Shareholder Activism and Firm Engagement

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ABSTRACT

While the value that activist investors provide to markets has been debated for years, considerable survey and anecdotal evidence suggests that firms generally oppose shareholder activism. In this paper, we explore whether firms can combat activism through direct engagement with shareholders. By engaging in two-way communication with investors, firms can recognize and correct investor misunderstandings, explain how current actions relate to long-term strategy, and receive investors' feedback on strategic decisions, all of which are particularly important as activists increasingly utilize new communication platforms to more efficiently and effectively garner support from other shareholders. We find that a commitment to engagement is associated with increased investor confidence in management and the board as well as a lower likelihood of being targeted by an activist. We also find that engagement is less effective when (i) the firm has extremely poor performance, and (ii) the investor base is more disperse. Finally, we find that when firms are targeted by activists, firms with a commitment to engagement have less costly and contentious campaigns than those that do not engage investors. Taken together, our findings suggest that direct investor engagement is an important factor in achieving a mutual understanding between the firm and its shareholders, which deters activist investors and mitigates the costly escalation of initiated campaigns.

1. Introduction

The separation of ownership and control has long been a source of tension between investors and managers of public firms. Historically, disgruntled investors have voiced dissatisfaction by either voting with their feet or engaging in very costly takeover bids. However, in recent years, investors have increasingly sought to influence firms by attempting to persuade existing shareholders (particularly large institutions) to support their objectives. This form of investor activism has been enabled by several major changes that have empowered shareholders and enabled activists to more effectively garner the support of other shareholders. First, recent regulations, such as the Dodd-Frank Act of 2010, have eased access to corporate control (SEC 2010, 2011). Second, emerging information technologies have allowed activists to influence others much more effectively and efficiently (Lee, Hutton and Shu 2015). Finally, share ownership and voting participation have become increasingly concentrated into a handful of large index funds and other institutions, which has made them key targets of activist investors lobbying for voting support.[1]

While the appropriateness of activist tactics and their effectiveness in improving firm performance have been a subject of debate among regulators, politicians, researchers, and various market participants,[2] there is little debate about whether most managers and directors would welcome an activist investor. For example, in a 2016 NYSE survey of over 300 directors, over 80% of directors said that they would not welcome an activist's involvement with their board, that activism often creates a negative distraction to management, and that activists are too focused on short-term performance (NYSE 2016).

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[1] As Sullivan and Cromwell (2016) point out, "The success of activist investors, and of companies in defending against activist campaigns, increasingly hinges on the receptivity of large institutional investors to their respective arguments."
[2] Discussed more fully later in this section and in Section 2.

In this paper, we examine whether firms can reduce the likelihood and costly escalation of activism campaigns by using investor relations to engage with investors and other opinion influencers on an on-going basis. We argue that activist battles with management are essentially a struggle to control the opinion of current and prospective shareholders. Engagement allows firms to build stronger relationships with investors (particularly large institutional shareholders) by reducing frictions that typically arise when parties lack mutual understanding. For example, engagement allows the firm to tailor communication to the specific needs (and potential misunderstandings) of investors, thus helping them develop a deeper understanding of the firm, its strategy, and the rationale for key operational decisions. Additionally, this form of engagement provides a venue for the firm to listen to shareholder concerns and potentially receive valuable input regarding strategic decisions. The benefits of this type of engagement are supported by findings from social psychology and organizational behavior, which describe how repeated interactions generate interpersonal familiarity and trust, which make communications more efficient and effective (Steiner 1972; Shah and Jehn 1993). As a result of this increased understanding and trust of management, activists are less likely to both want to change management (or their strategic direction) and persuade current shareholders to side against management on activist issues.

To conduct our analysis, we must empirically capture shareholder engagement; however, this is a difficult task, as engagement is generally characterized by private, two-way communication between shareholders and firm representatives. As such, we use the presence of an internal investor relations (IR) function to proxy for shareholder engagement. We believe the presence of IR is a good proxy for engagement, since the primary purpose of an internal IR group is precisely to engage with investors on a regular basis to help them better understand the firm and its prospects (Chapman, Miller, and White 2017). As the National Investor Relations Institute (NIRI) states, IR consists of

"two-way communication between a company, the financial community, and other constituencies, which ultimately contributes to a company's securities achieving fair valuation" (NIRI 2016).

To examine the impact of IR engagement on investor activism, we conduct our analyses using an entropy balancing technique, which is a quasi-matching approach that weights each observation such that post-weighting distributional properties of treatment and control observations are virtually identical, thereby ensuring covariate balance (Hainmueller 2012; McMullin and Schonberger 2015; Chapman et al. 2017). Given that the decision to initiate an IR program is a firm choice, it is important to control for factors that drive firms' decision to hire IR officers. As such, we match on firm size, market-to-book ratio, leverage, scaled earnings and earnings volatility, as these factors have been shown to be related to the decision to hire an IR team (Kirk and Vincent 2014; Bushee and Miller 2012). We also control for the frequency of firm press releases and financial guidance, since firms with IR tend to provide more press releases and there is some evidence that the frequency of financial guidance may be associated with the incidence of activist campaigns (Chen and Jung 2016; Bourveau and Schoenfeld 2017).

Using this approach for a sample of firms from 2001 to 2016, we examine firms' vulnerability to activism at several stages, from (i) initial impressions of the firm to (ii) the public announcement of activist presence to (iii) open disputes regarding governance or management actions. Firms are vulnerable to activists if there is overall dissatisfaction with the firm or management. In those situations, the firm may appear to be an easy target to activists who believe they can quickly control the message and general opinion of the firm. Thus, we first examine whether engagement has any effect on investor perceptions of management and the board, as proxied by approval rates on shareholder votes for board members (Fischer, Gramlich, Miller, and White 2009). Consistent with investors appreciating firm engagement, as it helps them better understand the firm and the rationale

for firm decisions, we observe a higher approval rating for engaged firms. We argue this suggests these firms would present as more difficult targets for activist.

As firms engage with investors, they are able to more fully communicate their narrative and resolve investor uncertainties, thereby leading to less mispricing (Chapman et al. 2017). This is especially important for reducing a firm's exposure to activism, as many activists cite undervaluation as a reason for targeting the firm (Holderness and Sheehan 1985; Becht, Frank, Mayer, and Rossi 2008; Brav, Jiang, Partnoy, and Thomas 2008; Greenwood and Schor 2009). One reason that undervaluation is desirable for an activist is that it more easily allows for takeover bids, such as tender offers, which generally involve offering a purchase price in excess of the current market price. Further, undervaluation suggests broader dissatisfaction with the status quo, which may allow the activist to quickly amass support. Consistent with engagement preventing such takeover attempts, we find that engaged firms are less likely to receive a tender offer.

In cases where a takeover bid may be too costly or not meet activists' objectives, they will likely seek to exert influence by taking a large stake in the firm, using shareholder proposals or other techniques. To the extent that engagement enables firms to build positive relationships and greater mutual understanding with the investor base, activists might perceive greater difficulty in gaining support from existing shareholders, thus increasing the risk of an unsuccessful or costly campaign. Consistent with this intuition, we find that although investors are *no more or less likely* to acquire large ownership stakes (greater than 5%) in the firm, they are *less likely* to do so with the intent to exert influence or control over the company; that is, engaged firms have a lower likelihood of a 13-D filing, but not a 13-G filing.

The evidence to this point has suggested that IR engagement is effective in limiting activists' desire and/or ability to control the firm's actions. To develop further insights into the impact of engagement, we examine two situations that may impact the relative effectiveness of engagement.

We begin by examining the impact of firm performance. When the firm has performed particularly poorly over the prior year, it likely becomes much more difficult to sustain the confidence and loyalty of shareholders, regardless of the firm's commitment to investor engagement. In such cases, activists may perceive shareholder discontent and be more likely to target the firm without regard for the firm's commitment to investor engagement. Accordingly, we predict and find that engagement is not effective in reducing the likelihood of activism when the firm's stock returns are in the bottom quintile of its industry during the preceding 12 months.

Conversely, because engagement often involves personal interactions with investors, we expect it to be much more efficient and effective when there are fewer shareholders with which the firm must engage and when these shareholders are financially sophisticated and knowledgeable (e.g., a higher concentration of institutional investor ownership). Consistent with this intuition, we find that the effect of engagement is more pronounced for higher levels of institutional ownership.

Although we show that investor engagement can reduce the likelihood of being targeted by an activist, it cannot eliminate all disagreement or be an unassailable defense against activism. In the event that a campaign is initiated, we predict that a firm's commitment to investor engagement will result in milder tactics, such as shareholder proposals, as opposed to more confrontational activist tactics, such as proxy fights, litigation, and vote no campaigns. Our intuition is that more confrontational campaigns often require larger shareholder support and/or more severe changes to management, which may be less likely if the firm has built a good relationship with existing investors. Consistent with this intuition, we find that, conditional on an activist campaign, engaged firms are less likely to face confrontational activist tactics.

This study contributes to prior research on investor activism as well as research related to investor relations and engagement. In particular, a number of prior studies have examined the

relation between activism and firm value, performance, and governance,[3] yet little is known about how a firm's commitment to investor engagement affects the likelihood and extent of activist intervention at the firm. Several prior studies are related to ours along this dimension, but provide conflicting implications. Chen and Jung (2016) and Bourveau and Schoenfeld (2017) examine the relation between investor activism and voluntary public disclosure. Chen and Jung (2016) find that an increase in activist *ownership* in a firm is associated with *less* frequent and precise financial guidance, while Bourveau and Schoenfeld (2017) find that the *threat* of activism is associated with *more* frequent and precise financial guidance. Additionally, Schoenfeld and Bourveau (2017) find that this increase in guidance (approximately one to two additional guidance disclosures per year) is associated with a lower likelihood of being targeted by an activist. Both papers suggest that firms' public communication choices are related to activism. However, activism is more involved than can be captured by a single type of disclosure, which may lead to these apparently conflicting results.

