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

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Abstract

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

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1 Introduction

In November 2018, an extended dispute between J. Crew CEO James Brett and former long-time CEO Mickey Drexler over J. Crew's strategy culminated in Brett stepping down as CEO after only 16 months on the job. Cases of former corporate insiders actively intervening in corporate decision-making appear to be common. These agents may have many motives for intervening. They may have large equity stakes, be concerned about protecting their legacies, have past histories with current management, or simply believe that they know best how to run the company. These agents also are likely to be well-informed about corporate direction and performance, and, in many cases, still serve on their former employers' boards.

This paper investigates the incidence of intervention into corporate decision-making by what we broadly term "quasi-insiders," as well as the implications of their presence at the periphery of corporate control. In addition to ex-CEOs, these quasi-insiders include founders, other ex-executives, and former board chairs. These agents do not fit neatly into the traditional dichotomy between insiders and outsiders in a firms control structure (e.g., Becker et al. (2011), Clifford and Lindsey (2016)), since they have much of the knowledge and influence of insiders but are not in positions of direct control. Nevertheless, these agents may be well-positioned to play an important role as external providers of corporate governance, especially in firms that traditional activist investors are more likely to ignore. On the other hand, having former insiders continuously "staring over the shoulders" of current management may create distractions and distort corporate decision-making.

While most interventions by quasi-insiders likely happen behind the scenes, as in the case of J. Crew, we identify 125 public activism campaigns that quasi-insiders initiate between 2000 and 2015. These campaigns are most prevalent in small firms with little institutional ownership. If there are fixed costs of third-party activism, including the cost of accumulating a large stake due to low liquidity, then these are the types of firms that traditional activists such as hedge funds are likely to avoid. Because of their inherent informational advantage, influence, and, in most cases, preexisting ownership stake, quasi-insiders may have a comparative advantage intervening in these firms.

While hedge funds tend to initiate activism campaigns at underperforming firms, pre-campaign accounting and stock return performance tend to be even worse at firms subject to campaigns that quasi-insiders initiate. While other factors may be at play, this difference suggests at least two possibilities that shed light on how quasi-insider campaigns work. First, because the absolute size of quasi-insiders' stakes are likely to be smaller than those that traditional activist hedge funds can accumulate, the threshold level of underperformance below which a quasi-insider can profitably intervene may be lower. Second, because of their existing relationship with the firm, its board, and management, these individuals may be more successful at intervening behind the scenes, only resorting to public campaigns in the most extreme cases.

When they embark on activism campaigns, quasi-insiders tend to seek some degree of control rather than just inducing one-time actions such as dividend payments. They seek at least some board representation in 58.4% of the campaigns they undertake, compared to 39.8% of hedge fund activism campaigns. They seek outright control of the board 22.4% of the time, compared to only 7.7% for hedge fund activism campaigns. Quasi-insiders' prior experience with the firm may make them well-positioned to exercise ongoing control rather than simply "shock" the firm with one-time actions to address agency problems. A former CEO or founder may also have strong views about the company's optimal strategy that can only be implemented through some degree of direct control.

The average cumulative abnormal return in the (-10,+1) window associated with the announcement of quasi insider-initiated activism campaigns is 4.5%. This response is similar to the average response associated with the announcement of campaigns initiated by hedge funds (4.6%). It is worth noting that the likelihood that a quasi insider-initiated campaigns achieves its stated objectives is 20% lower than in the case of hedge fund-initiated campaigns, suggesting that the perceived value-creation conditional on campaign success may be even higher in quasi insider-initiated campaigns. Firms that quasi-insiders target also experience an arrest in the pre-campaign decline in their operating performance and some improvement in their operating performance over the three years post-campaign, though the sample is too small to allow for precise estimates of long-run performance changes.

We also find that the mere presence of quasi-insiders is associated with significantly greater sensitivity of CEO turnover to firm performance. Fahlenbrach et al. (2011) document greater turnover-performance sensitivity when a former CEO sits on the companys board. We find that the sensitivity is an order of magnitude greater when a former CEO holds a stake greater than 5% but does not sit on the board. Moreover, while the heightened turnover-performance sensitivity when a former CEO on the board does not survive controlling for firm fixed effects, the heightened sensitivity when a former CEO owns a large stake does. This finding helps to alleviate concerns that any connection between turnover-performance sensitivity and the presence of a quasi-insider in a firms control structure might be driven by time-invariant firm characteristics such as the overall quality of its corporate governance.

Finally, we find some evidence that firms substantially reduce research and development spending when a former CEO owns a large stake. This finding adds to the conclusions of Fahlenbrach et al. (2011) that firms reduce investment more generally when a former CEO is on the firms board. We do not find reductions in other forms of investment such as capital expenditures, or differences in leverage, payout, or performance when these shareholders are present. However, our estimates are fairly imprecise because of the relatively small number of cases where a quasi-insider owns a 5% or larger stake. Nevertheless, the fact that we find a relationship for only the most speculative form of investment could indicate that the presence of a former CEO as a large blockholder makes current management especially risk averse.

To our knowledge, the only prior paper examining the influence of former insiders within a firm is the previously-mentioned paper by Fahlenbrach et al. (2011). Our paper adds to our understanding of the role of former insiders in two ways. First, we document that these individuals actually engage in public activism campaigns in an effort to exert control over their former employers and describe these campaigns. Second, we show that current CEO turnover is much more sensitive to performance when a former insider is a large blockholder than when she is simply on the firm's board. Our paper also relates to the theory of Acharya et al. (2011), who argue that intergenerational interactions may help to control agency conflicts. In their model, the incentives of future CEOs help to discipline current CEOs, while we examine the influence of former CEOs (and other former insiders) on current CEOs.

Our paper also adds to the large literature on blockholder governance (see Edmans and Holderness (2017) for a survey). This literature studies the role of large shareholders in addressing agency conflicts within the firm through monitoring (governance by voice) and impounding information into stock prices (governance by exit). Our paper contributes to this literature by focusing on a specific set of blockholders who, by virtue of their preexisting connection with the firm, may be especially effective monitors. Existing corporate governance research often explicitly excludes these agents when studying the role of external governance providers (Clifford and Lindsey, 2016; von Lilienfeld-Toal and Schnitzler, 2015).

Finally, our paper adds to the literature on shareholder activism. This literature focuses on activism campaigns initiated by hedge funds, which tend to target larger firms. Our results suggest that quasi-insiders may play a role similar to hedge funds in engaging in activism in smaller firms. One important difference between quasi-insider campaigns and other activism contests is that selection in the case of the former is at least partly pre-determined. A hedge fund can choose among many firms to target in an activism campaign, and that choice may reveal the hedge funds private information. In contrast, a quasi-insider is effectively limited to activism involving a single firm. This lack of selection partially allays possible concerns about the contaminating effects of selection in interpreting announcement returns and other responses around traditional activism campaigns.

2 Shareholder Activism

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

2.1 Shareholder Activists and Activism Campaigns

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

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

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

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

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

Hedge funds manage largely unregulated capital, have the ability to hold concentrated positions, can use financial leverage, and employ derivatives in their portfolios. They also face steep financial incentives and are less likely to be beholden to the management of firms than other institutional investors such as mutual funds. For these reasons, hedge funds are thought to be particularly effective activists compared to other types of investors (Boyson and Mooradian (2011)). Hedge funds are known to use a sequence of increasingly aggressive and costly tactics to bring about changes at the firms in which they invest (Gantchev (2013)). They typically start with a conversation with management, which can escalate to more formal communications via press releases and specific proposals if management is unresponsive. If they remain dissatisfied with the management' response, they may initiate a proxy fight, litigation, or in some instances, attempt to take complete control of the company themselves.

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

2.2 Quasi-Insider Activism

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

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

3 Data and Sample

3.1 Quasi-Insider Activism Data

This section describes the data that we use in our empirical analysis. We obtain all activist campaigns from FactSet's SharkWatch corporate activism database announced between January 1, 2000 and December 31, 2015 for which we are able to obtain data on the total assets and book-to-market of target firms from Compustat.[1] We identify 1,962 activist campaigns that hedge funds initiate. This sample of campaigns overlaps with samples that previous papers focusing on hedge fund activism analyze.

We also identify 508 campaigns that SharkWatch flags as involving an individual person as an activist. For each of these campaigns, we gather further information by reading through the campaign synopses and, where

[1]The database contains data on all proxy fights against U.S.-incorporated companies announced since January 1, 2000 and all other non-proxy fight activism against U.S.-incorporated companies announced since January 1, 2006.

applicable, the associated 13D and 14A filings. We supplement these information sources by conducting Google searches on the activists and firms. For each individual activist, we obtain information on any existing or prior relationships between the individual and the target firm. We identify 109 individuals that launched 92 unique campaigns that involve a founder, former CEO, former officer, or former chair who is not a current officer (current board members who are former officers are included), whom we collectively term quasi-insiders.[2]

We supplement this campaign data by searching through all 13D filings filed by individual investors on EDGAR. For each 13D filing, we match the firm and primary filer to Capital IQ's People Intelligence database, which we use to identify whether the primary filer fits our definition of a quasi-insider.[3] For each successful match, we read through the 13D filing and categorize it as being associated with an activism campaign or not. This process yields an additional 42 quasi-insiders that launched 33 campaigns that are not included in FactSet, bringing our total number of quasi-insiders to 151 and total unique campaigns to 125.

