# Activists' CEOs [*]

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Abstract

Prior CEO turnover literature focuses on the decision to oust the incumbent CEO but provides limited insight into CEO recruiting. Using hand-collected data on CEO appointments during hedge fund activism campaigns, this study examines activist involvement in CEO selection. Activist involvement is more likely when there is more uncertainty about desirable CEO characteristics and when the board's ability to identify CEO candidates from its own network is limited. When activists influence CEO recruiting, directors' responsibilities in the search process are more clearly defined, more resources are committed to the search and the new CEO is more likely to be recruited from outside the firm. Consistent with activist influence on CEO recruiting being beneficial, it is associated with higher market reactions to CEO appointment announcements, higher future long-run stock returns, and profitability improvements.

JEL classification: G23; G34; J33

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*"For Some CEO Candidates the Interviewer Is Carl Icahn"*
Wall Street Journal article by David Benoit on November 13, 2014.

## 1. Introduction

A large body of research examines the board of director's decision to fire the incumbent CEO and shareholder influence on this decision.[1] However, there is scarce evidence on the CEO recruiting process and on shareholder influence on CEO recruiting decisions. In this study, I use hand-collected data on hedge fund activist involvement in CEO selection to examine whether such involvement affects characteristics and outcomes of the CEO recruiting process.

In theory, CEOs are optimally matched to firms in equilibrium when the labor market is competitive and free of frictions such as boards' uncertainty about what characteristics the CEO should have, entrenchment, and boards' unawareness of the full set of suitable CEO candidates (e.g., Gabaix and Landier 2008; Terviö 2008). However, these frictions seem important as directors rate their boards' effectiveness in evaluating and selecting CEOs lowest among the major tasks that boards perform (Cheng, Groysberg, Healy, and Vijayaraghavan 2017).

Well-connected, informed, and motivated shareholders such as hedge fund activists can reduce these frictions in several ways. First, if activists identify earlier than the board of directors that the incumbent CEO is not a good match for the firm, they can present boards with a detailed analysis of the CEO's decisions and of firm performance during the CEO's tenure. For example, in its campaign against metals engineering company Arconic Inc., activist fund Elliott Management provided evidence that the company lagged peer firms in operating efficiency and consistently generated returns on capital below its cost of capital during the incumbent CEO's tenure. Elliott also calculated that Arconic's CEO had the worst total shareholder return record of any active S&P

[1] See, Weisbach (1988), Karpoff, Malatesta, and Walkling (1996), Smith (1996), Denis, Denis, and Sarin (1997), Del Guercio Hawkins (1999), Huson, Parrino, and Starks (2001), Parrino, Sias, and Starks (2003), Becht, Franks, Mayer, and Rossi (2008), Del Guercio, Seery, and Woidtke (2008), Taylor (2010), Eisfeldt and Kuhnen (2013), Coles, Daniel, and Naveen (2014), Guay, Taylor, and Xiao (2015), Guo and Masulis (2015), Jenter and Kanaan (2015), Kempf, Manconi, and Spalt (2016), Dasgupta, Li, and Wang (2017), and Agrawal and Nasser (2019).

500 CEO. Privately or publicly sharing such benchmarking analyses with boards can arguably reduce board uncertainty about firm-CEO match quality.

The second friction that activists can alleviate is entrenchment, which occurs when replacing the incumbent CEO entails a personal utility cost to the board (Taylor 2010). In that case, activists can replace incumbent directors with fund employees or with other directors who are sympathetic to the activist's cause (see, Gow, Shin, and Srinivasan 2014; Bebchuk, Brav, Jiang, and Keusch 2019). For example, during its campaign against the auction house Sotheby's, Third Point Capital publicly criticized the board of directors for not holding the CEO accountable and demanded his immediate resignation. After the board rejected this demand, Third Point launched a proxy contest to gain board representation. Following the settlement of the proxy fight, Sotheby's appointed to its board three dissident director nominees, including Third Point founder Daniel Loeb, and the CEO announced his resignation soon thereafter.

During the search for a new CEO, frictions arise when the board is uncertain about the characteristics that the new CEO should have and when the board is unaware of all candidates in the labor market who have these desired characteristics. To alleviate these frictions, activists can use their analyses of firms' challenges and opportunities to determine desirable CEO characteristics and leverage their network to identify candidates with these characteristics. For example, during its campaign against Canadian Pacific Railway (CPR), Pershing Square Capital, the hedge fund lead by William Ackman, asserted that the company's major challenge was to significantly reduce its operating cost-to-revenue ratio. Ackman proposed to hire Hunter Harrison, the retired chief executive of Canadian National Railway (CNR) as the new CEO. Ackman praised Harrison for inventing "Precision Scheduled Railroading", an operational efficiency concept, which Harrison successfully implemented at CNR to achieve the best operating ratio among Class I North

American railroads. While CPR directors initially argued that Harrison was a poor match for the company, he was appointed CEO shortly after Ackman joined CPR's board.[2]

The above discussion implies that activist involvement in CEO recruiting starts with activists pressuring firms to fire incumbent CEOs before exerting influence on the selection of successors. Thus, I begin my analyses by showing that 41% of the 1,584 activism target firms in my sample experience CEO turnover within two years of campaign launch. This rate is abnormally high given an unconditional average annual CEO turnover probability between 10 and 15% observed in prior research (Kaplan and Minton 2012). Consistent with activists influencing CEO turnover decisions when information frictions are high, I find that the CEO turnover risk is higher if the board has had less time to evaluate CEO ability and if an impending change in corporate strategy increases board uncertainty about the skills and experiences that the CEO should have. I also find evidence consistent with activists mitigating frictions that arise because firing the CEO entails a personal utility cost to the board. Specifically, the CEO turnover probability is higher if the activist has a relatively greater bargaining power vis-à-vis the board, as reflected in the activist being able to credibility threaten the removal of incumbent directors in a proxy contest.

