. Looking at activist investors in general, Swanson et al. (2022) data sample (1994–2014) implicates abnormal stock returns of 12.77% of targeted companies within a 24-month period and of 14.57% in a 36-month period. Three of the four non-sale demands of activists proved to be statistically significant over the long term: Changes in board composition led to an abnormal stock return of 16.06% in a 24-month period and 19.36% in a 36-month period. Engaging with the management caused a 13.88% positive abnormal stock impact in a 24-month period and a respective 17.86% return in a 36-month period. Influencing the corporate strategy entails a 13.31% abnormal return within 24 months and 12.82% in the 36-month period (Swanson et al., 2022). This is not the case for EREITs as their average long-term gains are not statistically significant (Downs et al., 2019).

Evidence from listed Japanese firms approached and influenced by an activist investor experience higher share-holder payout in the form of dividends and much more share repurchases relative to similar observed firms that were not part of an activist intervention (Hamao & Matos, 2018). For activist investments, the average buy-and-hold returns are +4.57% (or 1.39% per year) (Hamao & Matos, 2018). If hostile activist events are isolated, meaning only considering events with hostile active investors actions the buy-and-hold abnormal re-turns increase to +13.48% (Hamao & Matos, 2018). Overall, it seems that despite the poor financial performance the shareholder return of the target firms increases after the engagement by activists' investors. The main reason for this phenomenon might mainly result from intensive OMRs and financial leverage at the respective firms.

Table 14. Long-term investment performance summary

Pos./Neg.	*Financial metrics*	*Authors*
-	Market value	DesJardine and Durand (2020)
+	Shareholder value	Bessler and Vendrasco (2022a)
+	Abnormal returns	Francis et al. (2021)
+	Return	Swanson et al. (2022)
+	Shareholder value	Swanson et al. (2022)
+	Return	Swanson et al. (2022)
+	Return	Swanson et al. (2022)
+	Return	Swanson et al. (2022)
-	Return	Swanson et al. (2022)
/	Gains	Downs et al. (2019)
+	Shareholder value	Hamao and Matos (2018)
+	Buy-and-hold returns	Hamao and Matos (2018)
+	Buy-and-hold abnormal returns	Hamao and Matos (2018)

5.3. Corporate social performance

A company's efforts to balance its economic, legal and social responsibilities to its stakeholders is referred to as corporate social performance (CSP). In the selected articles, DesJardine and Durand (2020) conducted research on CSP. According to their findings, AHF interventions in companies around the world are detrimental to the company's corporate social performance with a respective decline of between 18.56% and 24.79% over a two- to five-year period.

Employees bring value to the company, and contribution between employees varies. If AHFs unintentionally discharge valuable employees, important value creation is being discarded. The worst-case scenario would be employees leaving the firms and joining competitors out of frustration. Such lost employees may use their knowledge to the advantage of the competitors and against their former employer. Therefore, Chen et al. (2021) highlighted in their study on human capital loss regarding AHFs targeting companies in the U.S.

The main finding of this study is that when an AHF announces that it has acquired an appropriate number of shares, the firm experiences a 24% increase in the cancellation of employee stock options compared to other control firms. When an employee leaves a company their stock options are usually cancelled. Firms under the influence of AHF experience the departure of more valuable employees compared to control firms. DesJardine and Durand (2020) also find that between the first and the fifth year, the size of the firms' workforce steadily decreases.

6. CONCLUSION

In conclusion, activist investors' engagements and campaigns have risen on a global scale in recent years heading towards new strategies and markets. The governments of Canada and Australia changed regulations making it easier for activist investors to achieve their goals. Consequently, activism has soared intensively in these countries. In this economic and regulatory context, plenty of new studies have been carried out regarding the financial, investment and corporate social performance of activist investors. Nine of the twenty-four assessed studies provide findings about the financial performance of firms with activist investor engagement. According to the overall findings, the financial performance declines with an engagement by activist investors. In the short-term perspective, the reviewed studies still illustrate inconclusive findings. Some say the activist investors increase the performance and some conclude there is a decline or no impact at all on the target performance. In the long run, the results become negative or show no impact at all. DesJardine and Durand (2020) next to others find tremendous long-term decrease in cash flow, R&D investments and capital expenditures. Only Aiken and Lee (2020) find weak evidence of a long-term increase in Tobin's Q and ROA. Francis et al. (2021) state that women-led target companies have higher operational performance compared to men-led targets.