We collect data on a number of characteristics of the campaigns, activists, and targeted (as well as untargeted) firms. Campaign announcement dates are taken from Factset. In our sample, 71% of quasi-insider activist campaigns and 79% of hedge fund activist campaigns begin with a 13D filing, which is when the activist group discloses that it has acquired a stake exceeding 5% with active intent. The existing literature has focused on market reactions around 13D filing dates (e.g. Brav et al. (2008); von Lilienfeld-Toal and Schnitzler (2015)). The announcement date recorded for the campaign represents the date on which the activist takes a publicly-disclosed action to commence the campaign, and coincides with the 13D filing date for 48% of the campaigns for both activist types. We focus on the campaign announcement date because that is when information about the specific objectives of the activist is typically revealed. In addition, founders and current executives often own relatively

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

[3]We obtain 40,856 13D filings (excluding amendments) from EDGAR, filed between 2000 and 2016, of which we identify 18,276 as being potentially filed by individuals rather than institutions (we flag a filer as an institution if the filer name field contains terms such as "Capital", "LLC", "LP", "Partners", "Trust" etc.). We restrict firms in Capital IQ to those for which data is available in Compustat and we are able to match 6,995 13D filings (6,022 unique filer-company pairs) to a person in Capital IQ (i.e. with a current or former relationship to the firm). For these individual-company pairs, we obtain any 13D or 13G, including amendments, from EDGAR for the period between 1994 and 2016 (thus, we do not observe a shareholder's initial 13D or 13G filing if it occurred before 1994, prior to the availability of data in EDGAR). This yields a list of 29,147 of 13D and G filings made by an individual during and following their tenure with the firm. We link this to a panel at the firm-year level of data from Capital IQ and Compustat.

large stakes. Because they are, by virtue of their role, in a position to exert influence within the firm, these insiders generally file 13-D rather than 13-G filings, even though they are not, as actual insiders, likely to be engaging in activism. Thus, many quasi-insiders file their initial 13-D filings well in advance of engaging in activism.

We collect information about campaign types and activist ownership at the time of the campaign. We also assign each campaign to one or, at most, two of 12 narrowly-defined categories, nested into five broader super-categories, based on the stated objective(s) of the activist. To do so, we locate and read FactSet's campaign synopsis, SEC proxy and 13D filings, and press releases matching the FactSet announcement date for the campaign and assess the activist's objective(s). The 12 narrow objective categories are similar to those defined in prior papers (e.g., Brav et al. (2008)).

For each activist target, we obtain accounting data for the campaign target firms from Compustat, return data from CRSP, and institutional ownership 13F data from Thomson Reuters. We correct for known errors in the holdings data.[4] All variables we use are described in Appendix A.

3.2 Quasi-Insider Presence Data

In the second part for the analysis, we classify firm-years where a quasi-insider is present. We use data from Capital IQ's People Intelligence database to identify all founders, former CEOs, other former executives, and former board chairs who are not employed by the firm as either an office or director at any point during a given year. We then use data from SEC 13D and 13G filings and subsequent amendments to those filings obtained from SEC's EDGAR filings database to determine whether or not each of these executives owns at least 5% of the firm's stock in the year in question. The structure of this data creates several challenges in determining whether or not an individual is a 5% blockholder at any given point in time.

A shareholder is required to file a 13D or 13G upon accumulating 5% or more of a firm's shares. The shareholder is then required to file an amended 13D or 13G when there is a change in either the ownership level that remains above the 5% threshold or the shareholder's intentions. One challenge is that a shareholder does not have to file

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

a 13D or 13G when dropping below the 5% threshold, making it difficult to determine when a blockholder ceases to be a blockholder.

We identify a former executive as a 13D blockholder in a given year if two criteria are satisfied: (i) the first 13D filing we observe for that individual occurs during and before that year, and (ii) we observe at least one 13D or 13G filing for that individual after that year. We define all years after the last 13D or 13G filing for an individual as missing, since we do not know whether the individual continues to remain above the 5% threshold and simply has no further changes in ownership or purpose to report beyond that point. To remain consistent with the first part of the analysis, and since we are unlikely to observe the first filing for an individual early in the window for which EDGAR is available, we only attempt to classify blockholders for years starting in 2000.

For each firm-year in the sample from 2000 through 2017, we define an indicator variable $QIBlockholder$. This variable takes a value of one if a founder, former CEO, other former top executive, or former board chair not currently employed by the firm is a 13D blockholder based on the definition in the previous paragraph in the given year. It takes a value of zero if the firm does not and has not had a former quasi-insider as a 13D blockholder based on that definition. Finally, we set $QIBlockholder$ to undefined for a firm-year if the firm had a former CEO as a 13D blockholder in any prior year but does not, based on our definition, in the current year.

This approach identifies 340 firm-years at 195 unique firms where a quasi-insider not currently employed by the firm is a 13D blockholder, i.e., where $QIBlockholder = 1$. We note again that because of our conservative approach to classifying 13D blockholders in a given year, there are certainly many firm-years where we set $QIBlockholder$ to undefined where a quasi-insider is, in fact, a blockholder. In part of the analysis, we focus more narrowly on the sample to former CEOs who are blockholders but not employed by the firm (i.e., we exclude founders, other former executives, and former board chairs). This sample includes 184 firm-years at 106 unique firms.

Our firm-year performance measure is $RelativeROA$. We compute this variable as follows. First, we define the firm-year variable ROA (return-on-assets) as net income divided by total assets (at). Second, for each 4-digit SIC code industry in each year, we compute the cross-sectional mean and standard deviation of ROA for all firms in the industry in the year. Third, we compute $RelativeROA$ for a firm-year as the firm's ROA in that year minus mean ROA for the firm's 4-digit SIC code industry, divided by the standard deviation of ROA for the

4-digit SIC code. Thus, $RelativeROA$ represents a standardized z-score for the firm's accounting performance in a given year relative to its industry and has a mean of zero and standard deviation of one by construction. Finally, we identify CEO turnover events using the Capital IQ People Intelligence data. We set the firm-year indicator $CEOTurnover$ to one if the firm experienced a CEO turnover event during a given year and to zero otherwise.

4 Activist, target firm, and campaign characteristics

This section summarizes the sample of campaigns based on characteristics of the activist, target firm, and campaign. The analysis in this section is primarily descriptive. However, we discuss possible interpretations of the role and mode of quasi-insider activists as well as how these differ from those of hedge fund activists.

4.1 Quasi-insider characteristics

We begin by describing the relationships that quasi-insiders involved in activism campaigns have with the firms they target. Panel A of Table 1 summarizes these relationships at the campaign level. Note that these categories are not-mutually exclusive - some campaigns include multiple quasi-insiders, and some individuals fit in multiple categories. 68% of campaigns involve a former non-CEO executive of the target company, 64.8% involve a former CEO, 53.6% of campaigns involve a founder, and 54.4% of campaigns involve a former chair of the board. Panel B of Table 1 summarize these relationships for the 151 quasi-insiders. 55.6% of all quasi-insider are former CEOs, 49% are founders, 47.0% are former board chairs, and 62.9% held other top executive positions. These campaigns also frequently involve other former and current directors.

— Insert Table 1 here —

4.2 Activist campaign characteristics

We next summarize the characteristics of the campaigns themselves. Panel A of Table 2 reports the frequency with which quasi-insiders and hedge funds launch different campaign types, and Panel B reports objective frequencies by quasi-insider and hedge fund campaigns. The breakdown of campaign types indicates that quasi-insider campaigns are much more likely than hedge fund campaigns to take the form of full-blown proxy fights (44.8% of campaigns for quasi-insiders, vs. 26.6% for hedge funds). Activists often initiate proxy fights in campaigns where they seek board representation. While proxy fights do not always coincide with efforts to gain board representation, the prevalence of proxy fights in quasi-insider campaigns is not surprising given the results in Panel B.

— Insert Table 2 here —

This panel reveals that, relative to hedge funds, quasi-insiders are more likely to seek increased control when they launch activism campaigns. They seek full board control in 22.4% of the campaigns they initiate, while hedge funds seek full board control only 7.7% of the time. Quasi-insiders seek at least some board representation 58.4% of the time, compared to 39.8% of the time for hedge funds. They seek to force sales to third parties or a restructuring of the business less frequently. They also seek governance and executive compensation changes and the removal of the CEO or Board Chair more frequently than hedge funds do, though these objectives are relatively uncommon in general.