Turning to CEO recruiting, I find evidence of activist involvement in CEO search for 24% of the 700 CEO turnover events.[3] Activists influence CEO recruiting by gaining board representation, by proposing CEO candidates, or by negotiating the right to interview finalist candidates. Consistent with activists alleviating information frictions in CEO search, involvement in CEO hiring is more likely when there is more uncertainty about what characteristics the new CEO should have either because the firm is changing strategic direction or because independent directors are less informed about the company (see, Ravina and Sapienza 2009). Next to reducing uncertainty

[2] Appendix A describes ten instances of activist involvement in CEO recruiting, including the case of Paul Hilal, founder of Mantle Ridge Capital and former Pershing Square Capital employee, convincing Hunter Harrison to leave Canadian Pacific and to join CSX Corporation as CEO.

[3] This number is potentially a lower bound because many negotiations between activists and boards occur behind the scenes and are unobservable to the researcher (McCahery, Sautner, and Starks 2016).

about desirable CEO characteristics, activists also mitigate frictions related to finding CEO candidates with such characteristics. Specifically, activists influence CEO recruiting more frequently when board directors are less connected and therefore less likely to identify suitable candidates through their own networks. However, I find no evidence that boards' past succession planning efforts reduce the probability of activist involvement in CEO recruiting. Lastly, the probability of activist involvement increases in activist bargaining power, indicating that some boards are reluctant to involve activists in CEO search.

Prior research provides limited insights into the recruiting process and I next turn to examine whether observable characteristics of this process differ when activists are involved. First, I find that CEO recruiting is more likely to be delegated to a CEO Search Committee if an activist is involved. This is consistent with activists preferring the responsibility for a large part of the CEO recruiting process being concentrated in a small number of directors who each devote substantial time to this task.

The second recruiting process characteristic that I examine is the retention of executive search firms. These intermediaries greatly increase the resources available in the CEO recruiting process but are prevented from poaching talent from former clients due to "hands-off limitations" and usually do not present candidates who are short-listed at other clients. Consistent with activists and executive search consultants being complements rather than substitutes, activist involvement in CEO recruiting increases the probability that the board retains a search firm. Relying on search firms is more beneficial when the board wants to consider external CEO candidates. In line with activists preferring externally-recruited CEOs because they are better able to break with the departing CEO's strategy and style, the probability of recruiting new CEOs externally is 73% when activists influence the CEO hiring process, compared to 61% when activists are not involved (see, Huson, Malatesta, and Parrino 2004). Providing further evidence of a more thorough CEO search, I find that the recruiting process takes more time when activists are involved.

Continuing with CEOs' characteristics, I find that 53.9% of new CEOs who are recruited with the help of activists held a CEO position in the past, compared to 47.7% among new CEOs hired without activist assistance. These rates drop to 32.7% and 28.6% for new CEOs hired with and without activist involvement, respectively, when I only consider prior CEO positions at publicly listed companies. While these differences provide some evidence that activist involvement in CEO recruiting is associated with a higher likelihood of ex-CEOs being hired, they are not statistically significant at conventional levels.[4]

Next, I analyze associations between activist involvement in CEO recruiting and firm value, profitability, and policy changes. The average abnormal market reaction to the appointment announcements of CEOs who are hired with activist involvement is about 2.1%, increases to 3% when excluding interim CEOs, and is significantly higher than the market reaction to appointment announcements of target firm CEOs who are hired without activist involvement. Similarly, share price performance and profitability improvements following CEO appointment announcements are greater if the activist is involved in recruiting, which supports the claim that activists mitigate frictions in CEO search. Turning to policy changes, I find no evidence that activists use their influence on CEO selection to impose myopic policies on firms. Specifically, CEOs recruited with the help of activists do not increase corporate debt levels; if anything, leverage decreases following their appointment. Similarly, the likelihood that target firms are acquired following CEO turnover is lower if activists are involved in CEO search.

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[4] For other work on manager characteristics, see Malmendier and Tate (2005), Demerjian, Lev, Lewis, and McVay (2012), Kaplan, Klebanov, and Sorensen (2012), Mayew and Venkatchalam (2012), Jia, Lent, and Zeng (2014), Benmelech and Frydman (2015), Kaplan and Sorensen (2017), Sunder, Sunder, and Zhang (2017), Adams, Keloharju, and Knüpfer (2018), Davidson, Dey, and Smith (2018), Dikolli, Keusch, Mayew, and Steffen (2019), and Kramer (2019).

Since in most cases activist involvement in CEO recruiting occurs because activists gain board representation (93%), the final analysis examines whether it is activist board representation per se or activist influence on CEO recruiting that is associated with performance improvements. The results indicate that the effect of activist involvement in CEO hiring is distinct from the effect of activist board representation on other board decisions. Specifically, in the absence of CEO recruiting decisions, board representation is not associated with target firm share price performance in the five years following activism campaign launch. However, activists gaining board seats prior to CEO recruiting decisions is positively associated with target firm share price performance.