Two prior studies have examined individual interactions of an activist institution with target firms – Carleton et al. (1998) examine private negotiations between TIAA-CREF and 45 firms about governance issues between 1992 and 1996, and Becht et al (2008) examine private engagement between a British activist fund and 41 firms between 1998 and 2004.[4] While these studies provide important insights into the nature and importance of individual engagement between firms and activists, they observe the interactions of only a single activist and, more importantly, they do not examine how a firm's ongoing commitment to engagement affects the likelihood of being targeted by an activist or the escalation of an initiated campaign.

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[3] Holderness and Sheehan 1985; Smith (1996); Brav et al. (2008); Becht et al. (2009); Greenwood and Schor (2009); Klein and Zur (2009); Gantchev (2013)

[4] Carleton et al (1998) find that most firms were responsive to TIAA-CREF's requests (which were generally minor), with stock return reactions differing depending on the type of action. Becht et al (2008) find that private communications with management, board, and investor relations representatives are extensive, and that when the fund's engagement objectives are achieved, there are economically large and\statistically significant positive abnormal returns around the announcement date of the change.

2. Institutional Background and Motivation

2.1. *History of Investor Activism*

Tension between shareholders and managers has existed for as long as ownership and control have been separated in the corporate form. The first recorded example of shareholder participation in corporate governance occurred in 1609 when Isaac Le Maire, a major shareholder in the Dutch East India Company, sent a petition to a Dutch politician asking for relief from perceived shareholder abuse. He wrote that it was "indefensible that a company board could, under whatever pretext, retain another's money for longer or use it in ways other than the latter wishes, for that would be a kind of tyranny" (Koppell, 2011). Le Maire was not satisfied with the response from the United Provinces of the Netherlands or with the response of Dutch East India's board and management, so he then engaged in the first known instance of short-selling of corporate stock (along with rumor mongering intended to drive the stock price down), to which Dutch East India responded with a petition to the government to ban short-selling.

In modern capital markets, an early case of shareholder activism involved a young Benjamin Graham, who wrote a letter to Northern Pipeline in 1926 requesting that the firm sell millions of dollars of railroad bonds and other securities that it owned, and distribute the profits to shareholders in the form of a dividend (Frick 2016). The company's executives disagreed, responding, "running a pipeline is a complex and specialized business, about which you can know very little, but which we have done for a lifetime." Undeterred, Graham tried to persuade any shareholder who owned more than 100 shares of Northern Pipeline to join his campaign. Ultimately, Graham prevailed, helping to usher in the modern era of investor activism.

As the U.S. emerged from World War II as the world's leading economy, U.S. public companies attracted investment capital at increasing levels from a diverse range of investors. Recognizing the need to compete for investment capital and provide specialized communication to investors, U.S.

firms slowly began to recognize the need for investor engagement (Knight 2010); however, this recognition may have come too slowly, as the tension that characterized early exchanges between firms and activists continued, and even escalated, into the era of "corporate raiders" of the late 1970's and 1980's. These activists would often use borrowed funds to aggressively buy a large stake in a public company in order to exert control. In some cases, such as Carl Icahn's hostile takeover of TWA, substantial assets would be spun off and sold to repay the debt used to purchase the company (Fronda 2016). Preferred targets for activists were often characterized as undervalued companies with poor governance (Holderness and Sheehan 1985; Holmstrom and Kaplan 2001).

Targeted firms developed a number of defenses to these takeover tactics, including staggered boards, super-majority voting requirements, various methods of share dilution (e.g. poison pills), greenmail, and substantial increases to the firm's debt levels (Ruback 1987). An example from this time period illustrates how firms utilized these defensive tactics. In December 1984, T. Boone Pickens announced that his company had initiated a tender offer which would increase its ownership in Phillips Petroleum from 6% to 31%. The company fended off this bid by taking on a substantial amount of debt, selling certain assets, and agreeing to buy back Pickens' (and other shareholders) stock at a premium. As is customary with "greenmail" arrangements like this, Pickens agreed not to pursue another takeover bid for a set period of time (in this case, 15 years). Shortly thereafter, Phillips proposed turning over more than a third of the company's ownership to employees to insulate it from further takeover attempts. Sensing shareholder discontent with this proposal, Carl Icahn launched a campaign to defeat it and attempted his own takeover. The company then responded by introducing a poison pill provision that would require an unfriendly buyer to pay shareholders $6.7 billion within one year of a takeover. Ultimately, Phillips made some concessions, agreeing to (among other things) purchase Icahn's stock back at a premium, with an agreement by Icahn to refrain from pursuing another takeover of Phillips for at least 8 years (Cole, 1985). While tactics like these are largely

designed to thwart hostile takeover attempts, they are less effective in situations where shareholders may be somewhat supportive of an activist's plans, as indicated by Phillips' concessions even after introducing the poison pill.

2.2. Recent developments in investor activism

While there have been waves of investor activism since the "corporate raider" era, they have not matched the level of hostility that characterized that time period (Klein and Zur 2009). The decline in this type of activism had a number of contributing factors, including the availability of financing for leveraged buyouts, anti-takeover legislation and jurisprudence, and increased focus on shareholder value via equity-based compensation (Holmstrom and Kaplan 2001). More recently, shareholder activism has involved such activities as publicly disclosed letters to management or existing shareholders, public presentations at investor conferences, threatened and actual proxy fights, and, occasionally, hostile takeover attempts (JP Morgan 2015). These actions generally rely on the activist winning (or threatening to win) the support of other shareholders, particularly large institutional holders. The focus on large institutional shareholders is likely due to the fact that (1) their increasingly concentrated ownership of U.S. public firms makes them less costly to engage than dispersed retail investors, and (2) they are much more likely than retail investors to vote their shares, particularly following the SEC's recent passage of e-proxy reform.[5]

In addition to more concentrated ownership, social media and other emerging information technologies have allowed activists to engage with other investors and market participants much more efficiently and effectively than they could in the past. An early example of this occurred in 2007 when Eric Jackson, a private investor, posted videos on YouTube and set up a blog to discuss his views on

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[5] Voter participation for institutional and retail investors was recently measured at 91% and 28%, respectively (ProxyPulse, 2016). Saccone (2010) provides evidence that the adoption of e-proxy reforms was associated with a decline in retail investor vote participation.

the flaws in Yahoo's business strategy. He was able to gain initial support from smaller shareholders, which allowed him to gain the attention of larger institutions, mobilizing an effort that helped bring down Yahoo's CEO, Terry Semel. Carl Icahn has also been a highly visible example of an activist investor who has used various information technology channels to communicate with other investors. For example, he created a website to mobilize support for his proxy battle against LionsGate Studio, and his tweets about Apple, including details of interactions with CEO Tim Cook, have moved Apple's market cap by billions of dollars (Wessel 2011; Carr 2013).

Finally, in addition to increased efficiency in enlisting the support of shareholders, activists have been aided by recent regulations that are supportive of shareholder rights. The Dodd-Frank Wall Street Reform and Consumer Protection Act contains numerous governance-related provisions, such as requiring shareholder advisory votes about executive compensation and allowing shareholders (under certain conditions) to include their own board nominees on the ballot in the proxy materials released to investors (SEC 2010; SEC 2011). These provisions have not only allowed investors greater influence on the particular issues of executive compensation and board composition, but have also become a vehicle for investors to express broader concerns about firms' governance, performance, and strategy (The Conference Board 2014).

While recent activist investor tactics are generally less hostile than in the era of corporate raiders, there is little evidence that managers and directors would be pleased with an activist targeting their firm. In a recent survey by the New York Stock Exchange, over 80% of directors said that they would not welcome an activist's involvement with their board, that activism often creates a negative distraction to management, and that activists don't represent the interests of all shareholders (NYSE 2016). These survey results are consistent with abundant anecdotal evidence that managers and directors have strong incentives to resist activist involvement.

2.3. Investor engagement

As the tactics of activist investors have changed in recent years, so has the response to activism by U.S. public companies. While takeover defenses, such as poison pills, staggered boards, and taking on more debt, may be effective at countering the threat of a hostile takeover, they are far less effective in the face of current activist tactics, which generally focus on winning support from other shareholders, particularly large shareholders (JP Morgan 2015). Instead, practitioners and experts with significant experience in the current activist landscape suggest that firms take a proactive approach by engaging shareholders early, listening carefully to their concerns, and clearly communicating the firm's strategy, including how current actions and results are related to broader firm objectives (Ernst & Young 2015; JP Morgan 2015; PwC 2015).