4.3 Target characteristics

We next describe the firms in our sample. Panel A of Table 3 reports prior year-end summary statistics for quasi-insider activist targets, hedge fund activist targets, and all Compustat firm-years for which firms are not subject to activism campaigns. Panel B of Table 3 reports summary statistics for firm-years with quasi-insider blockholders and all Compustat firm-years without a quasi-insider blockholder. Asterisks indicate statistical significance at the 1%, 5% and 10% levels for Wilcoxon median signed-rank tests that compare quasi-insider activist targets to hedge fund activist targets and other Compustat firms (Panel A) and firms with quasi-insider blockholders and other Compustat firms (Panel B).

— Insert Table 3 here —

Several differences are worth noting about both samples. First, while hedge fund targets are, on average, about the same size as non-targeted firms, the median quasi-insider target is approximately 1/3 of the size of the median size for each of these groups.[5] Similarly, the median firm with a quasi-insider as a blockholder tends to be a little less than one third the size of the average Compustat firm. This difference suggests that quasi-insiders play a governance role in a different set of firms than hedge fund activists do and may rely on a different economic model to generate returns on their investment.

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

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

Third, while hedge fund activists tend to target firms with high levels of institutional ownership relative to other firms, quasi-insiders do not. Existing research suggests that hedge funds prefer to target firms with high levels of institutional ownership because they rely on these institutional owners to support their campaigns (Brav et al. (2008)). Because of their inside connections, quasi-insiders may not need to rely as much on institutional

[5]While quasi-insider targets are normally much smaller, there are some notable exceptions including AIG, IBM, HP, American Express and General Motors.

investor support to achieve their objectives. Alternatively, institutional investors' mandates may prevent them from investing in the types of smaller firms that quasi-insiders target.

Of course, Table 3 only allows for comparisons of quasi-insider targets, hedge fund targets, and other firms on one characteristic at a time. Many of these characteristics are correlated. Thus, to draw conclusions about the nature of firms that quasi-insiders tend to target and how these differ from hedge fund targets and other firms, we next turn to multivariate regression analysis. To do so, we estimate logit regressions, where the dependent variable is equal to one if the firm was targeted by an activist in a given year and zero otherwise. We omit some potential explanatory variables from these regressions, as overlap with some of the included regressors would make interpretation difficult.

We separately compare quasi-insider targets to firms not targeted in activism campaigns and to hedge fund targets. To do so, we estimates logit models for two different samples. We form the first by pooling together all firms targeted by quasi-insiders, measuring characteristics the year prior to the campaign, with all firm-years of all firms not targeted during the sample period. We form the second by pooling together all quasi-insider and hedge fund targets, again measuring characteristics the year prior to the campaign. Finally, in columns (5) and (6) we compare firms with quasi-insider blockholders to firms lacking such blockholders. Table 4 reports the marginal effects from the logit regressions.

— Insert Table 4 here —

For each of the three different samples (quasi-insider campaign targets vs. untargeted firms, quasi-insider targets vs. hedge fund targets, firms with quasi-insider blockholders and those without), we present two separate sets of estimates - one where the explanatory variables are financial characteristics computed using Compustat and one where we add stock returns over the previous year and percentage of shares owned by institutions to that set.[6] Models (1) and (3) present these estimates for the pooled quasi-insider target and untargeted firm sample, models (2) and (4) for the pooled hedge fund target and quasi-insider targeted firm sample, and models (5) and (6) for the quasi-insider blockholder and no quasi-insider blochkholder sample.

[6]Stock returns are not available for all observations in the sample. We therefore estimate regressions without stock returns first to allow us to use as broad a cross section of firms as possible.

Consistent with the univariate comparisons in Table 3, firms targeted by quasi-insiders have lower stock returns than both hedge-fund targets and untargeted firms. They also have lower ROA than hedge-fund targets. They also tend to be smaller than both hedge-fund targets and untargeted firms, as in Table 3. The coefficient on Log(Market Cap) when we pool quasi-insider and hedge fund targets flips its sign when we add stock returns as an explanatory variable. However, note that mean size as reported in Table 3 does not actually differ substantially across the two groups; only the median does.[7] Similarly, we find that firms with quasi-insider blockholders tend to be smaller and have less institutional ownership.

Overall, the results in this section suggest a unique role for quasi-insiders as governance providers. They tend to target smaller firms that traditional hedge fund activists are more likely to ignore. These firms tend to be performing much more poorly when they are targeted. The mode of activism employed by quasi-insider also appears to differ notably from that of hedge fund activists. Quasi-insiders tend to seek greater control and employ more aggressive campaigns. One natural interpretation of these differences is that quasi-insiders are better informed about the strategies, operations, and other features of their targets because of their history with these firms. They may therefore at least view themselves as being better positioned to exert direct control over their targets rather than simply inducing one-time changes. Whether they truly are is an empirical question - one that the next section helps to shed light on.

5 Consequences of quasi-insider activism campaigns

Existing evidence suggests that hedge fund activism campaigns have positive average consequences for shareholders. In this section, we examine the consequences of quasi-insider activism campaigns.

[7] The changing sign is due to institutional ownership and firm size being highly correlated and not due to the changing number of firms between specifications.

5.1 Abnormal Returns and Share Turnover

We begin by examining abnormal returns around the announcements of quasi-insider campaigns and, for comparison, hedge fund campaigns. Figure 1 plots the cumulative abnormal returns (CARs) as well as the abnormal turnover (see Table A1 for definitions) over the 41 day period centered around the campaign announcement date for quasi-insider and hedge fund campaigns.

— Insert Figure 1 here —

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

Subfigures (c) and (d) of Figure 1 present the CARs separately for two groups of campaigns - those involving control-related objectives and those with other objectives - for quasi-insider and hedge fund campaigns, respectively. We classify campaigns where the activism seeks board representation, board control, or a forced sale of the firm to the activist as control-related. Announcements of the two types of campaigns by hedge funds are associated with similar CARs. However, quasi-insider campaigns are associated with somewhat higher CARs when they are control-related than when they are not. In addition, for quasi-insider campaigns only, more of the abnormal return is concentrated within a few days of the campaign announcement for control-related than for other campaigns. While not conclusive, this evidence points towards obtaining control as being especially important to value creation in quasi-insider campaigns.

Table 5 presents the information in Figure 1 in tabular form, allowing us to interpret the magnitude of the CARs around campaign announcements and assess their statistical significance. The (-10,+1) window CAR for quasi-insider campaigns is 4.5% and differs statistically from zero with 99% confidence based on a two-tailed t-test. The (-10,+1) window CAR for hedge fund campaigns is similar at 4.6%. Similarly, the difference between the quasi-insider and hedge fund campaigns for the (-1,+1) is statistically insignificant (3.2% and 3.4%).

— Insert Table 5 here —

5.2 Operating Performance

Figure 1 and Table 5 suggest that, as with hedge fund campaigns, investors perceive quasi-insider campaigns to create value for shareholders. If this perception is correct, then we should observe changes after activism campaigns that ultimately increase cash flow to shareholders. We next investigate the nature of changes in operating performance after activism campaigns by analyzing the evolution of return-on-assets (ROA) around these campaigns. Figure 2 presents this analysis.

— Insert Figure 2 here —

Subfigure (a) plots trends in industry-adjusted ROA - ROA minus median ROA for the 4-digit SIC code industry in the same year - from three years before to three years after campaigns.[8] While there are no clear patterns for hedge fund campaigns, industry-adjusted ROA falls sharply from three years before a quasi-insider campaign to the year of the campaign before increasing substantially after the campaign. This reversal could indicate that quasi-insider campaigns arrest and reverse declines in operating performance, a potentially important source of value-creation. However, we acknowledge that we cannot rule out the possibility that the decline in industry-adjusted ROA before quasi-insider campaigns and the subsequent improvement could simply reflect mean reversion in performance.

Figure 1 (a) shows especially pronounced abnormal returns around quasi-insider campaigns in which gaining control is an objective. In subfigure (b) of Figure 2, we plot industry-adjusted ROA around quasi-insider campaigns

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

separately for control-related and other campaigns. The figure shows both a larger decline in ROA pre-campaign and, consistent with the abnormal returns results, larger improvement in ROA post-campaign for control-related campaigns. Overall, then, the patterns in operating performance are consistent with the positive stock market reaction to the announcement of quasi-insider activism campaigns and suggest that these campaign may, in fact, lead to long-run improvements in operating performance.

For completeness, subfigure (c) shows depicts the same trends for hedge fund campaigns. We see some evidence here of ROA improvements after control-related hedge fund campaigns, but the magnitude of this change appears small.

5.3 Other operating and financial metrics

We also examine how other operating metrics evolve around quasi-insider and hedge fund activist campaigns. Figure 3 plots graphs of (a) sales growth, (b) payout, (c) capital expenditures, and (d) debt. All of these metrics are industry-adjusted.

— Insert Figure 3 here —

Subfigure (a) depicts the most noteworthy pattern. Like ROA, sales growth declines in the three years before quasi-insider campaigns. As with ROA, this decline appears to be reversed after quasi-insider campaigns. Such a reversal of sales growth declines is not apparent for hedge fund targets. Subfigure (b) indicates an increase in payouts relative to the campaign year after both quasi-insider and hedge fund campaigns, though there are no obvious pre-campaign trends here, and post-campaign payouts are similar to pre-campaign payouts. Subfigure (c) shows a downward trend in industry-adjusted capital expenditures, starting from high levels relative to industry peers, that continues through the year of the activism campaign. Subfigure (d) shows that debt levels of quasi-insider campaign targets decrease substantially relative to industry peers following the year of the campaigns, while for hedge-fund campaign targets the trend is close to flat.