The standard identification challenge in this literature is the endogenous matching of activists to firms, which I mitigate to some extent by conducting all analyses within the sample of target firms. Another concern is that the increased CEO turnover rate following hedge fund activist investments is not due to activist pressure but rather due to these funds investing in struggling firms, which would have fired their CEOs even in the absence of the activist. Mitigating this concern, I find a higher CEO turnover risk among target firms that try to resist activist demands, which are the firms that would unlikely have fired the CEO in the absence of activist pressure.[5]

Regarding the endogenous nature of activist involvement in CEO hiring, I exploit the fact that in the vast majority of cases, such involvement results from activist employees joining target firm boards prior to CEO recruiting. Therefore, instead of comparing future firm outcomes between CEO appointments in which the activist was involved and all other CEO appointments, I restrict the no-involvement group to those campaigns during which the activist unsuccessfully demanded board representation prior to CEO appointment. While the activist's success in achieving board representation is endogenous, using this restricted no-involvement group as the benchmark allows

[5] Target firm resistance is reflected in the activism campaign leading to a proxy fight or the target firm engaging in hostile tactics such as activating a poison pill, suing the activist, or sending an aggressive letter to the activist. See Brav, Jiang, and Kim (2015), Aslan and Kumar (2016), and Brav, Jiang, Ma, and Tian (2018) for similar identification strategies. Boyson and Pichler (2018) provide a more general analysis of target firm resistance.

for holding constant the activist's desire to join the target firm board. I continue to find that market reactions, long-run share price performance and profitability improvements following CEO appointment announcements are higher if the activist influences CEO recruiting.

The first contribution of this study is to the CEO turnover literature, which has almost exclusively focused on the decision to fire the incumbent CEO and has paid little attention to the CEO hiring process.[6] While many studies in this literature have examined the effects of institutional ownership and shareholder activism on the CEO turnover probability, to the best of my knowledge, this study is the first to analyze shareholder influence on CEO recruiting. The results provide novel evidence that activist shareholder involvement alleviates frictions in the CEO hiring process and indicates the implications of such involvement for recruiting process characteristics and outcomes.

The second contribution relates to the growing hedge fund activism literature, which finds that campaign announcements lead to significant positive market reactions and are followed by profitability improvements, increased payout to shareholders, and a higher likelihood of target firms being acquired (e.g., Brav, Jiang, Partnoy, and Thomas 2008; Boyson, Gantchev, and Shivdasani 2017; Bebchuk et al. 2019).[7] What is less clear is through which channels activists bring about these changes. The findings in this study point to activist involvement in CEO recruiting as a potential channel through which activism campaigns facilitate performance improvements but not the leveraging up or sale of target firms.

## 2. Background and predictions

[6] Exceptions include Cvijanovic, Gantchev, and Hwang (2018) and Cheng, Groysberg, and Healy (2019), who provide evidence on succession planning. With respect to internal CEO recruiting, Blank, Hadley, Minnick, and Rivolta (2018) compare the grooming of an heir apparent with internal tournaments. For external CEO recruiting, Hayes and Schaefer (1999) and Fee and Hadlock (2003) examine the poaching of executives from other firms while Ertimur, Rawson, Rogers, and Zechman (2018) analyze the hiring of CEOs out of unemployment.

[7] See Denes, Karpoff, and McWilliams (2017) and Edmans and Holderness (2017) for excellent reviews of the shareholder activism literature.

An important stream of literature models the assignment of CEOs to firms, assuming frictionless hiring and firing CEOs (e.g., Gabaix and Landier 2008; Terviö 2008).[8] However, positive stock market reactions to CEO death announcements and the growing importance of intermediaries such as CEO search firms suggest that CEO labor market frictions are important (Johnson, Magee, Nagarajan, and Newman, 1985; Jenter, Matveyev, and Roth 2017; Khurana 2000). In this section, I develop predictions that are predicated on the idea that activists can mitigate frictions that arise in firm-CEO matching.

### 2.1. Determinants of CEO departure

Frictions in evaluating and firing incumbent CEOs can arise because boards are slow to update their beliefs about firm-CEO match quality or because CEOs are entrenched (Jenter et al. 2017). In theory, shareholders who are dissatisfied with the CEO should overcome these frictions by providing boards with a thorough analysis of corporate decisions and performance during the CEOs' tenure or by replacing directors who are beholden to the sitting CEO (see, e.g., Alchian and Demsetz 1972). Prior hedge fund activism literature indeed finds that the CEO turnover probability increases following hedge fund activism campaign launch (Brav et al. 2008; Becht, Franks, Mayer, and Rossi 2008; Bebchuk et al. 2019).[9] What is less understood is why some campaigns lead to CEO turnover while others do not. My analyses of CEO turnover risk during activism campaigns focus on this question.

The first prediction relies on the insight from Hermalin and Weisbach (1998) that the board learns about CEO ability over the course of its relation with the CEO, which implies that the board's

[8] For other work on firm-CEO assignment models, see Edmans, Gabaix, and Landier (2009); Baranchuk, MacDonald, and Yang (2011); Edmans and Gabaix (2011); Eisfeldt and Kuhnen (2013); Pan (2015). Cao and Wang (2013) apply search theory to the CEO labor market.

[9] For other work on hedge fund activism, see Klein and Zur (2009), Greenwood and Schor (2009), Klein and Zur (2011), Gantchev (2013), Sunder, Sunder, and Wongsunwai (2014), Bebchuk, Brav, and Jiang (2015), Boyson, Ma, and Mooradian (2016), Becht, Franks, Grant, and Wagner (2017), Appel, Gormley, and Keim (2018), Gantchev, Gredil, and Jotikasthira (2018), Corum and Levitt (2019), Gantchev, Sevilir, and Shivdasani (2019).

uncertainty about CEO ability is higher in the earlier years of the CEO's tenure. Since higher board uncertainty about CEO ability implies a higher chance that the incumbent CEO is not a good fit, I predict that the CEO turnover risk during activism campaigns decreases with CEO tenure.