It is important to note that this type of investor engagement cannot be carried out simply by releasing public disclosures for investor consumption, but is instead characterized by direct, personal, and bilateral interactions between investors and the firm's management and board of directors (The Conference Board, 2014). Regulators also seem to acknowledge that investors are not monolithic in their objectives and information needs, and have indicated that it may be appropriate to provide direct engagement that is tailored to the needs of different types of investors. For example, in 2016, then SEC Chair Mary Jo White stated:

> "I don't think activists are a seamless piece. I think they can fall into different categories and they can be seeking different things and they can use different methods, which presumably means issuers may want to be responding differently depending on exactly what's in front of them…the uptick in what I call direct shareholder engagement …is quite constructive." (SEC 2016)

Moreover, empirical evidence suggests that investors and other market participants highly value these private communications, often even more than public firm disclosures, such as earnings guidance, conference calls, and financial reports (Bushee, Jung, and Miller 2013; Soltes 2014; Brown, Call, Clement and Sharp 2015, 2017; Solomon and Soltes 2015).[6]

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[6] Despite their idiosyncratic nature and value to investors, these discussions do not necessarily violate securities regulations, such as Regulation Fair Disclosure (Reg FD). Interpretive guidelines published by the SEC regarding Reg

From the standpoint of management and board members, this strategy of direct, proactive investor engagement is likely to be effective in preventing and countering investor activism for at least two reasons. First, because investor activism can take the form of an increasingly costly continuum of actions (Gantchev 2013), activists are likely to resort to it only when firms don't provide opportunities for engagement, or when less costly engagement opportunities have failed. Thus, while investor engagement may not entirely prevent disagreement between activist shareholders and managers, we contend that it should mitigate disagreement, which would make it less likely that an investor would perceive the need to initiate a campaign or to escalate a campaign toward costlier actions. Second, a firm's overall commitment to investor engagement may have an important effect on activism via the firm's relationship with its entire shareholder base. This is because many of the tactics currently employed by activists rely on non-activist shareholder support of the activist's objectives (e.g., via shareholder votes). If a firm has established meaningful and ongoing engagement with the non-activist portion of its investor base (particularly large institutional shareholders),[7] activists would presumably have more difficulty convincing the non-activists to dissent from management's objectives. Since activist investors are likely to perceive the strength of this engagement ex-ante, it may influence an activist's decision about whether to initiate or escalate a campaign.

The importance of engagement with shareholders in mitigating disagreement and establishing effective communication is also supported by broader research in social psychology and organizational behavior. For example, Shah and Jehn (1993) find that inter-personal familiarity allows individuals to distinguish interpersonal conflict from non-personal disagreement, making it easier for individuals to disagree in constructive ways. Steiner (1972) suggests that interpersonal familiarity allows individuals

FD allow for private communications related to clarification and synthetization of information, so long as firms do not release any nonpublic material information (SEC 2000).

[7] While it may not be practical for firms to directly engage with *all* shareholders, practitioners suggest that firms should engage with the largest shareholders (often 10-20 of the largest shareholders) and with shareholders who are influential with other investors or the media, or who are very active in governance matters (The Conference Board 2014).

to have more productive interactions because: (i) they can spend more time and effort on the task at hand, rather than acquiring the interpersonal information that is a necessary precondition for productive coordinated effort, and (ii) there is a lowered risk of mistrust, role ambiguity and miscommunication. Moreover, familiarity can lead to friendship (perhaps more likely in the case of non-activist shareholders), and as relationships shift towards friendship, levels of task-oriented communication and coordination improve (Jehn and Shah 1997).

In summary, we argue that a firm's ongoing commitment to direct, bilateral shareholder engagement is likely to (1) increase mutual understanding of the objectives of both parties, (2) mitigate potential disagreement between managers and shareholders, and (3) make overall communication more effective and efficient. This in turn should reduce the likelihood that activists will perceive a need to initiate a campaign as well as mitigate the potential escalation of a campaign that has been initiated.

2.4. Contrasting viewpoints on engagement

There are also reasons to believe that investor engagement may not have a significant effect in preventing or mitigating the costs of investor activism. First, investors' concern for returns may trump considerations of relationships with management or support of management's strategy. That is, investors may appreciate hearing management's views regarding the direction of the firm when the firm is performing well, but in the end, if performance starts to suffer, they may let the observed performance outcomes influence their decisions much more than any firm communications.

Second, institutional investors are surely aware of the positive abnormal returns commonly earned by activists and may see an activist intervention as an opportunity to collaborate with activists to share in these returns and/or to be part of future productive activist endeavors. Indeed, prior research suggests that activists may coordinate with other investors in accomplishing their objectives (Dimson

et al. 2015; Stevenson 2017). This coordination can potentially reduce the effectiveness of shareholder engagement in combating activism.

Third, as discussed previously, the current trend in activism is for activists to accomplish their objectives by winning the support of existing shareholders. Given the ease with which activists can directly engage with other investors (e.g., through social media and other information channels) as well as their belief in their own strong due diligence (Holderness and Sheehan 1985; Klein and Zur 2007), activists may believe it is more efficient to bypass managers and engage directly with shareholders to convey their rationale for change in the firm.

2.5. The Role of Investor Relations in Investor Engagement

As previously discussed, the type of shareholder engagement that is most valued by institutional investors involves communication with the firm that is direct, bilateral, and often private (The Conference Board, 2014). While firm executives or directors may sometimes be involved in these private communications, many firms have created in-house investor relations (IR) teams to (among other things) engage directly with investors on their behalf. Additionally, IR plays a pivotal role in determining whether and how managers or board members should engage directly with shareholders. Consistent with engagement being a fundamental responsibility of IR, the National Investor Relations Institute (NIRI) has stated that investor relations consists of "two-way communication between a company, the financial community, and other constituencies, which ultimately contributes to a company's securities achieving fair valuation…" (NIRI 2016). Given this definition, it is perhaps unsurprising that a 2004 NIRI survey found that IR departments spend 83% of their time, on average, interacting with analysts and institutional shareholders. Recent research suggests that this communication has consequential capital market impacts. Chapman et al. (2017) find that the presence of an internal IR function is associated with improved assimilation of firm information by

market participants. Consistent with relationships and engagement playing an important role, they find that these assimilation benefits are generally stronger for firms with longer-tenured IR officers.

Given that the primary purpose of IR departments is to provide direct, bilateral communication with investors, and given that this interaction is apparently valued by market participants and has important capital market implications, we argue that the presence of an internal IR function is a desirable proxy for the type of investor engagement that is characterized by direct, bilateral, and often private interactions between shareholders and firm representatives.

3. Research Design, Data, and Sample Selection

3.1 Research Design

Empirically capturing the construct of shareholder engagement is perhaps the most important aspect of the research design; however, it is a difficult task, given that engagement is generally characterized by unobservable, bilateral communication between shareholders and firm representatives. In the absence of a complete record of all communication between firm representatives and shareholders, we must select a higher level proxy that will capture a firm's commitment to engaging directly with shareholders. One potential proxy for this is the presence of an internal investor relations (IR) function. Indeed, the objective of IR, as described by the National Investor Relations Institute (NIRI), is essentially the definition of investor engagement that we are attempting to capture – "two-way communication between a company, the financial community, and other constituencies, which ultimately contributes to a company's securities achieving fair valuation" (NIRI 2016). Recent academic research suggests that the presence of an IR function is associated with improved assimilation of firm information by market participants and less mispricing, which are precisely the economic impacts that one might expect if the objective of the IR function is aligned with the objective described by NIRI (Chapman, Miller, and White 2017). Given the close alignment

of the NIRI objective with the construct of investor engagement, and given the supporting academic research, we argue that the presence of an internal IR function is a good proxy for a firm's commitment to investor engagement.

To conduct our analyses, we use two estimation approaches. First, where possible, we use firm fixed effects to control for any unobservable, time-invariant firm factors that may bias the estimated treatment effect. Second, we utilize entropy balancing, a data preprocessing method that is intended to achieve covariate balance in empirical studies with binary treatment variables (Hainmueller 2012). This differs from the commonly-used propensity score matching (PSM) approach, in which treatment and control observations are matched on a set of covariates and the resulting control group is essentially a weighted version of the original control group, where a binary weight of either zero or one is assigned to each control observation. In contrast, entropy balancing estimates continuous weights for control observations such that the mean and variance of the resulting control group matches that of the treatment group across specified covariates (i.e., covariate balance is achieved).

Our use of entropy balancing is based on three primary considerations. First, when we attempt PSM, we fail to achieve covariate balance between treatment and control observations across several determinants of our proxy for investor engagement (the presence of an internal IR function), which could lead to bias in the subsequent estimate of treatment effects (Drake, 1993). Second, entropy balancing permits less researcher discretion than PSM with respect to such choices as the closeness of the match and the number of control firms to match for each treatment.[8] Finally, entropy balancing retains valuable information in the control group by allowing the unit weights to vary smoothly across units (Hainmueller 2012). In our case, using PSM with a single matched control observation would

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[8] Schonberger and McMullin (2017) highlight this concern in their use of entropy balancing for estimating discretionary accruals and also point to concurrent research on audit quality which finds that estimates of Big N auditor effects using propensity score matching are sensitive to changes in these research design choices (DeFond et al., 2014)

have resulted in approximately 75% of control observations being discarded due to the imbalance between IR and non-IR observations in the sample.

The entropy balancing technique weights control (non-IR) observations such that the post-weighting mean and variance for IR and non-IR observations are virtually identical along the following dimensions: firm size, market-to-book ratio, leverage, scaled earnings and earnings volatility. These factors have been shown to be related to the decision to hire an IR team (Kirk and Vincent 2014; Bushee and Miller 2012).

3.2 Data and Sample Selection

We follow Chapman, Miller and White (2017) by identifying IR officers based on the titles of participating managers on quarterly earnings conference calls. We collect conference call transcripts from the Reg FD newswire service available through Factiva for the years 2002 (the earliest year conference call transcripts are available) through 2015 (the last full year for which transcripts were available at the time we collected data for this study). We identify IR officers as managers whose titles do not include words indicative of either the CEO or CFO but do include at least one of these words: "IR", "investor relations", or "investor". Because some IR officers are also responsible for public relations activities, we also include managers whose titles include the words "public relations," "external relations," or "strategic" when no IR officers are identified using the previous list.