5.4 Campaign Success

Finally, we examine the success rates of quasi-insider and other activist campaigns in meeting their stated campaign goals and compare these rates to those of hedge fund activists. To measure campaign success, we read through the campaign notes provided by FactSet and supplement the information from this source with news articles about the outcome of the campaign. We classify a campaign as successful if the firm implemented at least one of the activists' stated objectives. Table 6 summarizes the success rates of hedge fund and quasi-insider activist campaigns and breaks this down by the category of the campaign objectives.

— Insert Table 6 here —

Overall, activists in general are more successful in obtaining board representation or control and less successful in campaigns with a general value objective. Quasi-insiders are successful in achieving at least one of their objectives in 40.8% of their campaigns, lower than the 53.3% success rate of hedge funds in their campaigns, and the difference is statistically significant at the 5% level. This difference does not simply reflect the fact that quasi-insiders have more aggressive objectives. Analysis of success rate by objective category shows that quasi-insiders are less successful in four of the five objective categories, though the difference is only statistically significant for campaigns where the activist seeks board representation or control.

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

We extend this analysis to a multivariate setting to further examine how campaign success varies between hedge fund and quasi-insider activists. We estimate a series of campaign-level probit regressions where the dependent variable is an indicator equal to one for successful campaigns and zero for unsuccessful campaigns. Table 7 presents the marginal effects from the estimates of these regressions.

— Insert Table 7 here —

Columns (1) and (2) pool quasi-insider and hedge fund campaigns together with an indicator equal to one if the campaign was initiated by a quasi-insider, columns (3) and (4) show estimates for the sample of quasi-insider campaigns, while columns (5) and (6) present estimates for the sample of hedge fund campaigns. Columns (1), (3) and (5) present estimates for all of the campaigns initiated by the type of activist in question, while columns (2), (4) and (6) present estimates for proxy contests only. We include as explanatory variables whether the campaign was control related, as well as log market cap and dissident ownership percentage.

Despite the univariate results, we find no evidence that quasi-insiders are less successful in meeting their objectives as evidence by the insignificant coefficient on the quasi-insider indicator. Hedge funds are more successful in meeting their objectives for control related campaigns. We do find that quasi-insider campaign success rate declines with firm size and with the size of their stake for proxy fights, adding further evidence that the main role of quasi-insiders is to provide governance for relatively small firms. In contrast, hedge fund campaigns tend to be more successful at achieving objectives in larger firms and when they own a larger stake in the target.

6 Presence of Quasi-Insiders and Governance

Section 4 presents evidence documenting the initiation of activism campaigns by agents such as founders, former officers, and current non-officer directors who operate at the periphery of control. Section 5 presents evidence suggesting that these campaigns have positive consequences for current shareholders. However, as with other engaged shareholders, public campaigns likely represent only the tip of the iceberg in terms of quasi-insider governance activities. In this section, we examine the impact of simply having a potentially-active quasi-insider as a shareholder on the tightness of firm governance. Specifically, we examine the responsiveness of CEO turnover to firm performance in firms with these shareholders in their ownership structure.

We estimate several OLS regressions of $CEOTurnover$ on lagged $RelativeROA$, lagged $QIBlockholder$, and the interaction of the two. In estimating these regressions, we exclude firm-year observations where the current CEO has been in place for less than two years as of the beginning of the year. A CEO is unlikely to be terminated for poor performance within the first couple of years of her tenure, and turnover so early in a CEO's tenure likely indicates that CEO was an interim CEO. We estimate linear probability models rather than probit or logit models both for ease of interpretation and so that we can incorporate fixed effects into our regressions. However, the results are similar if we estimate probit or logit models as well. Table 8 presents the results from the regressions. We present standard errors clustered at the firm level below each point estimate in the table.

— Insert Table 8 here —

In all of the regressions, we include 4-digit SIC code by year fixed effects to sweep out any time-series variation in turnover within an industry. Column (1) presents the base result. The coefficient on $RelativeROA$ is negative and statistically significant at the one percent level, indicating that CEO turnover events are more likely when a firm's performance is poor relative to its peers. The coefficient on the interaction of $QIBlockholder$ and $RelativeROA$ is negative, large, and statistically significant at the one percent level, indicating that CEO turnover is much more sensitive to performance when a quasi-insider who is not currently employed by the firm is a 13D blockholder. To put the coefficients into context, a one-standard deviation drop in performance is associated with a 1.0% increase in the probability of CEO turnover absent such a blockholder but with a 10.6% increase when such a blockholder is present.

For comparison, in column (2), we add an indicator for whether a former CEO is on the firm's board of directors in a given year ($FormerCEOOnBoard$) and its interaction with $RelativeROA$. Fahlenbrach et al. (2011) present evidence that CEO turnover is more likely when a former CEO is on the board of directors. We find that this interaction is negative, though it is not statistically significant at conventional levels. It is worth noting that our sample period (2000–2017) is different than the sample period that Fahlenbrach et al. (2011) examine (1994–2004). It is also worth noting that the standard error on the interaction coefficient is larger for the quasi-insider blockholder indicator than for the former CEO director indicator, reflecting the smaller number of the former in our data.

In column (3), we add firm fixed effects, in addition to the industry-year fixed effects. The coefficient on the interaction of $QIBlockholder$ and $RelativeROA$ is nearly identical to its value in the first two columns. This finding helps to alleviate concerns that any connection between turnover-performance sensitivity and the presence of a quasi-insider in a firms control structure might be driven by time-invariant firm characteristics such as the overall quality of its corporate governance.[9]

In columns (4) through (6) we repeat the analysis after restricting the quasi-insider blockholders to former CEOs. These individuals, by definition, are likely especially well-positioned to assess the effectiveness of the current management team and may even have the potential to step in if the current CEO leaves. We find the coefficients on the interaction of $QIBlockholder$ and $RelativeROA$ nearly double when we impost this restriction. Overall, the results in Table 8 support the hypothesis that having a quasi-insider blockholder (and especially a former CEO) who is now an outsider makes CEO turnover much more sensitive to firm performance.

Finally, Table 9 reports estimates of the sensitivity of a variety of corporate outcomes to the presence of quasi-insider blockholders. These outcomes are capital expenditures, R&D, sales growth, dividend yield, cash, debt, and ROA. We also examine the sensitivity to having a former CEO as a director for comparison. Panel A includes all quasi-insider blockholders, and Panel B restricts the sample to former CEO blockholders.

— Insert Table 9 here —

While many of these outcomes are sensitive to having a former CEO as a director, we see little evidence of sensitivity to the presence of a quasi-insider blockholder. We find that having a former CEO on the board is associated with lower capital expenditures, less R&D, worse sale growth, less cash, and better performance. The only coefficient that is significant for the quasi-insider blockholders is a negative coefficient where R&D is the outcome variable in the former CEO panel. This coefficient is an order of magnitude larger than the $FormerCEOOnBOard$ coefficient. One interpretation of the fact that we find a relationship for only the most speculative form of investment indicates that the presence of a former CEO as a large blockholder makes current management especially risk averse.

[9] In unreported/Appendix specifications we find that these results are robust to CEO tenure cohort fixed effects, including observations with quasi-insiders who filed 13Gs, relaxing the constraint that the CEO has not been in place at least two years, and a specification where the outgoing CEO takes a job at a larger firm

7 Conclusion

In summary, the evidence presented in this paper suggests that investors in a company who have prior experience as insiders in the company are a source of external corporate governance, especially in smaller companies. While much of the influence they exert is likely to take place outside of the public eye, we document a number of cases where they engage in the same types of activism campaigns that activist hedge funds do. Indeed, they seem to be even more aggressive than activist hedge funds in their campaigns, seeking control rather than just one-time changes with greater frequency. We also document a number of cases where these agents function as blockholders and find that CEO turnover becomes much more sensitive to firm performance when they do. Former insiders may also exert control in many ways that we do not observe as well. Our study is thus likely to underestimate the true extent of quasi-insider-led governance efforts, and further research is needed to understand what takes place in the private domain.