Second, I predict that the risk of CEO turnover is greater when the activist seeks changes to corporate strategy.[10] Formulating corporate strategy is one of CEOs' most important tasks, implying that activist demands for strategic change signal dissatisfaction with the CEO. Even if the incumbent CEO is not to blame for failure of the current strategy, she might have been selected because her skills and experiences match that strategy. However, devising and executing a new strategy likely requires different skills and experiences, which makes retaining the incumbent CEO less attractive and increases board uncertainty about which characteristics the CEO should have (see, Eisfeldt and Kuhnen 2013; Dasgupta, Li, and Wang 2017).

The third prediction is also related to information frictions and is predicated on the assumption that the board's ability to assess firm-CEO match quality increases in the extent to which independent directors are informed about the firm. Since more informed boards make better CEO retention decisions, I predict that CEO turnover during activism campaigns is less likely when boards are better informed.

Finally, I predict that the CEO turnover probability is higher when the activist has more bargaining power vis-à-vis the board. In case directors disagree with the activist's demand to replace the incumbent CEO because they have a different assessment of firm-CEO match quality or because they are beholden to the CEO, activists can attempt to replace these directors with fund employees or with other directors who are sympathetic to the activist's cause (Gow, Shin, and Srinivasan 2014; Bebchuk et al. 2019). The probability that the activist can replace directors

[10] Strategy-related demands include issues such as lack of business focus, excess diversification, business restructuring including spinning off business segments, intention to block (or change the terms of) a pending M&A deal involving the company, or the firm's growth strategy.

depends on whether it has a credible threat to win a proxy fight. The greater this credibility, the higher the activist's bargaining power in negotiations with the board because proxy fights trigger severe reputation concerns for incumbent directors (Fos and Tsoutsoura 2014). I propose that activists who have run more proxy fights and more successful campaigns in the past enjoy a relatively higher bargaining power vis-à-vis the board, which in turn results in a higher CEO turnover risk. Similarly, campaigns that lead to activist board representation ex post signal strong activist bargaining power and I predict that CEO turnover is also higher during these campaigns. Conversely, if incumbent board directors are entrenched through a dual-class share structure, credibly threatening a proxy fight becomes more difficult for activist shareholders and therefore their bargaining power is weaker and I predict a lower CEO turnover risk in these campaigns (see, e.g., Gompers, Ishii, and Metrick 2009; Bebchuk et al. 2019).

### 2.2. Determinants of activist involvement in CEO recruiting

The CEO search process consists of several steps that could potentially benefit from activist involvement. These include writing a job description that reflects the boards' perception of the firm's challenges and opportunities, determining the skills, experiences, and characteristics that the new CEO should have, identifying and contacting candidates, conducting background and reference checks, creating extensive dossiers about candidates' past positions and experiences, reviewing the dossiers in a structured, unbiased manner, interviewing finalist candidates, and a final board vote (e.g., Khurana 2000; Hamori 2002).

Frictions in the recruiting of new CEOs include board directors' uncertainty about what characteristics the new CEO should have and unawareness of the full set of potentially suitable

CEO candidates (see, Jovanovic 1979; Diamond 1981; Mortensen, 1986).[11] Activists can reduce uncertainty about desirable CEO characteristics by providing an outside view on the challenges and opportunities that the firm is facing, which in turn determine the characteristics that the new CEO should have. A good fit between CEO skills and experiences and firm characteristics is particularly important when CEOs have to change strategy (Farrell and Whidbee 2003). However, a board's uncertainty about desirable CEO characteristics is likely also greatest when the firms' challenges require a change in strategy. Thus, I predict that activists are more likely to exert influence on CEO recruiting if their ultimate objective is strategic change.

Activist influence on CEO recruiting should also be more beneficial when directors are less informed about their company's business. In that case, the board is in a difficult position to identify the right skills and experiences that the new CEO should possess, and I predict that activist involvement in CEO recruiting is more likely in these situations.

After assisting boards with identifying desirable CEO characteristics, activists can increase board awareness of CEO candidates who have these characteristics by leveraging their research and network. Boards' ability to identify a large choice set of suitable CEO candidates is arguably greater if board directors are well-connected and if they have systematically discussed succession planning in the past (Khurana 2000; Cvijanovic, Gantchev, and Hwang 2018). Thus, I predict that activist involvement in CEO recruiting is more prominent among firms with less connected boards and among firms which do not have succession planning processes in place because raising awareness of potential CEO candidates is more beneficial in these firms.[12]

Finally, I expect that activists are more likely to influence CEO recruiting if they have a stronger bargaining position vis-à-vis the board. Presumably, directors are reluctant to cede decision rights

[11] Ertimur et al. (2018) examine CEO employment gaps as a potential result of frictions in the firm-CEO assignment process. Rajgopal, Taylor, and Venkatchalam (2012) study the influence of talent agents in overcoming frictions in CEO pay contracting. Frydman (2019) studies frictions related to firm-specific skills versus general managerial skills.

[12] For a large sample of CEO turnover events, Cvijanovic et al. (2018) find that succession planning takes place in only 12.4% of the cases.

to activists because doing so may trigger reputation concerns. However, activists can overcome this resistance if they have strong bargaining power, that is, if they can credibly threaten to remove incumbent directors (Bebchuk et al. 2019).

### 2.3. Activist involvement and the CEO search process

Before engaging in the CEO recruiting steps outlines above, directors must decide whether the entire board conducts each step of the process together or whether it delegates part of the process to a committee, such as the CEO Search Committee. This committee is typically created on an as-needed basis, has three to five members, and disbands once the CEO search is complete. While a potential disadvantage of such an approach might be that the expertise of directors who do not serve on this committee is neglected, all directors can typically suggest candidates and the final decision is made by the entire board. Advantages of creating a special committee for the sole purpose of CEO search include that it creates a sense of urgency and that responsibilities for CEO search activities are more clearly defined, leaving less room for free-riding compared to when all directors are involved. Given these advantages, I predict that activist involvement in CEO recruiting increases the odds that the firm uses a CEO search committee.