Using this approach we infer the tenure of the IR officer based on the sequential quarters over which a particular person is observed in the IR role.[9] We designate firms as having IR for the purposes of our empirical analyses when the tenure of the IR officer is at least one year. This approach excludes new IR officers who have yet to establish credibility with investors based on the intuition that the

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[9] We also follow Chapman, Miller and White (2017) by inferring IR officer tenure for firm-quarters where conference call transcripts are unavailable in Factiva. In particular, in firm-quarters in which we do not observe an IR officer, but the same IR officer is listed in previous and subsequent quarters and no other IR officer is observed in the interim, we assume the IR officer was in the job during the missing quarter and adjust the sample accordingly.

benefits of investor engagement are not likely to be immediate. We also exclude firms with fewer than 10 quarters across the entire sample as it is often unclear how long the IR officers of these firms have been serving in their positions.

Following Chapman, Miller and White (2017), we take two additional steps to improve our identification of firms with dedicated internal IR officers. First, we exclude firms using external IR consultants, which we identify based on cases in which the firm affiliation of the IR officer does not match the name of the firm hosting the conference call. Second, we exclude IR firms that don't consistently report an IR officer, which we define as less than 80% of available firm-quarters. We match our adjusted sample of IR officer firm-quarters from the Reg FD newswire to Compustat by firm name and the proximity of the conference call date from the Reg FD newswire to the earnings announcement date recorded in Compustat.

Table 1 summarizes the sample selection criteria. We collect data on director support from ISS. We extract data from SEC filings related to potential activist ownership, passive ownership, and tender offers from the SEC's EDGAR repository (on forms 13-D, 13-G and TO, respectively). We use the "subject CIK" field in investor-provided SEC filings to identify the relevant Compustat firm for each filing. We collect data on activist campaigns from CapitalIQ and use their categorizations of campaign methods and objectives in our empirical analysis. We collect various financial statement items from Compustat, measures of returns and liquidity from CRSP, the provision of management forecasts from the IBES management forecast database, the frequency of 8K filings from EDGAR, and the level of institutional ownership from Thomson.

Table 2 provides descriptive statistics and definitions of variables used in our analyses. Panel A of Table 2 provides descriptive statistics on the subset of the primary sample used for our analyses in Table 3, consisting of 17,984 firm quarters for which shareholder vote data is available from ISS, after excluding observations for which necessary data was unavailable. Approximately 34% of these

observations have IR officers with a minimum tenure of one year (Engagement). Consistent with prior literature (Fischer et al 2009), directors of firms in this sample are elected with high levels of investor support (*InvPerception*).

Panel B of Table 2 provides descriptive statistics on the primary sample used in empirical analyses in Table 4 through Table 6, which consists of 322,665 firm-quarters from the Compustat quarterly database between the years 2001 and 2016 (inclusive) for which data is available to calculate the required variables. Approximately 20% of these observations have IR officers with a minimum tenure of one year (*Engagement*). Active ownership filings are filed in only 3.3% of these firm quarters (*ActivistTarget*), while passive ownership filings are more common (18% of firm-quarters – *5%_Ownership*).

Panel C of Table 2 provides descriptive statistics on the subset of the primary sample consisting of 921 firm quarters in which a formal activist campaign was launched according to the CapitalIQ company screening report. The number of observations in this sample (1,879) is higher than the number of firm-quarters because CapitalIQ captures data about each activist campaign at the initiative level and campaigns often consist of multiple initiatives. For example, an activist investor may begin a campaign by engaging management but may later escalate the campaign by making a formal proposal to be voted upon by shareholders. Each of these "initiatives" are captured separately in the CapitalIQ and categorized by objective and method, which we use in empirical analyses. We preserve the initiative-level observational data because objectives and methods may differ by initiative within a single campaign. Approximately 30% of these observations have IR officers with a minimum tenure of one year (*Engagement*). Activist campaign initiatives involve confrontational methods slightly more than half of the time (*Contentious*).

4. Empirical Analyses

In this section, we discuss our empirical approach for examining the relation between investor activism and investor engagement, and then describe the results of our empirical analyses. Our first empirical test examines how investor engagement is associated with shareholders' overall perception of managers and directors, as this is an important mechanism by which engagement may deter activists. We then examine whether investor engagement reduces the likelihood of being targeted by an activist investor, including settings in which investor engagement may have a stronger or weaker influence on activism. Finally, we examine whether, conditional on an activist campaign, investor engagement can impact the confrontational nature of the campaign.

4.1 Investor engagement and shareholder perceptions of management and the board

Our first analysis examines the relation between investor engagement and shareholders' perceptions of management and the board of directors. Our proxy for shareholders' perceptions is the approval rate of votes for seats on the firm's board of directors, as prior research suggests that director vote tallies serve as informative polls on investor perceptions regarding board performance, and predict CEO and board turnover (Fischer et al. 2009). Managing shareholder perceptions and maintaining their support is an important objective of investor engagement, particularly with respect to preventing investor activism, as many activist techniques rely on other shareholders supporting the activists' objectives (Sullivan and Cromwell 2016; J.P. Morgan 2015).

To examine the relation between investor engagement and perceptions of management and board performance, we estimate the following regression:

$$InvPerception_{it} = \beta_0 + \beta_1 Engagement_{it} + Controls_{it} + \varepsilon_{it} \qquad (1)$$

where *InvPerception* is the average percentage of votes in favor of directors on the ballot for firm *i* in year *t* and *Engagement* is an indicator variable set equal to one for firm-years in which we observe an IR officer in place for at least one year. *Controls* is a vector of control variables intended to absorb variation in shareholder votes that may be attributable to general board and manager performance. In

particular, *LnMVE* is the natural log of the firm's market capitalization and is intended to control for the effect that firm size and visibility may have on voting outcomes. *MB* is the market-to-book ratio and is intended to control for the potential impact of over- or under-valuation on voting outcomes. *Prior12MonthReturn* and *ROA* are intended to control for the effect that firm performance may have on voting outcomes, where *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year as of the most recent quarter and *ROA* is a decile ranking of the firm's industry-adjusted ROA (net income scaled by total assets) for the most recent quarter. *InstOwnership* is the percentage of shares held by institutional investors and is intended to control for the voting habits of institutional vs. retail investors, as well as the degree of external monitoring. *NumPressReleases* is the natural log of the number of 8-K's that the firm filed with the SEC over the preceding quarter and is intended to control for the level of investor engagement via public disclosure, as this is distinct from the interactive form of engagement that we attempt to capture via our IR proxy. Finally, in order to control for systematic influences that may affect all firms in a given time period, we include year fixed effects in this and all remaining regressions. To the extent that investor engagement enables firms to manage shareholder perceptions and maintain their support, we expect a positive coefficient estimate on *Engagement* ($\beta_1 > 0$) in Equation (1), indicating higher (on average) shareholder support for directors of firms with greater investor engagement.

Column (1) of Table 3 reports the results from estimating Equation (1) using firm fixed effects. Consistent with our prediction, the coefficient estimate for β_1 is positive and significant at the 5% level. The results in Column (2), using entropy balancing, are also positive and significant at the 10% level. In terms of economic magnitude, these results suggest that our proxy for investor engagement is associated with an increase in voting support of approximately 0.3%. While this effect may initially appear small, it is important to note that there is generally very little variation in director approval rates

(only 1.7% separate the Median firm from the 75th percentile), and even small variations in voting outcomes can be incrementally informative about investor perceptions (Fischer et al 2009).

In order to provide assurance that the presence of an IR function isn't simply a proxy for unconditionally higher shareholder voting support on all items, we include a placebo test in Table 3 Panel B. This test replaces director vote approval with auditor vote approval (*AuditorSupport*) as the dependent variable in Equation 1. Auditor approval should be largely unrelated to shareholder perceptions of management and the board of directors, so we would not expect a statistically significant relation between auditor approval and investor engagement. Indeed, the coefficient on *InvestorEngagement* in Table 3 Panel B is not statistically significant for either the fixed effect or entropy balanced model (t-statistic of 0.45 and 1.17, respectively). In summary, the findings in Table 3 are consistent with our prediction that investor engagement is associated with higher perceptions of the performance of management and the board of directors. This not only provides validation of our proxy for investor engagement, but also provides evidence for an important mechanism by which investor engagement is successful in preventing the likelihood and escalation of investor activism.

4.2 Investor engagement and the likelihood of activism

We next examine how investor engagement impacts the likelihood of being targeted by an activist. There are a couple of reasons why engagement may decrease the likelihood of being targeted by an activist. First, prior research suggests that investor engagement enables a firm to more fully communicate its narrative and resolve investor questions, thereby leading to less mispricing (Chapman et al. 2017), which is often cited by activists as a reason for targeting a firm (Greenwood and Schor 2009). Second, investor engagement may reduce the likelihood of activism by strengthening relationships between firms and existing shareholders, as activists often must garner the support of existing shareholders in order to accomplish their objectives. Accordingly, we expect engagement to be associated with a lower likelihood of firms being targeted by activists.