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Appendices

A Variable Definitions

Table A1: Variable Definitions *

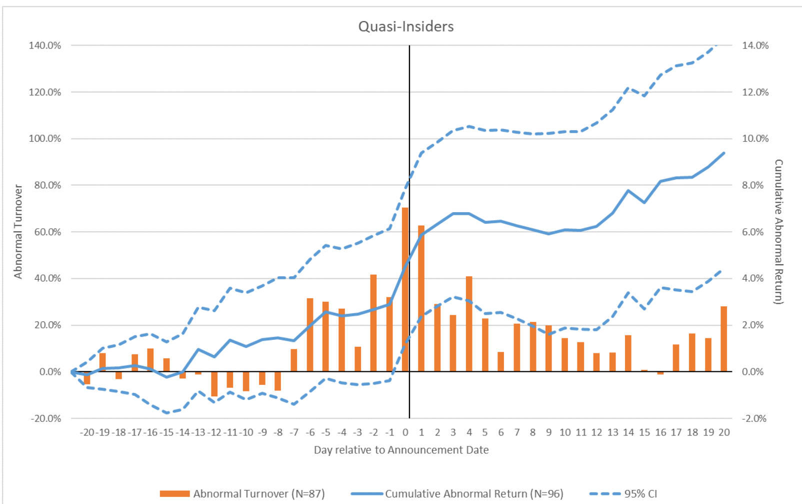
This table contains the definitions and descriptions of the variables used in the paper.

Variable	Definition
Abnormal Turnover	Daily turnover is calculated as daily trading volume divided by shares outstanding. Abnormal daily turnover in the event period is measured relative to the average daily turnover for that firm during the (-100,-40) period relative to the event date (Source: CRSP).
CAPEX	The target firm's capital expenditures divided by total assets (Source: Compustat).
CAR(-i,+j)	The cumulative abnormal return from day -i to day +j relative to the campaign announcement computed using event study methodology with the market model (Source: CRSP).
Cash	The target firm's cash and short-term investments divided by total assets (Source: Compustat).
Debt	The sum of the target firm's long-term debt and debt in current liabilities divided by total assets (Source: Compustat).
Dissident (Dollar) Ownership	The fraction (dollar value in millions) of the target company's shares collectively owned by all the activists involved at the time that the campaign was announced (Source: Factset).
Dividend Yield	The sum of the target firm's common and preferred dividends divided by the sum of the market value of common equity and preferred equity (Source: Compustat).
Institutional Ownership	The percent of shares held by institutions that file with a 13-F (Source: Thompson Reuters).
(Log) Market Cap	The (natural log of) market capitalization in millions of dollars of the target firm at the end of the fiscal year before the campaign (Source: Compustat).
Payout	The target firm's total dividends divided by income before extraordinary items — set to missing if negative (Source: Compustat).
R&D	The target firm's research and development expenses divided by total assets; set equal to zero when missing (Source: Compustat).
ROA	The target firm's net income divided by total assets, return-on-assets (Source: Compustat).

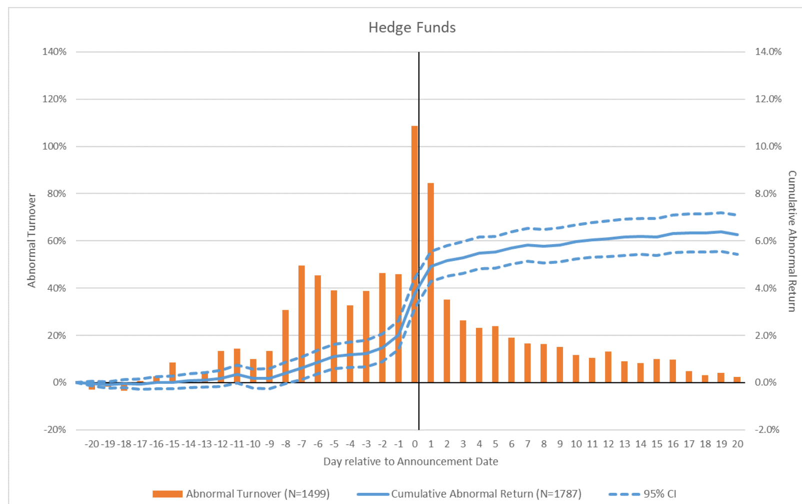
Sales Growth	The change in the target firm's sales between year t and year t-1 divided by sales in year t-1 (Source: Compustat).
Stock Return	The buy-and-hold return in the year prior to the campaign announcement in excess of the value-weighted CRSP index return, computed using monthly return data (Source: CRSP).

Figure 1: Campaign Announcement CARs and Abnormal Turnover

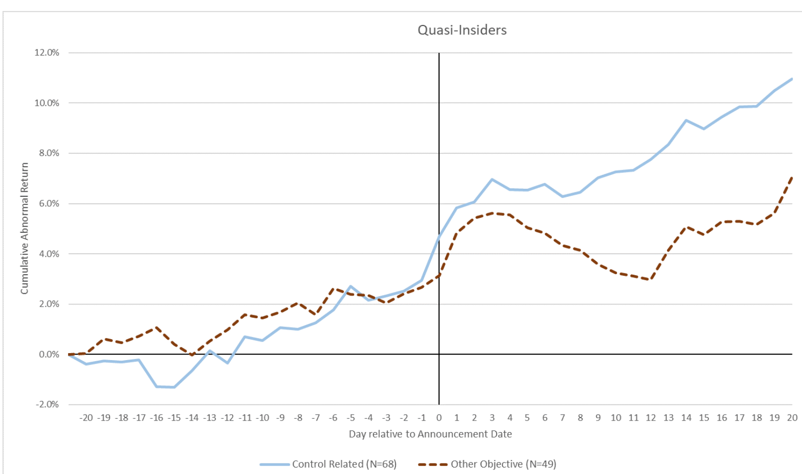
This figure plots the cumulative abnormal returns (CARs) and abnormal turnover around the announcement date for hedge fund and quasi-insider activist campaigns, starting 20 days before and ending 20 days after the announcement date. The sample consists of firms that are targets of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 1). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign. The sample is further restricted to firms for which data are available on returns/turnover in CRSP (see Table A1 for definitions), resulting in 96/87 quasi-insider activist and 1787/1499 hedge fund activist campaigns. CARs are computed using event study methodology with the market model. Abnormal daily turnover in the event period is measured relative to the average daily turnover (calculated as daily trading volume divided by shares outstanding) for that firm during the (-100,-40) period relative to the event date. CARs and abnormal turnover are winsorized at the 5^{th} and 95^{th} percentiles each day relative to the announcement. Figure (a) plots the data for quasi-insider campaigns and (b) plots data for hedge fund campaigns. Figures (c) and (d) plot the CARs separately by the type of campaign objective for quasi-insider and hedge fund activist campaigns. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings (see Panel B Table 2). Control related campaigns consist of those with the objectives of obtaining board representation, board control, or seeking the sale of the target firm to the activist. Other objective consists of all other objectives.