Another important decision at the start of the CEO recruiting process is whether to consider external CEO candidates. When activists publicly propose their own CEO candidates during activism campaigns, these candidates are typically outsiders, as illustrated by the above example of William Ackman's campaign against Canadian Pacific. I predict that activists prefer to consider external CEO candidates because doing so can significantly increase the pool of candidates and because outsiders are less invested in their predecessors' management styles and strategy and are therefore better able to make the strategic and operational changes that activists seek (Huson et al. 2004; Allgood and Farrell 2003; Farrell and Whidbee 2003).

An important development in CEO recruiting is companies' increasing reliance on executive search firms as an intermediary to overcome frictions in the CEO hiring process (Khurana 2000; AESC 2018).[13] Executive search firms can substantially increase the resources available for CEO recruiting and the pool of viable CEO candidates through their networks and research. However, search firms are frequently not allowed to poach talent from former clients due to "hands-off limitations" and usually do not present candidates who are already short-listed at other clients (Cepin 2012). Therefore, activist involvement in CEO recruiting can complement the work of executive search firms rather than being a substitute. Specifically, the activist can help selecting the search firm based on which companies it cannot poach from. In addition, the activist can monitor the menu of candidates that the search firm proposes by comparing it to the candidates (or to the companies that presumably employ promising candidates) that the activist identified through its own research and network. Another criticism of retaining executive search firms is that boards might use them merely to legitimize the promotion of an internal candidate that the board preferred all along. If the search firm realizes that the board has a strong preference for an internal candidate, it will only conduct a superficial external search (Khurana 2000). Therefore, activists can add value when a search firm is engaged by ensuring that the CEO search process is thorough rather than just window dressing. Given these complementarities and activists' focus on outside candidates, I predict that activist involvement in CEO recruiting is associated with a higher probability of engaging executive search firms.

The above discussion suggests that more diligent CEO search processes that consider a broader pool of candidates should require more resources and take more time to complete. If activist

[13] The Association of Executive Search and Leadership Consultants (AESC) estimates that global executive search revenues have increased from $3bn in 1989 to $14bn in 2017.

involvement increases the scope and the effort devoted to the CEO search process, I predict that activist involvement is associated with a longer duration of the CEO search process.

Related to the duration is the question whether target firms initially rely on interim CEOs to bridge the gap between incumbent CEO departure and new permanent CEO appointment. The use of an interim CEO appointment can reflect succession planning failure or the board's attempt to audition the person who is already expected to become permanent CEO (Cvijanovic et al. 2018; Schloetzer, Tonello, and Larkin 2018). In light of these conflicting predictions, I examine whether activist involvement affects reliance on interim CEOs and the likelihood that the interim CEO is finally promoted to the permanent CEO position.

### 2.4. Future performance and policies

The preceding discussion implies that activist involvement in CEO recruiting is beneficial to shareholders because it reduces frictions and thus results in the recruiting of CEOs who are a good fit for target firms. In that case, the stock market should react favorably to these CEOs' appointment announcements. In addition, these CEO appointments should be associated with better future share price performance and profitability than CEO appointments without activist involvement.[14] Conversely, some scholars argue that hedge fund activism is by and large value-destroying because activism campaigns destabilize target companies through increases in payout and leverage (see, Coffee and Palia 2016). If influence on CEO selection is one mechanism through which activists pursue such potentially myopic objectives, I expect negative stock market reactions, lower future performance, and increasing leverage following CEO appointment announcements.

[14] If activists achieve influence on CEO recruiting whenever such influence is beneficial, there should be no difference in stock market reactions and future performance between CEO appointments with and without activist involvement.

Critics of hedge fund activism invoke myopia also to explain the increased likelihood of target firms being acquired following activism campaign launch (see, Greenwood and Schor 2009; Boyson et al. 2017; Corum and Levit 2019). If activists get involved in CEO recruiting because they believe that the characteristics of the next CEO are important to sell the firm, the probability of target firms being acquired should be higher following CEO turnover if the activist influences CEO hiring. If, on the other hand, activists get involved in CEO recruiting when they believe that the firm should remain independent but requires new leadership, I should observe a lower acquisition likelihood following activist involvement in CEO recruiting.

### 2.5. Is activist involvement in CEO recruiting special?

Activist involvement in CEO recruiting typically takes place through activist board representation. Therefore, the predictions described so far are consistent with the claim that target firm boards *generally* make better decisions after activists join these boards and that there is nothing special about the CEO recruiting decision compared to other board decisions in which the activist gets involved. While activist directors likely get involved in other board decisions, CEO selection is arguably the most important and most difficult board responsibility, implying that activists can have greater impact on this particular decision (Hermalin 2005; Cheng et al., 2017). Therefore, I predict that activist involvement in CEO recruiting is special, meaning that it has a greater impact on future firm performance than activist board representation in the absence of CEO turnover.

## 3. Data and sample

The data set construction starts with a comprehensive sample of hedge fund activism campaigns launched between years 1994 and 2016.[15] The data is collected primarily from SEC Schedule 13(d),

[15] This data was generously shared by Alon Brav.

which shareholders must file within ten days after acquiring ownership of more than 5% of the voting shares of a publicly listed company with the intention of influencing operations or management. In addition, the data includes campaigns with less than 5% activist ownership, which are identified through news searches. The sample period ends in 2016 to allow for identifying CEO turnover within two years of campaign start

Using data on CEOs from ExecuComp and Equilar, I identify for 1,584 campaigns whether CEO turnover takes place within two years of activism campaign launch.[16] I find 700 CEO turnover events that take place in 655 activism campaigns. Some campaigns include two CEO turnover events, for example because the firm first names an interim CEO before appointing a permanent CEO. I keep both the interim CEO and the permanent CEO in the sample to be able to study the frequency of interim CEO appointment and the frequency of promoting interim CEOs to the permanent CEO position.