We first test the effect of investor engagement on the likelihood of a tender offer by estimating the following regression:

$$TenderOffer_{it} = \beta_0 + \beta_1 Engagement_{it} + Controls_{it} + \varepsilon_{it} \qquad (2)$$

where *TenderOffer* is an indicator equal to 1 if an investor in firm *i* filed a Form TO (indicating shareholders of firm *i* receive a takeover bid) in quarter *t,* and zero otherwise; and *Engagement* is an indicator variable set equal to one for firm-years in which we observe an IR officer in place for at least one year. *Controls* is a vector of control variables intended to control for other factors that may increase the likelihood of a firm being targeted with a takeover bid. *LnMVE, MB, Prior12MonthReturn, ROA, EarningsGrowth, InstOwnership,* and *NumPressReleases* are as defined previously. *LnMVE* is intended to control for the effect that firm size and visibility may have on the likelihood of receiving a tender offer. *MB* is intended to control for over- or under-valuation, as prior research suggests that this may influence the likelihood of a takeover bid or being targeted in other ways by an activist (Greenwood and Schor 2009). *Prior12MonthReturn, ROA,* and *EarningsGrowth* are intended to control for firm performance, as prior research also suggests that this may influence the likelihood of a takeover bid or being targeted in other ways by an activist.[10] *Analysts* is the natural log of the number of analysts covering the firm and is intended to control for the degree of external monitoring and the firm's information environment. *Forecasts* is an indicator for whether the firm issued an earnings forecast in the previous quarter and is included as a control because prior research suggests that management forecasts are a particular type of public disclosure that may impact the likelihood of being targeted by an activist (Chen and Jung (2016); Bourveau and Schoenfeld 2017). Finally, we include several additional control variables that prior research has shown to be associated with activist targeting: *Cash&Equiv* is the level of cash and equivalents, scaled by total assets, and *Liquidity* is the average bid-

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[10] Gordon and Pound (1993), Bethel et al. (1998), Becht et al. (2007), Klein and Zur (2009)

ask spread, which we measure in quarter *t-1* in order to avoid the potentially confounding effect of changes in liquidity directly related to the tender offer (Faleye 2004; Klein and Zur 2009; Norli, Ostergaard, & Schindele 2014). To the extent that investor engagement reduces the likelihood of firms being the target of a takeover bid, we expect a negative coefficient estimate on *Engagement* ($\beta_1 < 0$) in Equation (2).

Column 1 (Column 2) of Table 4 reports the results from estimating Equation 2 using firm fixed effects (entropy balancing). Consistent with our prediction, the coefficient estimates for β_1 in both columns are negative and significant at the 1% level. In terms of economic magnitude, these results suggest that our proxy for investor engagement is associated with a 20-40% lower likelihood of shareholders receiving a tender offer in a given quarter (based on the unconditional mean of *TenderOffer* of 1%).

While takeover bids may be the most direct method for an activist to exert control, this method may be too costly or otherwise not meet the activist's objectives. In such cases, activists may seek to exert influence by taking a large stake in the firm, using shareholder proposals, or other techniques that often rely on the support of other shareholders. As previously discussed, the role of engagement in building and maintaining strong relationships between firms and shareholders is particularly important in these cases, as activists may perceive difficulty in winning the support of existing shareholders. To examine the relation between investor engagement and the likelihood of being targeted by an activist (by means other than a tender offer), we estimate the following regression:

$$ActivistTarget_{it} = \beta_0 + \beta_1 Engagement_{it} + Controls_{it} + \varepsilon_{it} \tag{3}$$

where *ActivistTarget* is an indicator equal to 1 if an investor in firm *i* files a Form 13-D (indicating ownership of 5% or more of the firm's shares *and* an intent to influence management) in quarter *t*, and zero otherwise. All other variables are the same as in Table 4. Similar to Table 4, we expect a negative coefficient estimate on *Engagement* ($\beta_1 < 0$).

Column 1 (Column 2) of Table 5, Panel A reports the results from estimating Equation 3 using firm fixed effects (entropy balancing). Consistent with our prediction, the coefficient estimates for β_1 in both columns are negative and significant at the 1% level. In terms of economic magnitude, these results suggest that our proxy for investor engagement is associated with a 10-20% lower likelihood of being targeted by an activist investor via a 13-D in a given quarter (based on the unconditional mean of *ActivistTarget* of 3.3%).[11]

While this effect is both economically large and statistically significant, it is possible that it simply reflects a greater likelihood of concentrated ownership, rather than activist targeting. That is, it may be that a commitment to investor engagement attracts lower concentrations of ownership from both activist *and* non-activist institutional investors. To address this concern, we perform a placebo test in which we replace *ActivistTarget* (the indicator for whether an investor files a 13-D in quarter *t*) with an indicator for whether an investor files a Form 13-G in quarter *t* (*5%_Ownership*). When an investor acquires more than 5% ownership in a firm, the investor must file a 13-D if there is an intent to influence management *or* file a 13-G if there is *no* intent to influence management.[12] If the results in Table 5 Panel A are simply attributable to investor engagement being associated with a lower likelihood of concentrated ownership for both activist *and* non-activist investors, we would expect a negative coefficient estimate on *Engagement* (*$\beta_1<0$*).

Column 1 (Column 2) of Table 5 Panel B report the results of this analysis using firm fixed effects (entropy balancing). In both cases, the coefficient on *Engagement* is not statistically significant (t-

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[11] Our method for identifying activist campaigns – the filing of a 13-D – identifies situations when an activist owns 5% or more a firm's stock and intends to attempt to influence management. There are undoubtedly activist campaigns in which the activist owns less than 5% of the firm. For example, despite owning only 0.8% of Microsoft's outstanding equity, hedge fund ValueAct won a seat on Microsoft's board of directors in 2013 without a proxy fight (Vardi, 2013). It is possible that engagement could be even more important in situations like these, particularly when an activist may intentionally own less than 5% in order to avoid the reporting requirement, thus allowing for more privacy in engaging with the firm. For example, in a recent activist campaign, hedge fund Mantle Ridge won board seats and the replacement of the CEO at CSX with a 4.9% ownership stake (Flaherty, 2017).

[12] If an investor initially files a 13-G, but subsequently decides to attempt to influence management, the investor must then file a 13-D (SEC, 1997).

statistic of 0.69 for both models). This suggests that the results in Panel A of Table 5 are not simply attributable to investor engagement being associated with less concentrated ownership for all investors, but instead point to a lower likelihood of being targeted by activist investors who intend to influence the firm.

4.3 Factors influencing the effectiveness of engagement

While the results in Tables 4 and 5 suggest that a commitment to investor engagement is associated with a lower likelihood of being targeted by activist investors, there may be situations where engagement is more or less effective as a deterrent to activism. For example, investor engagement may only go so far in preserving the confidence and loyalty of investors in the face of poor firm performance. In these cases, investors may be less interested in explanations of the firm's strategy and more interested in advocating changes to that strategy in order to improve performance. In addition to the firm's performance, the composition of the shareholder base may also influence the effectiveness of investor engagement in deterring activism. If the shareholder base is highly concentrated in the hands of relatively few institutional shareholders, the firm can engage with them more effectively and efficiently than if the shareholder base is highly dispersed. Additionally, communication with financially sophisticated investors (such as institutional shareholders) is likely to be much more efficient than attempting to communicate across a diverse investor base with significant variation in financial acuity.

Table 6 presents analyses related to whether firm performance (Panel A) and/or the composition of the shareholder base (Panel B) influences the effectiveness of investor engagement in deterring activism. To examine the impact of firm performance, we partition the sample from Table 5 Panel A into quintiles based on the firm's stock performance (relative to industry peers) in quarter *t*. If poor firm performance limits the influence of investor engagement in deterring activism, then we would expect the coefficient on *Engagement* to move closer to zero as performance declines.

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Table 6 Panel A reports the results of these regressions, with the lowest performing firms (Quintile 1) in Column (1) and the highest performing firms (Quintile 5) in Column 5. The mean stock return for quintiles 1, 2, 3, 4, and 5 is -47%, -20%, -2%, 19%, and 75%, respectively. Consistent with extremely poor performance decreasing the effect of investor engagement in deterring activism, the coefficient on *Engagement* (β_1) moves monotonically closer to zero across declining performance quintiles, and is statistically insignificant from zero for the lowest quintile of performance. As such, engagement works not only when the firm is performing well, but also when it is performing somewhat poorly, as evidenced by quintiles two and three.

To examine how the composition of the shareholder base influences the effectiveness of investor engagement, we partition the sample from Table 5 Panel A into quintiles based on the firm's level of institutional ownership in quarter *t*. If lower concentrations of institutional ownership limit the effectiveness of investor engagement in deterring activism, then we would expect the coefficient on *Engagement* to move closer to zero as the level of institutional ownership declines. Table 6 Panel B reports the results of these regressions, with Column (1) containing observations with the lowest level of institutional ownership and Column (5) containing observations with the highest levels of institutional ownership. Consistent with lower institutional ownership decreasing the effectiveness and efficiency of investor engagement, the coefficient on *Engagement* (β_1) is negative and statistically significant for the top three quintiles of institutional ownership, but is statistically insignificant in the lowest two quintiles.

In summary, the results in Tables 4, 5, and 6 suggest that a firm's commitment to investor engagement can deter investor activism, although this effect may be limited in situations where the benefits of engagement are subsumed by larger concerns (poor firm performance) or when engagement is likely to be less effective or costlier (dispersed shareholder base).