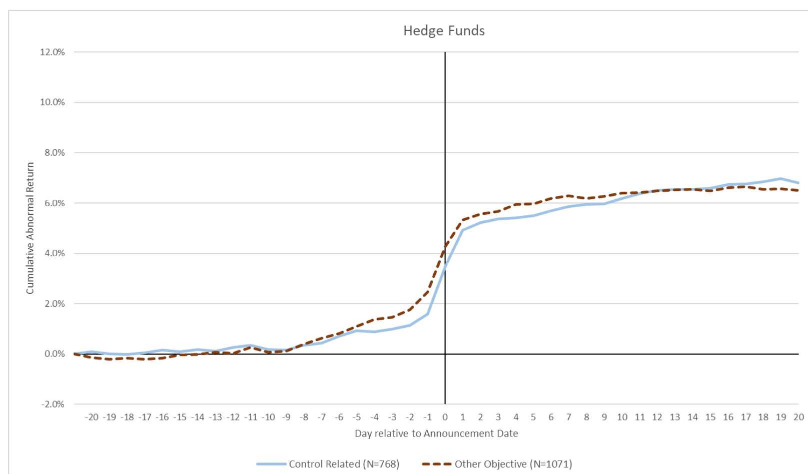
(a) Quasi-Insiders



(b) Hedge Funds



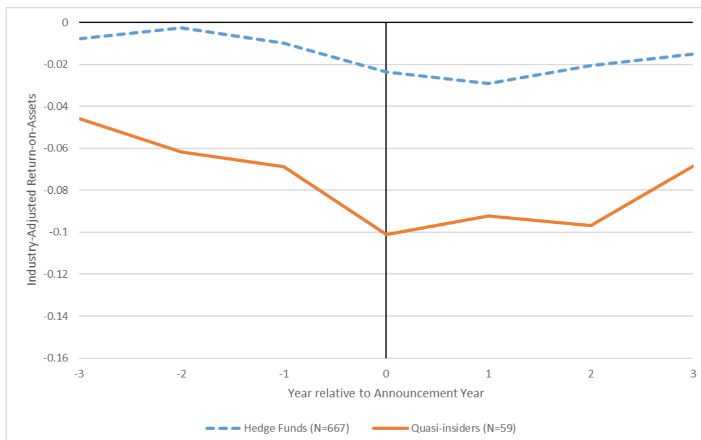
(c) Quasi-Insiders by Objective



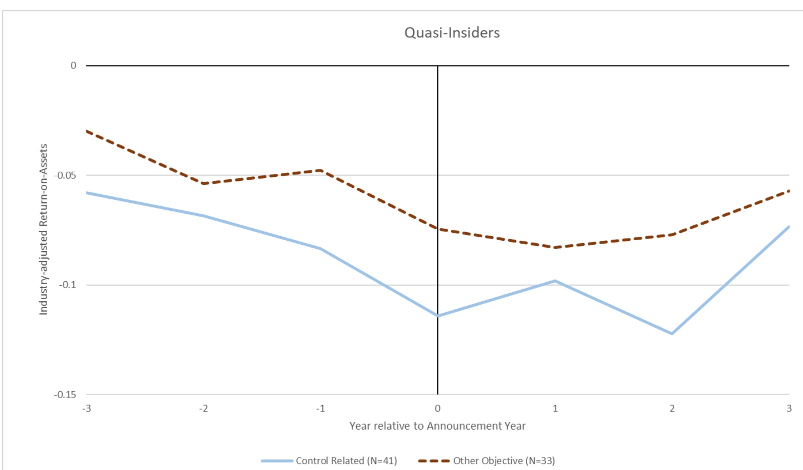
(d) Hedge Funds by Objective

Figure 2: Operating Performance - Return-on-Assets

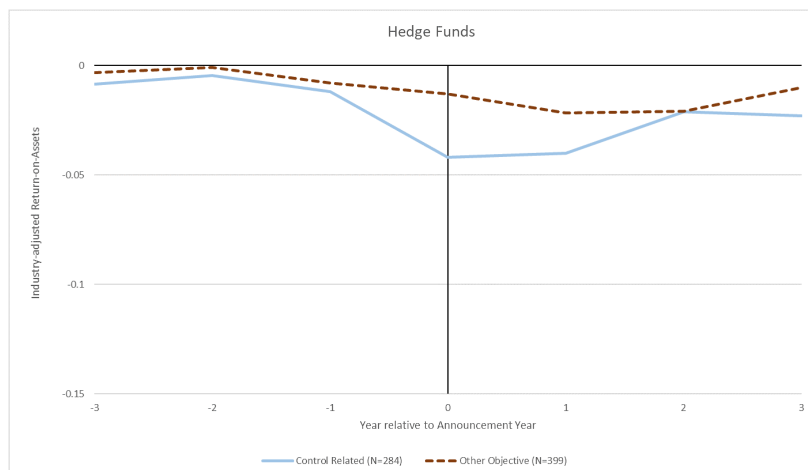
This figure plots the average Return-on-Assets (ROA) around the hedge fund and quasi-insider activist campaigns, starting 3 years before and ending 3 years after the fiscal year during which the campaign was announced. The sample consists of firms that are targets of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 1). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign. The sample is further restricted to firms for which data on ROA is available every year for the period starting 3 years before and ending 3 years after the fiscal year during which the campaign was announced, resulting in 59 quasi-insider and 667 hedge fund activist campaigns. ROA is computed as net income divided by total assets and is adjusted annually by the median ROA of firms in the same 4-digit SIC industry and winsorized at the 5^{th} and 95^{th} percentiles every year. (b) and (c) plot the industry-adjusted ROA separately by the campaign objective for quasi-insider and hedge fund activist campaigns. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings (see Panel B Table 2). Control related campaigns consist of those with the objectives of obtaining board representation, board control, or seeking the sale of the target firm to the activist. Other objective consists of all other objectives.



(a) Quasi-Insiders vs. Hedge Funds



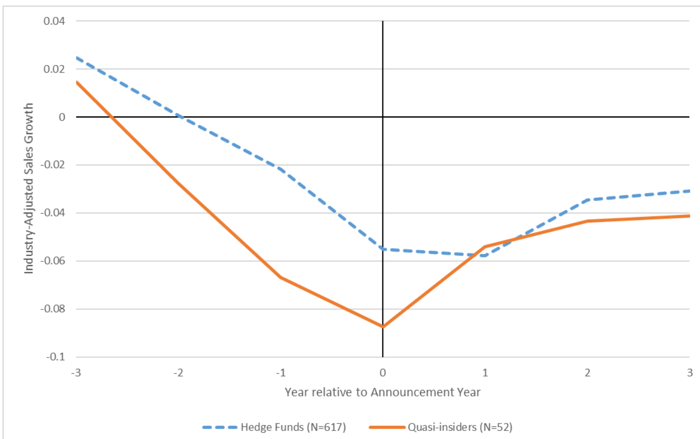
(b) Quasi-Insiders by Objective



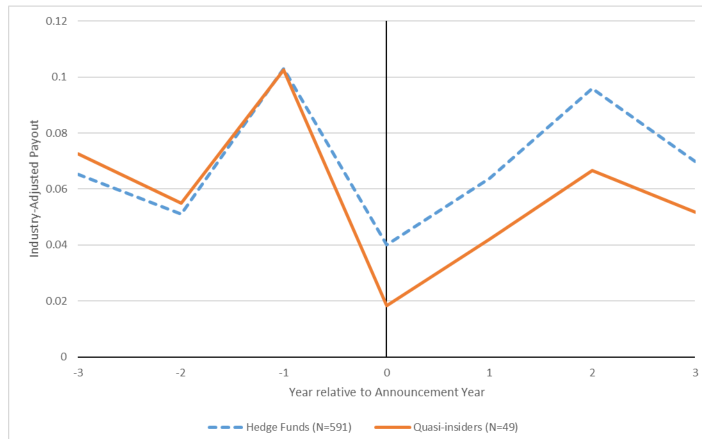
(c) Hedge Funds by Objective

Figure 3: Other Operating Characteristics

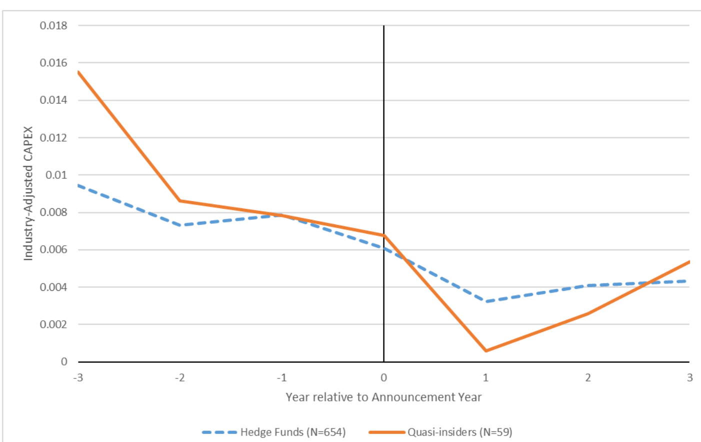
This figure plots Sales growth (a), payout (b), CAPEX (c) and debt (d) around the hedge fund and quasi-insider activist campaigns, starting 3 years before and ending 3 years after the fiscal year during which the campaign was announced. The sample consists of firms that are targets of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 1) The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign. The sample is further restricted to firms for which data on the plotted firm characteristic is available every year for the period starting 3 years before and ending 3 years after the fiscal year during which the campaign was announced ((b) excludes firms with non-positive income before extraordinary items), resulting in 57/49/59/59 quasi-insider and 617/591/654/654 hedge fund activist campaigns in panel (a)/(b)/(c)/(d). All variables are defined in Table A1 and adjusted annually by the median values for firms in the same 4-digit SIC industry and are winsorized at the 5$^{\text{th}}$ and 95$^{\text{th}}$ percentiles every year.



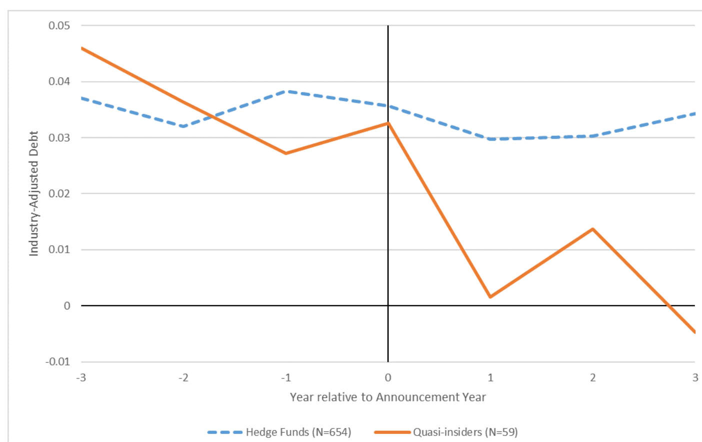
(a) Sales Growth



(b) Payout



(c) CAPEX



(d) Debt

Table 1: Quasi-Insider Activists' Relationships with Target Firms

This table summarizes the relationships of quasi-insider activists with the target firms. The sample consists of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm. The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 151 quasi-insiders that participate in 125 quasi-insider activist campaigns. Information on the activists relationships to target firms is obtained from FactSet campaign synopses, Capital IQ, SEC 13D and proxy filings, and web searches. Panel A reports the relationship breakdown at the campaign level and Panel B reports the relationship breakdown at the quasi-insider level. The relationship classifications are not mutually exclusive because quasi-insiders may have multiple relationships with a firm or a campaign may include multiple quasi-insiders.