For each of the 1,584 campaigns, I hand-collect information on whether the activist demands board representation, gains board representation, and whether the target firm resists the activist demands, for example by activating a poison pill, by suing the activist, or by publishing a hostile letter to the activist. For each of the 700 CEO turnover events, I hand-collect information about whether the activist was involved in CEO hiring through board representation, by publicly recommending the CEO, or by gaining the right to interview CEO candidates. Appendix B lists hedge fund activists who were involved in CEO recruiting during at least two campaigns. Funds that are most frequently involved include Icahn Enterprises (11 campaigns), Starboard Value (10 campaigns), and ValueAct (7 campaigns).

[16] Standard and Poor's ExecuComp covers the S&P 500, S&P MidCap 400, and S&P SmallCap 600 starting in 1992 while Equilar covers the Russell 3000 starting in 1999.

I also hand-collect information about the CEO search process such as whether the firm discloses information about the board's succession planning efforts, whether the board formed a CEO Search Committee or retained an executive search firm, the date on which the new CEO appointment is announced and the date when the new CEO takes office, whether the new CEO is promoted internally or hired from outside the firm, whether the new CEO is an interim CEO and, if so, whether she is promoted to permanent CEO later. Finally, I collect information on new CEOs' career experience such as their last job title, whether they served as CEO of a company before, whether that company was publicly listed, and whether the CEO has a reputation for being a turnaround expert.

Finally, I add stock prices and accounting data from CRSP and Compustat, data on multiple share class firms from Equilar, ISS and MSCI GMI Ratings, board composition and network data from BoardEx, insider trading data from Thomson Reuters and information on M&A transactions from SDC Platinum. I provide all variable definitions in Appendix C.

## 4. Empirical analyses

### 4.1. Determinants of CEO departure

Similar to prior work, the risk of CEO turnover during this sample of hedge fund activism campaigns is exceptionally high (Brav et al. 2008; Bebchuk et al. 2019). In 655 out of the 1,584 campaigns in the sample, the incumbent CEO departs within two years of campaign launch (41%). What is unclear, however, is why some campaigns result in CEO turnover while others do not. Therefore, in Table 1, I examine heterogeneity in CEO turnover risk during activism campaigns. Panel A provides descriptives statistics on proxies for board uncertainty about firm-CEO match quality, activist bargaining power, and target firm performance prior to campaign launch. Panel A also tabulates two-sample t-tests of differences in these characteristics between campaigns that do and do not lead to CEO turnover. In Panel B, I examine the determinants of CEO turnover in Linear Probability Model regression analyses. Since the inferences from these two analyses are very similar, I discuss them together.

The results are generally consistent with a higher CEO turnover risk when boards are more uncertain about firm-CEO match quality and when activists have more bargaining power. Specifically, the CEO turnover likelihood in the first two years following activism campaign launch is significantly higher when CEO tenure is shorter, consistent with greater board uncertainty because boards have had less time to evaluate the CEO (Hermalin and Weisbach 1998). Panel A shows that on average CEOs who leave during activism campaigns have a one-year-shorter tenure than CEOs who stay. Second, I find that activist demand for strategic changes, which raises uncertainty about whether the CEO has the right characteristics to devise and implement the new strategy, is associated with an increased CEO turnover risk of about 8.6 percentage points. These results hold after controlling for firm size and performance, industry and year fixed effects and for whether the CEO has reached retirement age.[17] I find no evidence that independent directors' ability to predict the firms' future stock returns, which is a proxy for the extent to which directors are well-informed about the firm (Ravina and Sapienza 2009), is associated with CEO turnover. Nevertheless, these results provide some evidence of information frictions about firm-CEO match quality being associated with CEO turnover during activism campaigns.

I also find activist bargaining power vis-à-vis the board associated with CEO turnover risk. First, CEO turnover is more likely when activists have a track record of running aggressive campaigns. Specifically, a one standard deviation increase in the fraction of past campaigns that lead to a proxy fight is associated with a 3.9 percentage points increase in the CEO turnover rate.

[17] I do not test all independent variables of interest in the same regression because many of them represent the same underlying construct such as board uncertainty about firm-CEO match quality or activist bargaining power.

Second, the univariate results suggest that activists' past campaign success rates are also positively related to CEO turnover but this relation is statistically insignificant in the regression analysis. Third, when the activist places a fund employee on the board (an ex-post proxy for bargaining power), and therefore has formal influence on the decision to fire the CEO, the CEO turnover likelihood is 11.4 percentage points higher. Lastly, when the activist's bargaining power is weak because directors are protected by a multiple-class share structure, the CEO turnover risk decreases by 23.7 percentage points.

The last column of Panel B reveals a 14.9 percentage points increase in the CEO turnover rate when the target firm resists activist demands. This result mitigates concerns that the increased CEO turnover likelihood during activism campaigns is due to selection rather than treatment. Specifically, target firm resistance indicates that the target firm board would unlikely have fired the CEO in the absence of activist pressure. Resistance should not be related to CEO turnover risk if the target firm board would have fired the incumbent CEO even in the absence of activist pressure because, in that case, the activist and the board would have been in agreement and there would not have been resistance. Collectively, the findings on activist bargaining power and board resistance imply that when directors disagree with activists' demands to replace the incumbent CEO because they have a different assessment of firm-CEO match quality or because they are beholden to the CEO, stronger bargaining power allows activists to successfully agitate for CEO replacement.