4.4 Investor engagement and the escalation of activist campaigns

While the results of our main analyses suggest that a commitment to investor engagement can deter investor activism, it certainly can't completely prevent it. However, in cases where a firm is targeted by activists, a commitment to investor engagement may mitigate the escalation of an activist campaign toward more contentious or costlier outcomes. The escalation of a campaign often involves actions that rely on the support of other shareholders, such as a 'vote no' campaign or other types of proxy threats/fights. To the extent that investor engagement has created a stronger relationship between the firm and existing shareholders, the activist may perceive that these tactics would be less effective and would therefore be less likely to resort to them.

To examine the impact of investor engagement on the escalation of an initiated campaign, we limit our sample to initiated campaigns and estimate the following regression model:

$$Contentious_{it} = \beta_0 + \beta_1 Engagement_{it} + Controls_{it} + \varepsilon_{it} \qquad (4)$$

where *Contentious* is an indicator equal to 1 if the campaign involves a proxy threat, proxy fight, lawsuit threat, legal action, or vote no campaign, and zero otherwise. The vector of Controls includes one additional variable – the number of campaign objectives (*Num_Objectives*) – which is intended to control for the possibility that campaigns with contentious actions differ fundamentally in scope from other campaigns. All other variables are defined as in Tables 4 and 5.

To the extent that investor engagement mitigates the contentious escalation of a campaign, we would expect a negative coefficient on *Engagement* $(\beta_1 < 0)$ in Equation (4). Column 1 of Table 7 Panel A reports the results from estimating Equation (4) using entropy balancing.[13] Consistent with our prediction, the coefficient estimate for β_1 is negative and significant at the 5% level. In terms of economic magnitude, these results suggest that our proxy for investor engagement is associated with

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[13] Due to the limited within firm variation (less than 2% of firms in our sample are the target of more than one activist campaign), we do not estimate the models using firm fixed effects when the sample is limited to only initiated activist campaigns.

a 10% lower likelihood of a contentious escalation of the activist campaign (based on the unconditional mean of *Contentious* of 0.547).

Perhaps the most contentious escalation of a campaign (outside of a takeover) is the ousting of the CEO. This is also perhaps the clearest setting in which the incentives of the CEO and the activist would not be aligned (even in the case of a takeover, the activist may still allow the CEO to remain). Thus, if managers believe that a commitment to investor engagement is a deterrent to the escalation of a campaign, we might expect it to protect the CEO from being ousted. To examine this, we replace *Contentious* in Equation (4) with an indicator for whether the CEO left the firm during the year after the campaign was initiated (*CEOTurnover*). To the extent that investor engagement reduces the likelihood of the CEO being ousted in a campaign, we would expect a negative coefficient on *Engagement* ($\beta_1 < 0$).

Table 7 Panel B contains the results of this analysis. Consistent with investor engagement protecting the CEO, the coefficient on *Engagement* is negative and significant at the 5% level. In terms of economic magnitude, these results suggest that our proxy for investor engagement is associated with a 25% lower likelihood of CEO turnover (based on the unconditional mean of *CEOTurnover* of 0.203).

5. Conclusion

While prior research has examined a number of determinants and consequences of investor activism, little is known about how direct shareholder engagement is associated with the likelihood and extent of investor activism. The two-way dialogue that characterizes direct shareholder engagement is distinct from public disclosure and allows firms to tailor communication to the specific needs (and potential misunderstandings) of individual investors, thus helping them develop a deeper understanding of the firm, its strategy, and the rationale for key operational decisions. As many activist tactics rely on winning the support of non-activist shareholders, engagement may also

play a vital role in deterring activism by helping to develop and maintain strong relationships with existing shareholders.

Consistent with this intuition, we find that a commitment to engagement is associated with increased investor confidence in management and the board, and a lower likelihood of being targeted by an activist. Intuitively, the effectiveness of engagement in deterring activism decreases as firm performance declines and as the dispersal of the investor base makes direct engagement less efficient. In addition to deterring activism, we also find that a commitment to engagement mitigates the costly and contentious escalation of initiated activist campaigns.

Taken together, these findings suggest that direct investor engagement is an important and distinct factor in achieving mutual understanding and confidence between the firm and its shareholders. Except in cases where extremely poor firm performance or a widely dispersed shareholder base mitigate this effect, engagement appears to play a vital role in deterring activist investors and mitigating the costly escalation of initiated campaigns.

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Table 1 – Sample Selection

	N	*Used In*
Unique firm-year observations in the ISS Company Vote Results database between 2003 and 2014, inclusive	36,919	
Less: observations lacking data on director elections or otherwise lacking sufficient data in Compustat, CRSP or IBES for the computation of control variables	-25,666	
Subsample used in empirical tests of director support	17,984	Table 3 Panel A
Subsample for which data is available on auditor elections	15,051	Table 3 Panel B
Firm-quarter observations in the Compustat quarterly database with earnings announcement dates between 2001 and 2016, inclusive	567,752	
Less: observations lacking sufficient data in Compustat, CRSP or IBES for the computation of control variables	-245,087	
Largest sample used in empirical analysis	322,665	Tables 4, 5, Table 6 Panel A
Subsample of firm-quarters with institutional ownership > 1%	296,247	Table 6 Panel B
Number of activist campaign initiatives identified by the CapitalIQ Company Screening Report between 2001 and 2016, inclusive (from a total of 2,032 activist campaigns)	4,657	
Less: activist campaign initiatives from private firms, firms not included in Compustat or otherwise lacking sufficient data for the computation of control variables	-2,778	
Sample of activist campaign initiatives used in within-campaign empirical analyses	1,879	Table 7 Panel A
Subsample of activist campaign initiatives for which *CEO Turnover* can be calculated using data from ExecuComp	792	Table 7 Panel B

Table 2 – Descriptive Statistics

Panel A: Investor perceptions of management and the board (Table 3 analysis)

Variables	N	mean	p25	p50	p75	sd
Dependent Variables						
InvPerception	17,984	0.948	0.939	0.974	0.991	0.072
AuditorSupport	15,051	0.982	0.980	0.990	0.996	0.040
Independent Variables						
Engagement	17,984	0.336	0.000	0.000	1.000	0.472
LnMVE	17,984	7.156	5.878	6.944	8.214	1.639
MB	17,984	2.760	1.319	2.027	3.290	3.536
Prior12MonthReturn	17,984	4.973	3.000	5.000	7.000	2.680
ROA	17,984	5.810	4.000	6.000	8.000	2.380
InstOwnership	17,984	0.568	0.272	0.651	0.857	0.357
NumPressReleases	17,984	2.631	1.000	2.000	3.000	2.143

InvPerception is the average percentage of votes in favor of directors on the shareholder ballot; *AuditorSupport* is the percentage of votes in favor of the firm's choice of auditor; *Engagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; ROA is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter

Panel B: Likelihood of investor activism (Tables 4, 5, and 6)

Variables	N	mean	p25	p50	p75	sd
Dependent Variables						
TenderOffer	322,665	0.010	0.000	0.000	0.000	0.101
ActivistTarget	322,665	0.033	0.000	0.000	0.000	0.179
5%_Ownership	322,665	0.180	0.000	0.000	0.000	0.384
Independent Variables						
Engagement	322,665	0.199	0.000	0.000	0.000	0.399
LnMVE	322,665	6.013	4.443	5.966	7.482	2.150
MB	322,665	2.628	1.062	1.764	3.085	6.648
Prior12MonthReturn	322,665	4.563	2.000	5.000	7.000	3.009
ROA	322,665	5.077	3.000	5.000	7.000	2.607
InstOwnership	322,665	0.464	0.138	0.451	0.762	0.338
NumPressReleases	322,665	2.172	0.000	2.000	3.000	2.103
Analysts	322,665	1.001	0.000	0.693	1.946	1.072
Forecasts	322,665	0.230	0.000	0.000	0.000	0.421
Cash&Equiv	322,665	0.191	0.030	0.091	0.268	0.230
Liquidity	322,665	20.551	5.083	13.953	28.402	21.538

TenderOffer is an indicator equal to 1 if the firm's shareholders receive a tender offer during the quarter, and zero otherwise; *ActivistTarget* is an indicator equal to 1 if an investor in the firm files a Form 13-D (indicating 5% ownership in the firm *and* an intent to influence management) during the quarter, and zero otherwise; *5%_Ownership* is an indicator equal to 1 if an investor in the firm files a Form 13-G (indicating 5% ownership in the firm, but no intent to influence management) during the quarter; and zero otherwise; *InvEngagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; *ROA* is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter; *Analysts* is the natural log of the number of analysts covering the firm; *Forecasts* is the number of earnings forecasts issued by the firm in the preceding quarter; *Cash&Equiv* is the amount of cash and equivalents scaled by total assets; *Liquidity* is the average bid-ask spread over the preceding quarter.

Panel C: Escalation of activist campaigns (Table 6)

Variables	N	mean	p25	p50	p75	sd
Dependent Variables						
Contentious	1,879	0.547	0.000	1.000	1.000	0.498
CEOTurnover	792	0.203	0.000	0.000	0.000	0.403
Independent Variables						
Engagement	1,879	0.304	0.000	0.000	1.000	0.460
Num_Objectives	1,879	3.467	2.000	3.000	4.000	1.929
LnMVE	1,879	6.309	4.500	6.095	7.825	2.278
MB	1,879	2.443	0.908	1.480	2.576	3.804
Prior12MonthReturn	1,879	3.568	1.000	3.000	6.000	2.705
ROA	1,879	4.555	3.000	4.000	7.000	2.508
InstOwnership	1,879	0.531	0.223	0.581	0.806	0.334
NumPressReleases	1,879	3.092	1.000	3.000	4.000	2.392
Analysts	1,879	0.694	0.000	0.000	1.386	1.096
Forecasts	1,879	0.239	0.000	0.000	0.000	0.427
Cash&Equiv	1,879	0.183	0.036	0.095	0.241	0.216
Liquidity	1,879	21.965	5.018	13.870	29.516	25.329

Contentious is an indicator equal to 1 if the campaign involves a proxy threat, proxy fight, lawsuit threat, legal action, or vote no campaign, and zero otherwise; *CEOTurnover* is an indicator equal to 1 if the CEO left the firm in the year after an activist campaign begins, and zero otherwise; *InvEngagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; *ROA* is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter; *Analysts* is the natural log of the number of analysts covering the firm; *Forecasts* is the number of earnings forecasts issued by the firm in the preceding quarter; *Cash&Equiv* is the amount of cash and equivalents scaled by total assets; *Liquidity* is the average bid-ask spread over the preceding quarter.