Panel A:	N	% of Quasi-Insider Campaigns
Former CEO	81	64.8%
Current Chair	6	4.8%
Former Chair	68	54.4%
Current Director	32	25.6%
Former Director	61	48.8%
Former Other Top Executive	85	68.0%
Founder	67	53.6%
Total	125	

Panel B:	N	% of Quasi-Insider Individuals
Former CEO	84	55.6%
Current Chair	6	4.0%
Former Chair	71	47.0%
Current Director	41	27.2%
Former Director	81	53.6%
Former Other Top Executive	95	62.9%
Founder	74	49.0%
Total	151	

Table 2: Frequency of Campaign Tactics

This table summarizes the type of campaigns employed by hedge fund and quasi-insider activists (Panel A) and the objectives of the activists (Panel B). The type of campaign is classified by FactSet, including whether they made a press release, made contact with other shareholders, or made a formal proxy request. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings. The first column indicates the category of the objective and the second column indicates the specific objective. These are not mutually exclusive because a campaign can have up two distinct main objectives. Campaigns with more than two main objectives are classified as General Value. The sample consists of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 1). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 125 quasi-insider and 1962 hedge fund activist campaigns.

Panel A: Campaign Type

	Quasi-Insiders		**Hedge Funds**	
	N	%	N	%
Exempt Solicitation	8	6.4%	24	1.2%
Other Stockholder Campaign	61	48.8%	1417	72.2%
Proxy Fight	56	44.8%	521	26.6%

Panel B: Campaign Objectives

		Quasi-Insiders		**Hedge Funds**	
		N	%	N	%
General Value	Maximize Value	25	20.0%	295	15.0%
	Capital Structure	1	0.8%	196	10.0%
	Stop Sale	4	3.2%	198	10.1%
Board Representation	Board Representation	45	36.0%	629	32.1%
Board Control	Board Control	28	22.4%	152	7.7%
Sale Related	Sale to 3rd Party	9	7.2%	276	14.1%
	Sale to Activist	18	14.4%	74	3.8%
	Restructure Business	5	4.0%	152	7.7%
Governance	Oust CEO/Chair	5	4.0%	36	1.8%
	Compensation	4	3.2%	26	1.3%
	Governance	12	9.6%	87	4.4%
	Board Proposal	2	1.6%	97	4.9%
	Total	125		1962	

Table 3: Summary Statistics

This table reports summary statistics on characteristics firms targeted by hedge fund and quasi-insider activists. The sample consists of firms that are targets of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 1). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 125 quasi-insider and 1962 hedge fund activist campaigns. Panel A contains summary statistics for targets of quasi-insider activists, hedge fund activists and the sample of Compustat firms excluding targets of quasi-insider or hedge fund activists. Panel B reports summary statistics for quasi-insider blockholders that are not currently employed and a sample of Compustat firms that do not have quasi-insider blockholders. ***, **, * indicate statistical significance at the 1%, 5% and 10% levels for Wilcoxon signed-rank tests (medians) that compare quasi-insider activist targets to hedge fund activist targets and other Compustat firms. All variables are defined in Table A1.

Panel A: Activist campaign summary statistics by activist type

	N	Mean	Median	SD	HF Median	Other Median
Market Cap	125	4500.91	84.48	23497.72	244.02***	277.02***
Cash	125	0.24	0.15	0.26	0.12	0.09**
R&D	125	0.11	0.00	0.40	0.00	0.00
ROA	125	-0.44	-0.03	1.33	0.01***	0.02***
Sales Growth	115	0.05	0.01	0.53	0.03**	0.08***
Debt	125	0.27	0.12	0.82	0.15	0.17
Dividend Yield	125	0.01	0.00	0.02	0.00	0.00
Payout	101	0.30	0.00	2.74	0.00	0.00**
Stock Return	96	-0.14	-0.19	0.47	-0.14	-0.05***
Institutional Ownership	103	0.41	0.39	0.32	0.65***	0.36
Dissident Percent Ownership	121	0.16	0.12	0.13	0.08***	
Dissident Dollar Ownership	121	362.91	8.79	2345.81	17.47***	

Panel B: Quasi-insider blockholder summary statistics

	N	Mean	Median	SD	Other Median
Market Cap	338	1,616.60	59.96	5,723.41	176.93***
Cash	337	0.26	0.15	0.28	0.09***
R&D	340	0.08	0.00	0.16	0.00
ROA	340	-0.54	-0.03	1.50	0.01***
Sales Growth	299	0.21	0.03	1.14	0.06***
Debt	340	0.35	0.18	0.61	0.17
Dividend Yield	340	0.02	0.00	0.04	0.00
Payout	292	0.27	0.00	0.76	0.00***
Stock Return	331	0.09	-0.06	0.90	0.03***
Institutional Ownership	162	0.37	0.29	0.31	0.43***

Table 4: Targeted Regressions

This table reports marginal effects of logit regressions with the dependent variable of interest equal to one if the firm is the target of a quasi-insider activist campaign in the following fiscal year (columns (1) through (4)) or has a quasi-insider as a blockholder (columns (5) and (6)). The sample period in columns (1) through (4) is 2000–2015. The sample period in columns (5) and (6) is 2000-2017. The sample in columns (1) and (3) is the union of firms targeted by quasi-insider activists and Compustat firms not targeted in an activism campaign in the given year. The sample in columns (2) and (4) is the union of firms targeted by quasin-insider activists and firms targeted by hedge fund activists. The dependent variable in columnns (1) through (4) is an indicator for a quasi-insider campaign. The sample in columns (5) and (6) is the union of firms with quasi-insider blockholders and firms without. The dependent variable in columns (5) and (6) is an indicator for the presence of a quasi-insider blockholder. All variables are defined in Table A1. All columns include year Fixed Effects. Columns 1 and 3 compare quasi-insider activist targets with the matched sample of firms. Columns 2 and 5 compare hedge fund activist targets with a matched sample of firms. Columns 3 and 6 compare quasi-insider activist targets to hedge fund activist targets with the dependent variable equal to one for quasi-insider activist campaigns. t-statistics are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels.

	(1) QI Activists vs. Other Firms	(2) QI Activists vs. Hedge Funds	(3) QI Activists vs. Other Firms	(4) QI Activists vs. Hedge Funds	(5) QI Blockholders vs. Other Firms	(6) QI Blockholders vs. Other Firms
Log(Market Cap)	-0.000479***	-0.00809*	-0.000229**	0.00775**	-0.000208***	-0.000130**
	(-5.87)	(-1.95)	(-2.32)	(2.21)	(-3.87)	(2.17)
Cash	0.000653	-0.0245	-0.000179	-0.0201	0.00148***	0.00148***
	(1.29)	(-1.18)	(-0.34)	(-0.92)	(3.01)	(3.09)
R&D	0.00000439	-0.112***	0.000113	-0.0936***	0.000850	0.000797
	(0.03)	(-3.26)	(0.72)	(-2.91)	(1.18)	(1.12)
ROA	-0.00000390	-0.0894***	-0.0000115	-0.0695***	-0.0000863	-0.0000772
	(-0.74)	(-4.76)	(-1.30)	(-3.53)	(-0.86)	(-0.78)
Debt	0.0000171	-0.0515***	-0.000166	-0.0144	-0.000187	-0.000167
	(0.10)	(-2.99)	(-0.40)	(-0.88)	(-0.80)	(-0.72)
Dividend Yield	-0.00133**	0.0579	-0.000764	0.00637	-0.00120	-0.00287
	(-2.48)	(0.96)	(-1.15)	(0.11)	(-0.18)	(-0.43)
Payout	-0.00000672*	-0.000865	0.00000271	0.000592	0.000442*	0.000459*
	(-1.69)	(-0.70)	(1.10)	(0.94)	(1.79)	(1.89)
Stock Return			-0.000741***	-0.0258**		-0.000319*
			(-2.60)	(-2.17)		(-1.84)
% Inst Own			-0.0000319	-0.138***		-0.00127***
			(-0.06)	(-5.61)		(-2.59)
N	89073	2091	84527	1844	121,485	121,485
Pseudo R^2	0.064	0.155	0.064	0.170	0.0118	0.0135

Table 5: Campaign Announcement CARs

This table reports mean cumulative abnormal returns for the (-1,+1) and (-10,+1) windows around the date of the campaign announcement (see Table A1). The sample consists of firms that are targets of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 1). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign. The sample is further restricted to firms for which data are available on returns in CRSP, resulting in 96 quasi-insider and 1787 hedge fund activist campaigns. Mean CARs are reported for all campaigns, and separately for campaigns with control-related objectives and other objectives. Difference between the mean CARs between quasi-insider and hedge fund campaigns are also reported. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings (see Panel B of Table 2). Control related campaigns consist of those with the objectives of obtaining board representation, board control, or seeking the sale of the target firm to the activist. Other objective consists of all other objectives. p-values for quasi-insiders and hedge funds are for t-tests comparing the means to zero. p-values for differences are for t-tests comparing the means for quasi-insider and hedge fund campaigns.