In contrast, there is a better stock price performance after the investors get actively involved according to eight studies in the last five years. All authors state a significant increase in short-term stock performance using financial metrics like stock price, returns, and abnormal returns. In the long term, only two of the eight authors notice a decline in investment performance. DesJardine and Durand (2020) find that the market value of the company declines. Swanson et al. (2022) state a decline in long-term returns if the activist investors choose a demand regarding corporate governance changes (board composition demands excluded). All other authors identify an increase in long-term stock price performance.

Yet, there is a limitation of the accomplished results and the conducted review: The data of the analyzed studies differ in their timespans, types of activists, market locations, and financial metrics. If every source had applied the same financial metrics to measure the financial and investment performances, the comparability of the studies' findings would have been at a higher level entailing an increased explanatory power.

Another limitation is the scarce research on certain aspects as CSP performance by activist investors. Only three studies (DesJardine & Durand, 2020; Chen et al., 2021; Francis et al., 2021) include research on social conclusions regarding women-led companies, human capital, and CSP in general. Although the authors discover negative impacts on CSP in relation to the engagement of activist investors, DesJardine and Durand (2020) find a decrease in CSP of up to 24.8% after the fifth year. Chen et al. (2021) discovered a 24% increase in the cancellation of employee stock options, meaning a decline in the workforce resulting from a significant resignation of employees), the resilience of the results should be analyzed by further studies. Research on the effects of the ecological orientation of a firm by an engagement of activist investors would also be contemporary to the steadily rising importance of ecological issues.

Eventually, as activist investors are constantly and rapidly evolving (Sendur, 2020) and sophisticated in choosing their strategies to generate higher average abnormal returns compared to any other investor types, further up-to-date research is recommended to shed more insight into this topic.

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APPENDIX

Table A.1. Reference evaluation (Part 1)