Table 3 – Firm engagement and investor perceptions of management and the board

Panel A: Engagement and investor perceptions of management and the board

Variable		Dependent Variable - *InvPerception*	
		(1)	**(2)**
Engagement	+	0.003**	0.003*
		(1.73)	*(1.44)*
LnMVE	+/-	0.003*	0.002***
		(1.71)	*(3.26)*
MB	+/-	0.000	0.000
		(0.20)	*(1.40)*
Prior12MonthReturn	+	0.001***	0.001***
		(5.71)	*(2.65)*
ROA	+	0.001***	0.001**
		(2.66)	*(2.29)*
InstOwnership	+/-	-0.017***	-0.004
		(-4.41)	*(-1.20)*
NumPressReleases	+/-	-0.000	-0.001**
		(-1.17)	*(-2.48)*
Firm Fixed Effects		Y	N
Industry Fixed Effects		N	Y
Entropy Balanced Control Group		N	Y
Observations		17,984	17,984
R-squared		0.119	0.124

Standard errors clustered by firm; t-statistics in parentheses; year fixed effects included in all regressions

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively. Where the sign of the coefficient is predicted, significance levels are one-tailed.

InvPerception is the average percentage of votes in favor of directors on the shareholder ballot; *InvEngagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; ROA is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter

Panel B: Auditor approval vote placebo analysis

Variable		Dependent Variable - *AuditorSupport*	
		(1)	**(2)**
Engagement	+/-	-0.001	-0.001
		(-0.45)	*(-1.17)*
LnMVE	+/-	-0.001	-0.001**
		(-1.55)	*(-2.03)*
MB	+/-	-0.000	0.000
		(-0.89)	*(0.97)*
Prior12MonthReturn	+/-	0.000**	0.000
		(2.52)	*(0.97)*
ROA	+/-	0.000	0.000
		(0.26)	*(0.16)*
InstOwnership	+/-	-0.001	-0.001
		(-0.32)	*(-0.64)*
NumPressReleases	+/-	0.000	-0.000
		(0.20)	*(-0.22)*
Firm Fixed Effects		Y	N
Industry Fixed Effects		N	Y
Entropy Balanced Control Group		N	Y
Observations		15,051	15,051
R-squared		0.029	0.058

Standard errors clustered by firm; t-statistics in parentheses; year fixed effects included in all regressions

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively. Where the sign of the coefficient is predicted, significance levels are one-tailed.

AuditorSupport is the percentage of votes in favor of the firm's choice of auditor; *InvEngagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; ROA is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter

Table 4 – Firm Engagement and takeover attempts

Variable		**Dependent Variable -** *TenderOffer*	
		(1)	**(2)**
Engagement	+	-0.004***	-0.002***
		(-4.91)	*(-3.28)*
LnMVE	-	-0.003***	0.001**
		(-7.23)	*(1.86)*
MB	-	-0.000**	-0.000***
		(-1.84)	*(-2.37)*
Prior12MonthReturn	-	-0.000***	-0.001***
		(-4.83)	*(-5.61)*
ROA	-	-0.000***	-0.001***
		(-2.91)	*(-6.88)*
InstOwnership	+/-	0.003*	0.003**
		(1.81)	*(1.97)*
NumPressReleases	+/-	0.000***	0.001***
		(2.66)	*(6.89)*
Analysts	+/-	0.000	0.001**
		(0.88)	*(2.18)*
Forecasts	+/-	0.000	0.000
		(0.18)	*(0.04)*
Cash&Equiv	+/-	0.002	0.009***
		(0.65)	*(4.84)*
Liquidity	+/-	0.000	-0.000***
		(1.02)	*(-4.15)*
Firm Fixed Effects		Y	N
Industry Fixed Effects		N	Y
Entropy Balanced Control Group		N	Y
Observations		322,665	322,665
R-squared		0.079	0.006

Standard errors clustered by firm; t-statistics in parentheses; year fixed effects included in all regressions

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively. Where the sign of the coefficient is predicted, significance levels are one-tailed.

TenderOffer is an indicator equal to 1 if the firm's shareholders receive a tender offer during the quarter, and zero otherwise; *InvEngagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; *ROA* is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter; *Analysts* is the natural log of the number of analysts covering the firm; *Forecasts* is the number of earnings forecasts issued by the firm in the preceding quarter; *Cash&Equiv* is the amount of cash and equivalents scaled by total assets; *Liquidity* is the average bid-ask spread over the preceding quarter.

Table 5 – Firm engagement and the likelihood of activism

Panel A: Likelihood of activist targeting

Variable		Dependent Variable - *ActivistTarget*	
		(1)	(2)
Engagement	+	-0.006***	-0.003***
		(-5.45)	*(-2.96)*
LnMVE	-	-0.013***	-0.006***
		(-15.65)	*(-17.67)*
MB	-	-0.000	-0.000
		(-0.89)	*(-0.06)*
Prior12MonthReturn	-	0.000	-0.001***
		(1.17)	*(-5.35)*
ROA	-	-0.001***	-0.002***
		(-6.28)	*(-8.19)*
InstOwnership	+/-	0.002	-0.002
		(0.87)	*(-1.06)*
NumPressReleases	+/-	0.001***	0.002***
		(3.08)	*(8.82)*
Analysts	+/-	-0.003***	-0.002***
		(-5.39)	*(-3.17)*
Forecasts	+/-	0.001	-0.002**
		(0.99)	*(-2.41)*
Cash&Equiv	+/-	-0.012***	-0.008***
		(-2.80)	*(-3.20)*
Liquidity	+/-	0.000***	0.000
		(3.65)	*(0.01)*
Firm Fixed Effects		Y	N
Industry Fixed Effects		N	Y
Entropy Balanced Control Group		N	Y
Observations		322,665	322,665
R-squared		0.081	0.013

Standard errors clustered by firm; t-statistics in parentheses; year fixed effects included in all regressions

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively. Where the sign of the coefficient is predicted, significance levels are one-tailed.

ActivistTarget is an indicator equal to 1 if an investor in the firm files a Form 13-D (indicating 5% ownership in the firm and an intent to influence management) during the quarter, and zero otherwise; *InvEngagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; *ROA* is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter; *Analysts* is the natural log of the number of analysts covering the firm; *Forecasts* is the number of earnings forecasts issued by the firm in the preceding quarter; *Cash&Equiv* is the amount of cash and equivalents scaled by total assets; *Liquidity* is the average bid-ask spread over the preceding quarter.

Panel B: 5% Ownership placebo analysis

Variable		Dependent Variable - *5%_Ownership*	
		(1)	**(2)**
Engagement	+/-	0.002	0.002
		(0.69)	*(0.69)*
LnMVE	+/-	0.006***	-0.011***
		(4.33)	*(-13.15)*
MB	+/-	-0.000	0.000
		(-0.56)	*(0.75)*
Prior12MonthReturn	+/-	-0.003***	-0.003***
		(-10.21)	*(-8.11)*
ROA	+/-	-0.004***	-0.005***
		(-8.62)	*(-9.43)*
InstOwnership	+/-	0.160***	0.201***
		(26.89)	*(39.67)*
NumPressReleases	+/-	-0.004***	0.001**
		(-8.02)	*(2.22)*
Analysts	+/-	0.001	-0.000
		(0.53)	*(-0.10)*
Forecasts	+/-	-0.007***	-0.005**
		(-2.64)	*(-2.11)*
Cash&Equiv	+/-	0.053***	0.077***
		(6.81)	*(10.98)*
Liquidity	+/-	-0.000***	-0.000***
		(-5.23)	*(-3.76)*
Firm Fixed Effects		Y	N
Industry Fixed Effects		N	Y
Entropy Balanced Control Group		N	Y
Observations		322,665	322,665
R-squared		0.111	0.043

Standard errors clustered by firm; t-statistics in parentheses; year fixed effects included in all regressions

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively. Where the sign of the coefficient is predicted, significance levels are one-tailed.

5%_Ownership is an indicator equal to 1 if an investor in the firm files a Form 13-G (indicating 5% ownership in the firm, but no intent to influence management) during the quarter; *InvEngagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; *ROA* is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter; *Analysts* is the natural log of the number of analysts covering the firm; *Forecasts* is the number of earnings forecasts issued by the firm in the preceding quarter; *Cash&Equiv* is the amount of cash and equivalents scaled by total assets; *Liquidity* is the average bid-ask spread over the preceding quarter.