	N	CAR(-1,+1)		CAR(-10,+1)	
		Mean	p-value	Mean	p-value
All objectives:					
Quasi-Insiders	96	0.032	0.00	0.045	0.00
Hedge Funds	1787	0.034	0.00	0.046	0.00
Difference		-0.002	0.79	0.000	0.97
Control-related objectives:					
Quasi-Insiders	68	0.033	0.00	0.051	0.00
Hedge Funds	768	0.038	0.00	0.046	0.00
Difference		-0.005	0.66	0.005	0.76
Other objectives:					
Quasi-Insiders	49	0.024	0.01	0.033	0.07
Hedge Funds	1071	0.036	0.00	0.051	0.00
Difference		-0.011	0.23	-0.018	0.31

Table 6: Frequency of Success

This table reports data on the success of activist campaigns for hedge fund and quasi-insider activists. The sample consists of activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 1). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign, resulting in 125 quasi-insider and 1962 hedge fund activist campaigns. A campaign is classified by hand as being successful if the activist achieves at least one of its stated objectives, according to information in the FactSet synopses and press reports. Success rates are reported for all campaigns as well as separately by objective. Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings (see Panel B of Table 2). Success rates are also reported separately for quasi-insiders and hedge funds. Difference is the difference between the success rates for quasi-insider and hedge fund activists. p-values are for t-tests that compare the success rates for quasi-insider and hedge fund campaigns.

	Quasi-Insiders			**Hedge Funds**			**Difference**	
	N	N Successful	% Successful	N	N Successful	% Successful	% Successful	p-value
All	125	51	40.8%	1962	1045	53.3%	-10.3%	0.018
By objective:								
General Value	30	9	30.0%	479	199	41.5%	-8.6%	0.357
Board Representation	45	22	48.9%	629	416	66.1%	-7.4%	0.062
Board Control	28	10	35.7%	152	107	70.4%	-29.7%	0.001
Sale Related	29	12	41.4%	673	350	52.0%	2.7%	0.782
Governance	23	12	52.2%	216	109	50.5%	-2.1%	0.830

Table 7: Success Regressions

This table reports marginal effects from probit regressions with the dependent variable equal to one if the campaign was successful and zero otherwise. A campaign is classified by hand as being successful if the activist achieves at least one of its stated objectives, according to information in the FactSet synopses and press reports. The sample consists of (firms that are targets of) activist campaigns obtained from FactSet SharkWatch for the period 2000-2015 initiated by either a hedge fund or a quasi-insider, an individual investor who is a founder, former CEO, other former officer or former board chair who is not a current officer (current board members who are former officers are included) of the firm (see Table 1). The sample is restricted to campaigns for which data on target firm characteristics are available in Compustat in the fiscal year prior to the campaign and data on the dissidents ownership is available in Factset, resulting in 121 quasi-insider and 1806 hedge fund activist campaigns. Columns (1) and (2) pool quasi-insider and hedge fund campaigns with an indicator for quasi-insiders as an independent variable. Columns (3) and (4) include only quasi-insider campaigns and (5) and (6) include only hedge fund campaigns. Columns (4) and (6) include proxy fights only (see Panel A of Table 2). Campaign objectives are classified by hand using information from FactSet campaign synopses and SEC 13D and proxy filings. (see Panel B of Table 2). All other variables are defined in Table A1. t-statistics are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels.

	Pooled		**Quasi-Insiders**		**Hedge Funds**	
	(1)	(2)	(3)	(4)	(5)	(6)
Log(Market Cap)	0.0203***	0.0132	-0.0492**	-0.0703**	0.0262***	0.0254**
	(3.49)	(1.11)	(-2.50)	(-2.51)	(4.31)	(1.99)
1(Control Related)	0.181***	0.107	-0.0157	-0.113	0.180***	0.112
	(8.22)	(1.46)	(-0.16)	(-0.56)	(8.19)	(1.52)
Dissident Ownership %	0.476***	0.997***	0.0405	-1.232**	0.566***	1.684***
	(2.95)	(2.97)	(0.11)	(-2.03)	(3.11)	(4.42)
1(Insider)	-0.0860	-0.234				
	(-1.01)	(-1.05)				
1(Insider)x1(Control Related)	-0.146	0.0105				
	(-1.44)	(0.04)				
N	1927	561	121	54	1806	507
Pseduo R^2	0.034	0.027	0.034	0.072	0.035	0.034

Table 8: CEO turnover, firm performance, and quasi-insider ownership

This table presents estimates from OLS regressions of CEO turnover on firm performance and its interactions with the presence of quasi-insiders not currently employed by the firm. The sample period is 2000–2017. The unit of observation is a firm-year. The dependent variable is an indicator equal to one if the firm experiences a change in CEO in a given year and zero otherwise. The main explanatory variables are *RelativeROA*, *QIBlockholder*, and interactions of the two. *RelativeROA* is the z-score of a firm's year *t-1* return on assets within four-digit SIC code-year cell. In columns (1) through (3), *QIBlockholder* is an indicator for having a current 13D blockholder who was a founder, CEO, other executive, or board chair of the firm but is not a current employee. In columns (4) through (6), we restrict the definition to include only former CEOs. See Section 3.2 for a description of how we identify such blockholders. *FormerCEOOnBoard* is an indicator equal to one if a firm has a director at the beginning of the year who was previously but is not currently the CEO of the firm. Firm-years in which the firm's current CEO enters the year having spent less than two full years in that role or for which the given quasi-insider variable is undefined are excluded. Standard errors clustered at the firm level are reported in parentheses below each point estimate. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, based on a two-tailed t-test.

	(1)	(2)	(3)	(4)	(5)	(6)
RelativeROA	-0.010***	-0.009***	-0.012***	-0.010***	-0.009***	-0.012***
	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)	(0.002)
QIBlockholder	0.014	0.014	-0.037	0.039	0.039	-0.136***
	(0.027)	(0.027)	(0.030)	(0.043)	(0.043)	(0.051)
QIBlockholder *	-0.096***	-0.096***	-0.092***	-0.169***	-0.169***	-0.152***
RelativeROA	(0.031)	(0.031)	(0.032)	(0.029)	(0.029)	(0.039)
FormerCEOOnBoard		0.004	-0.193***		0.004	-0.193***
		(0.004)	(0.005)		(0.004)	(0.005)
FormerCEOOnBoard *		-0.007	0.002		-0.007	0.002
RelativeROA		(0.005)	(0.005)		(0.005)	(0.005)
N	97,372	97,372	95,485	97,372	97,372	95,485
Adjusted R^2	0.081	0.081	0.244	0.081	0.082	0.244
Former insider	Any	Any	Any	CEO	CEO	CEO
Ind-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	No	No	Yes	No	No	Yes

Table 9: Firm investment and financing decisions under quasi-insider ownership

This table presents estimates from OLS regressions of various firm-level investment and financing activities on the presence of quasi-insiders not currently employed by the firm. The sample period is 2000–2017. The unit of observation is a firm-year. The dependent variables are capital expenditures divided by beginning-of-year assets, R&D spending dividend by beginning-of-year assets, percentage growth in sales, dividends divided by beginning-of-year assets, cash divided by beginning-of-year assets, book debt-to-assets, and net income divided by beginning-of-year assets. *QIBlockholder* is an indicator for having a quasi-insider who is not a current employee as a major shareholder. Firm-years in which the firm's CEO enters the year having spent less than two full years in that role or for which a given quasi-insider variable is undefined are excluded. *FormerCEOOnBoard* is an indicator equal to one if a firm has a director at the beginning of the year who was previously but is not currently the CEO of the firm. All regressions include 4-digit SIC industry by year fixed effects. Standard errors clustered at the firm level are reported in parentheses below each point estimate. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, based on a two-tailed t-test.

Panel A: Any quasi-insider blockholder

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep Var	Capex	R&D	Sales Growth	Dividend Yield	Cash	Debt	ROA
QIBlockholder	-0.002	0.006	0.002	0.001	0.007	0.009	-0.044
	(0.005)	(0.020)	(0.074)	(0.003)	(0.026)	(0.054)	(0.096)
FormerCEOOnBoard	-0.002*	-0.005*	-0.045***	0.000	-0.007*	-0.005	0.058***
	(0.001)	(0.002)	(0.010)	(0.000)	(0.004)	(0.012)	(0.022)
N	97,372	97,372	90,309	97,372	97,100	97,372	97,372
Adjusted R^2	0.385	0.375	0.091	0.246	0.402	0.100	0.111

Panel B: Former CEO blockholder

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep Var	Capex	R&D	Sales Growth	Dividend Yield	Cash	Debt	ROA
QIBlockholder	0.009	-0.032*	0.044	0.001	-0.055	-0.003	0.133
	(0.009)	(0.018)	(0.100)	(0.004)	(0.036)	(0.070)	(0.082)
FormerCEOOnBoard	-0.005*	-0.002*	-0.045***	0.000	-0.007*	-0.005	0.058***
	(0.002)	(0.001)	(0.010)	(0.000)	(0.004)	(0.012)	(0.022)
N	97,372	97,372	90,309	97,372	97,100	97,372	97,372
Adjusted R^2	0.375	0.385	0.091	0.246	0.402	0.100	0.111