### 4.2. Determinants of activist involvement in CEO recruiting

Hedge fund activists are involved in CEO recruiting in 165 out of the 700 CEO turnover events in my sample (24%) and in 154 of the 655 unique campaigns during which target firms experience CEO turnover (24%). In 154 of the 165 CEO recruiting events in which activists are involved their influence stems from board representation. In the remaining cases, activist influence is identified because the activist proposes the new CEO, the new CEO is an activist fund employee, or the activist has the right to interview final CEO candidates. In Table 2, I examine the determinants of activists gaining influence on CEO recruiting conditional on the target firm experiencing CEO turnover. Panel A presents descriptive statistics and two-sample t-tests and Panel B shows the results of Linear Probability Model regressions in which I control for firm performance, size, and industry and year effects.

As predicted, I find that activist involvement in CEO recruiting is more likely when board uncertainty about desirable CEO characteristics is greater. Specifically, activists are 7.8 percentage points more likely to influence CEO recruiting when they demand strategic changes, which is when a new CEO's skills and experiences need to be matched with the envisioned strategy. In addition, activist involvement is significantly more likely when the board is less informed about the firm, as measured by independent directors' trading profitability.

Once desirable CEO skills and experiences are determined, the board have to identify CEO candidates who have these characteristics and I next examine whether activists get involved when the board is less likely to identify a large pool of such candidates on its own. Specifically, I test the prediction that activist involvement in CEO recruiting is more valuable when target firm directors are less connected. I find that for each decile increase in board connectedness, the probability of activist influence decreases by 2.2 percentage points. This implies that one benefit from activist involvement is leveraging the activist's network to identify a larger set of CEO candidates.

Boards' ability to identify a large choice set of CEO candidates should be greater if boards have robust succession planning processes in place. Therefore, I test whether activist involvement is less likely if the firm performs succession planning consistently, that is, if it has disclosed information about succession planning in each of the three years prior to activism campaign launch. Panel A shows that 17% of target firms that experience CEO turnover consistently disclose information about succession planning in each of the three years before campaign start. While the two-samples t-test suggests that succession planning is positively associated with activist involvement, the regression results in column 6 of Table 2 Panel B show that there is no effect. One potential explanation is that many firms that conduct succession planning do not disclose any information about it because there is no requirement to do so (see, Cvijanovic et al 2019). Nevertheless, the findings provide some evidence that information frictions related to determining desirable CEO characteristics and identifying a choice set of candidates with these characteristics increase the odds of activist involvement in CEO recruiting.

As expected, relative bargaining power is also a significant predictor of activist involvement in CEO search. Specifically, a one standard deviation increase in the fraction of past campaigns that lead to a proxy fight is associated with a 6.2 percentage points increase in the probability of activists influencing CEO recruiting. Similarly, for each standard deviation increase in the fraction of past successful campaigns the likelihood of activist involvement increases by 7 percentage points. The coefficient on the proxy for multiple-class share structures suggests that activists are 9.4 percentage points less likely to participate in CEO selection in firms with multiple share class share classes. However, since only 5% of target firms in the CEO turnover sample have such structures, this association is not statistically significant. Similar to the CEO turnover analysis, I find that activist involvement in CEO search is more likely when target firms try to resist activist demands, indicating that at least some target firm boards do not include activists in the CEO search voluntarily, potentially because ceding influence to the activist is akin to directors admitting failure.

### 4.3. Activist involvement and the CEO search process

I now turn to examining which observable choices in the CEO search process are associated with activist participation in the search. Table 3 presents the results of this analysis. Panel A shows that 19% of target firms that experience CEO turnover during the activism campaign disclose the formation of a CEO Search Committee on the board of directors. Both the two-samples t-test and the Linear Probability Model analysis indicate that activists prefer responsibility for much of the search process being concentrated among a subset of directors. Specifically, the findings in Panel A (Panel B) suggest that formation of a CEO Search Committee is 10 percentage points (7.1 percentage points) more likely if the activist is involved in the CEO search process.[18]

Consistent with activists demanding that additional resources are devoted to the CEO hiring process, the use of an executive search firm is also significantly more pronounced when activists are involved in CEO recruiting. Panel A shows that on average 36% of firms in the sample rely on search firm services and this ratio increases to 45% if the activist is involved. Confirming the univariate results, Panel B reveals that the probability of using search firms is 12.6 percentage points higher when activists influence CEO recruiting compared to when they do not.

More diligent CEO search processes that consider a broader pool of candidates should take more time to complete.[19] Therefore, in columns 3 to 6 of Table 3, I examine whether activist involvement is associated with the duration of the CEO recruiting process. Measuring the time that the process takes is difficult because for most of the CEO replacement cases it is unclear when boards start the CEO search. I first show in Panel A that the time from activism campaign launch to the CEO appointment announcement (the date when the CEO takes office) is 325 (327) days on average. In Panel B I find that this time window is about 81 (84) days longer when the activist is involved. While in some cases activist discuss CEO replacement with board directors immediately following campaign launch, the time span between campaign start and the date of the CEO recruiting announcement or the date when the CEO takes office usually overstates the duration of

[18] I try to collect information on whether the activist serves on the CEO Search Committee but the full list of committee members is only rarely disclosed. In most cases either no membership information is available or only the chair of the committee is identified.
[19] Unfortunately, information on how many candidates firms consider at each stage of the CEO search process is not available from public sources.

the CEO search process. Therefore, I also measure CEO search process duration starting from the departure of the incumbent CEO. This proxy understates the duration of the CEO search process because CEO search frequently commences before the incumbent CEO departs. I find that the time from incumbent CEO departure to the CEO appointment announcement date (the date when the CEO takes office) is 45 (52) days on average and in Panel B I find that this time window is about 28 (29) days longer when the activist is involved. While both measures for campaign duration are imperfect, they collectively suggest that boards take more time to decide on a new CEO when activists are involved in the CEO search process.