Table 6 – Factors influencing the effectiveness of firm engagement

Panel A: Firm Performance

Variable		Quintile 1 (Lowest Returns) (1)	Quintile 2 (2)	Quintile 3 (3)	Quintile 4 (4)	Quintile 5 (Highest Returns) (5)
			Dependent Variable - *ActivistTarget*			
Engagement	+	-0.002	-0.005**	-0.006***	-0.008***	-0.010***
		(-0.46)	(-1.94)	(-2.59)	(-3.79)	(-4.10)
LnMVE	-	-0.016***	-0.014***	-0.010***	-0.010***	-0.007***
		(-9.27)	(-7.18)	(-5.61)	(-5.12)	(-3.59)
MB	-	-0.000	-0.000	-0.000	-0.000	-0.000
		(-1.11)	(-0.45)	(-0.21)	(-0.03)	(-0.41)
Prior12MonthReturn	+/-	0.000	0.002***	0.001***	0.000	0.002**
		(0.26)	(3.04)	(3.21)	(0.72)	(2.40)
ROA	-	-0.002***	-0.002***	-0.001***	-0.000	-0.001***
		(-3.50)	(-3.26)	(-3.02)	(-0.86)	(-2.47)
InstOwnership	+/-	0.015*	0.010*	-0.003	-0.005	-0.014**
		(1.74)	(1.77)	(-0.47)	(-0.98)	(-2.46)
NumPressReleases	+/-	0.001	0.001**	0.000	0.000	0.000
		(1.01)	(2.03)	(0.66)	(0.79)	(0.82)
Analysts	+/-	-0.007***	-0.004***	-0.002	-0.001	-0.004***
		(-3.76)	(-2.95)	(-1.25)	(-1.18)	(-2.83)
Forecasts	+/-	0.000	0.004	0.001	0.000	-0.001
		(0.01)	(1.53)	(0.52)	(0.19)	(-0.24)
Cash&Equiv	+/-	-0.029***	-0.010	-0.015	0.009	-0.007
		(-2.89)	(-0.96)	(-1.63)	(0.95)	(-0.81)
Liquidity	+/-	0.000**	-0.000	0.000	0.000***	0.000
		(2.21)	(-1.07)	(1.56)	(2.59)	(1.24)
Observations		63,014	65,097	65,024	65,207	64,322
R-squared		0.184	0.220	0.229	0.236	0.217

Standard errors clustered by firm; t-statistics in parentheses; firm and year fixed effects included in all regressions

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively. Where the sign of the coefficient is predicted, significance levels are one-tailed.

ActivistTarget is an indicator equal to 1 if an investor in the firm files a Form 13-D (indicating 5% ownership in the firm and an intent to influence management) during the quarter, and zero otherwise; *InvEngagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; *ROA* is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter; *Analysts* is the natural log of the number of analysts covering the firm; *Forecasts* is the number of earnings forecasts issued by the firm in the preceding quarter; *Cash&Equiv* is the amount of cash and equivalents scaled by total assets; *Liquidity* is the average bid-ask spread over the preceding quarter.

Panel B: Concentration and financial expertise of the investor base

Variable		Quintile 1 (Lowest Concentration) (1)	Quintile 2 (2)	Quintile 3 (3)	Quintile 4 (4)	Quintile 5 (Highest Concentration) (5)
		Dependent Variable - *ActivistTarget*				
Engagement	+	-0.004	-0.001	-0.009***	-0.010***	-0.007***
		(-0.70)	(-0.32)	(-3.04)	(-4.56)	(-3.18)
LnMVE	-	-0.013***	-0.017***	-0.014***	-0.009***	-0.011***
		(-6.15)	(-7.70)	(-6.10)	(-4.40)	(-5.67)
MB	-	-0.000	-0.000	-0.000	-0.000	-0.000
		(-0.24)	(-0.02)	(-0.48)	(-0.39)	(-0.81)
Prior12MonthReturn	-	0.001***	0.000	0.000	-0.000	-0.001***
		(2.85)	(0.57)	(0.77)	(-1.56)	(-4.58)
ROA	-	-0.001**	-0.001**	-0.001**	-0.002***	-0.001**
		(-1.84)	(-1.86)	(-2.01)	(-3.60)	(-2.14)
InstOwnership	+/-	0.027	0.012	0.028**	0.006	0.008
		(0.96)	(0.76)	(2.25)	(0.55)	(0.86)
NumPressReleases	+/-	-0.001	-0.000	0.001	0.001*	0.000
		(-1.09)	(-0.11)	(1.29)	(1.90)	(0.38)
Analysts	+/-	-0.003	-0.004**	-0.007***	-0.003**	-0.001
		(-1.29)	(-2.50)	(-4.42)	(-2.05)	(-0.45)
Forecasts	+/-	0.003	0.003	0.001	-0.001	0.001
		(0.45)	(0.85)	(0.49)	(-0.53)	(0.45)
Cash&Equiv	+/-	-0.012	-0.008	-0.008	-0.037***	-0.006
		(-1.16)	(-0.71)	(-0.73)	(-3.67)	(-0.73)
Liquidity	+/-	0.000***	0.000	0.000	0.000	0.000
		(3.08)	(1.49)	(0.14)	(1.18)	(1.37)
Observations		54,875	59,391	60,873	61,272	59,836
R-squared		0.154	0.168	0.175	0.167	0.135

Standard errors clustered by firm; t-statistics in parentheses; firm and year fixed effects included in all regressions

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively. Where the sign of the coefficient is predicted, significance levels are one-tailed.

ActivistTarget is an indicator equal to 1 if an investor in the firm files a Form 13-D (indicating 5% ownership in the firm and an intent to influence management) during the quarter, and zero otherwise; *InvEngagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; *ROA* is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter; *Analysts* is the natural log of the number of analysts covering the firm; *Forecasts* is the number of earnings forecasts issued by the firm in the preceding quarter; *Cash&Equiv* is the amount of cash and equivalents scaled by total assets; *Liquidity* is the average bid-ask spread over the preceding quarter.

Table 7 – Firm engagement and the escalation of activist campaigns

Panel A: Contentious escalation of activist campaign

Variable		Dependent Variable - *Contentious*
		(1)
Engagement	-	-0.043**
		(-1.68)
# of objectives	+/-	-0.003
		(-0.53)
LnMVE	+/-	-0.007
		(-0.87)
MB	+/-	-0.010***
		(-3.14)
Prior12MonthReturn	+/-	-0.003
		(-0.64)
ROA	+/-	0.002
		(0.39)
InstOwnership	+/-	-0.089*
		(-1.90)
NumPressReleases	+/-	-0.005
		(-0.96)
Analysts	+/-	-0.058***
		(-3.10)
Forecasts	+/-	-0.010
		(-0.32)
Cash&Equiv	+/-	0.049
		(0.62)
Liquidity	+/-	0.001**
		(2.13)
Industry Fixed Effects		Y
Entropy Balanced Control Group		Y
Observations		1,879
R-squared		0.139

Standard errors clustered by firm; t-statistics in parentheses; year fixed effects included in all regressions

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively. Where the sign of the coefficient is predicted, significance levels are one-tailed.

Contentious is an indicator equal to 1 if the campaign involves a proxy threat, proxy fight, lawsuit threat, legal action, or vote no campaign, and zero otherwise; *InvEngagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; *ROA* is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter; *Analysts* is the natural log of the number of analysts covering the firm; *Forecasts* is the number of earnings forecasts issued by the firm in the preceding quarter; *Cash&Equiv* is the amount of cash and equivalents scaled by total assets; *Liquidity* is the average bid-ask spread over the preceding quarter.

Panel B: CEO Turnover

Variable		Dependent Variable - *CEOTurnover*
		(1)
Engagement	-	-0.052**
		(-1.80)
# of objectives	+/-	-0.009
		(-1.15)
LnMVE	+/-	-0.032***
		(-3.11)
MB	+/-	-0.004
		(-1.07)
Prior12MonthReturn	+/-	-0.016***
		(-2.63)
ROA	+/-	-0.038***
		(-5.28)
InstOwnership	+/-	-0.029
		(-0.43)
NumPressReleases	+/-	-0.001
		(-0.14)
Analysts	+/-	-0.018
		(-0.84)
Forecasts	+/-	0.158***
		(5.11)
Cash&Equiv	+/-	-0.037
		(-0.36)
Liquidity	+/-	0.002***
		(3.77)
Industry Fixed Effects		Y
Entropy Balanced Control Group		Y
Observations		792
R-squared		0.38

Standard errors clustered by firm; t-statistics in parentheses; year fixed effects included in all regressions

***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively. Where the sign of the coefficient is predicted, significance levels are one-tailed.

CEOTurnover is an indicator equal to 1 if the CEO left the firm in the year after an activist campaign begins, and zero otherwise; *InvEngagement* is an indicator variable set equal to 1 for firm-years in which we observe an IR officer in place for at least one year, and zero otherwise; *LnMVE* is the natural log of the firm's market capitalization; *MB* is the firm's market value of equity scaled by the book value of equity; *Prior12MonthReturn* is a decile ranking of the firm's industry-adjusted stock return over the preceding year; *ROA* is a decile ranking of the firm's industry-adjusted ROA (net income divided by total assets) for the most recent quarter; *InstOwnership* is the percentage of the firm's shares held by institutional investors; *NumPressReleases* is the natural log of the number of 8-K's filed with the SEC over the preceding quarter; *Analysts* is the natural log of the number of analysts covering the firm; *Forecasts* is the number of earnings forecasts issued by the firm in the preceding quarter; *Cash&Equiv* is the amount of cash and equivalents scaled by total assets; *Liquidity* is the average bid-ask spread over the preceding quarter.