Authors	*Source*	*Type*	*Location*	*Period*	*Main findings*
Aiken and Lee (2020)	*Journal of Corporate Finance*	Act. Inv.	U.S.	2000–2015	An important part of the activist's underlying strategy is open activism.
Appel et al. (2019)	*The Review of Financial Studies*	Act. Inv.	U.S.	2005–2019	More passive investors are positively related to higher board representation demands, increase use of proxy fights and higher likelihood of achieving sale of company.
Autore et al. (2019)	*Journal of Banking and Finance*	Act. Inv.	U.S.	1997–2015	Improved corporates repurchase decisions are associated with activist involvement.
Barros et al. (2023)	*Research in International Business and Finance*	Act. Inv.	U.S.	2002–2017	Demanding corporate strategy or board control decreases firms' profitability almost immediately after the campaign. Board representation increases firms' profitability.
Bessler et al. (2022a)	*International Review of Financial Analysis*	AHF	Germany	2000–2020	AHFs increase returns; decrease in firm profitability and cash holdings; leverage increase; M&A investments and capex declined.
Bessler et al. (2022b)	*Finance Research Letters*	AHF	Germany	2000–2020	AHFs are more likely to target smaller firms with lower ownership concentration, higher financial visibility, higher sales growth, higher profitability, lower leverage, greater diversification and higher institutional ownership.
Burkart and Lee (2022)	*Review of Financial Studies*	Inst. Inv.	World	None	Activists specialize in governance reforms and act as takeover facilitators; they are more profitable than hostile takeovers and generate superior returns.
Chen et al. (2021)	*Strategic Management Journal*	AHF	U.S.	2004–2015	AHFs targeted firms have more valuable employee departures.
Chen and Feldman (2018)	*Strategic Management Journal*	AHF	U.S.	2007–2015	Activist-led divestments are more positively associated with shareholder value than manager-led divestments, and this performance difference persists for almost two years after the deals are completed.
Choi and Gong (2020)	*Journal of Accounting and Public Policy*	AHF	U.S.	1995–2015	Hedge fund activism leads to significantly higher CEO turnover and affects CEO pay and the pay-performance differently for new and incumbent CEOs.
DesJardine and Durand (2020)	*Strategic Management Journal*	AHF	World	2000–2016	AHFs lead to short-term financial benefits for shareholders, reflected in increases in market value and profitability, but at the cost of mid- to long-term decreases in operating cash flow, investment spending, and social performance for other stakeholders.
Downs et al. (2019)	*Real Estate Economics*	Act. Inv.	World	2006–2015	Equity REITs (EREITs) are as likely to be targets of shareholder activists as non-EREITs.
Fatima et al. (2018)	*International Journal of Law and Management*	Inst. Inv.	Pakistan	None	Corporate governance in Pakistan is underdeveloped and the fund industry is immature, but there is significant scope for them to play a role in developing corporate governance practices in Pakistan's listed companies.
Francis et al. (2021)	*Journal of Financial Economics*	AHF	U.S.	2003–2018	AHFs are 52% more likely to target women-led firms compared to men-led firms.
Govindarajan and Srivastava (2018)	*Business Horizons*	Act. Inv.	U.S.	2000–2015	The trend towards dual-class shares is being driven by the rise of intangible investment, activism and declining corporate defenses, which threaten corporate democracy but provide immunity from short-term investors.
Guimaraes et al. (2019)	*Corporate Governance*	Act. Inv.	Brazil	2010, 2012, 2014	Activist investors tend to target companies that are less efficient in their operations.

Table A.1. Reference evaluation (Part 2)

Authors	*Source*	*Type*	*Location*	*Period*	*Main findings*
Hamao and Matos (2018)	*Journal of the Japanese and International Economies*	Act. Inv.	Japan	1998–2009	Documents a wave of block acquisitions by hedge funds and other investors, resulting in a positive share price reaction and improvements in corporate governance.
He (2021)	*Journal of Corporate Finance*	Act. Inv.	U.S.	2006–2015	The impact of communication strategies, particularly investor presentations, shows that being first to present increases the chances of winning by 60% due to limited investor attention.
Jiang et al. (2019)	*Finance Research Letters*	Act. Inv.	World	2000–2017	The strategy of activist investors who buy shares in acquirers after an M&A deal is announced to change the terms of the deal or block it.
Levit (2019)	*The Review of Financial Studies*	Act. Inv.	World	None	The role of investor-to-company communication in corporate governance, finding that the threat of voting rights facilitates communication.
Maffett et al. (2022)	*Journal of Accounting and Economics*	Act. Inv.	World	2010–2018	Shareholder activism has become a global phenomenon and the extent to which country-level governance regulations affect the emergence and outcomes of activism.
Sendur (2020)	*Uncertainty and challenges in contemporary economic behaviour*	Act. Inv.	World	None	Shareholder activism has become increasingly influential in shaping corporate governance and fostering a long-term culture of engagement.
Stowell (2018)	*Investment banks, hedge funds, and private equity*	AHF	U.S.	None	Shareholder activism as a strategy to acquire a minority stake in public companies and force changes in corporate policy to increase shareholder value.
Swanson et al. (2022)	*Journal of Corporate Finance*	AHF, Act. Inv.	World	1994–2014	Both private and hedge fund activist interventions increase shareholder value in the short and long term, with divestiture demands generating particularly strong returns.
Viviers and Mans-Kemp (2021)	*Corporate Governance*	PAI	S.A.	2014–2018	The nature and effectiveness of Old Mutual Investment Group's private shareholder activism efforts in South Africa, finding that two-thirds of private engagements were successful, with executive compensation being the primary focus.