Supporting the prediction that activists prefer outside CEO candidates because they can more easily break with their predecessors' strategies, Panel A shows that 71% of new target firm CEOs are hired externally if the activist is involved in recruiting compared to 57% when the activist is not involved. These ratios are extraordinarily high as Ertimur et al. (2018) find for a similar time period but broader cross-section of CEO appointments that about 40% of new CEOs are hired externally. The univariate result is supported by the regression analysis, which points to an even greater difference of 16.2 percentage points.

17% of the CEO appointments in my sample involve interim CEOs. Untabulated analyses show that about 63% of interim CEOs are not executives but independent directors of the firm. CEO search processes with activist involvement are 5.3 percentage points more likely to result in the appointment of an interim CEO and 6.5 percentage points more likely to convert interim CEOs to permanent CEOs. However, neither of these two estimates is statistically significant at conventional levels.[20] Taken together, the results in Table 3 indicate that activist influence on CEO

[20] One example of an activist promoting an interim CEO to permanent CEO is Gene Lee at Darden Restaurants who was President of the company until activist Starboard Value voted out the entire Darden Board and fired the CEO. First, Lee served as interim CEO for five months and was then promoted to permanent CEO.

recruiting is associated with a more diligent search process that is steered by a committee, involves specialized external advisors, considers outside candidates, and takes more time to complete.

In addition to examining whether the new CEO is hired from inside or outside the company and whether she is appointed on an interim or permanent basis, I also hand-collect and analyze other CEO characteristics. Panel A of Table 4 provides information on the most recent position of each of the 165 CEOs who are recruited with activist involvement. More than 36% of these new CEOs were most recently the CEO of another company. The next most prominent prior job titles are COO and business unit manager (13.3% each) and either Vice President (VP), Executive VP or Senior VP (10.9%). 7.3% of new CEOs previously served as President, 7.9% as CFO, and the remaining new CEOs held other officer positions (e.g., Chief Marketing Officer), served as consultants, or held miscellaneous other positions.[21]

Panel B compares the career experience of new CEOs who were hired with and without activist involvement. The probability that the new CEO held a CEO position at some point before being appointed CEO by the focal target firm is 6.2 percentage points higher when the activist is involved (53.9% vs 47.7%). Similarly, the probability that the new CEO was CEO of a listed company before is 4.1 percentage points higher when the activist is involved (32.7% vs 28.6%). However, these differences are not statistically significant. Even some internally promoted CEOs held CEO positions before joining the focal target firm. This can be the case for example if a CEO who retired after selling her firm works as a consultant or as a non-CEO executive at a larger company before being appointed CEO of a target firm. Panel B shows that 31.5% (30.6%) of new CEOs with prior CEO experience who were recruited with (without) activist involvement sold a firm as CEO.

[21] The internal promotion of Chief Operating Officers and Presidents to the CEO position could reflect "relay" successions of an "heir apparent" (Brickley, Coles, and Jarrell 1997; Naveen 2006).

I also collect information on whether new CEOs have a reputation for being turnaround experts because search consultants argue that such CEOs would be particularly beneficial to firms which are financially or organizationally unsound (Gerstein and Reisman 1983). Since target firms on average underperform their peers, they might indeed benefit from hiring turnaround experts. 20.4% of new target firm CEOs who were recruited without activist influence are characterized in bios, corporate websites, press releases or news articles as turnaround experts or restructuring experts. This rate increases to almost 25.6% when the activist is involved in CEO selection but the increase is not statistically significant. Finally, I find no evidence that new CEOs' connectedness is associated with activist influence (see, Engelberg, Gao, Parsons 2013). Taken together, the analyses in Panel B of Table 4 provide no evidence that CEOs recruited with activist involvement differ from other new target firm CEOs on simple observable characteristics.

### 4.4. Future performance and policies

#### 4.4.1. Stock market reaction to CEO appointments

The prediction that activist involvement in CEO recruiting benefits shareholders implies that the stock market should react favorably to the appointments of CEOs who were recruited with the help of hedge fund activists. Panel A of Table 5 shows that the average market-adjusted buy-and-hold stock return from the day prior to target firm CEO appointment announcements to five days afterwards is 1.06%.[22] When I restrict new target firm CEO appointments to those in which the activist was involved, the average market reaction increases to 2.09%, and when I restrict the sample further by excluding interim CEOs, the market reaction is 3%. Each of these estimates is statistically different from zero. In contrast, when the activist is not involved in CEO recruiting,

[22] I start the event window one day before the announcement to capture leakage and I include five post-event days to allow investors to evaluate firm-CEO match quality.

the average market reaction to CEO appointment announcement is only 0.73%, which is not statistically significant. While these univariate results provide a first indication that the market values activist involvement in CEO recruiting, I test this prediction more formally using regression analyses in Panel B. In columns 1 and 2, I find that the market reaction is 1.4 percentage points higher when the activist is involved, even after controlling for firm size and stock returns in the year leading up to the CEO turnover announcement. In columns 3 and 4, I exclude all CEOs who are designated "interim" at the appointment announcement because shareholders may find it difficult to assess whether interim CEOs will be promoted to the permanent position. The effect size increases to 2.1 percentage points.

In columns 5 and 6 of Panel B, I exploit the fact that in 93% of CEO appointments, activist influence stems from activists gaining board representation prior to CEO recruiting. Therefore, instead of comparing market reactions between CEO appointments in which the activist was involved and all CEO appointments in which the activist was not involved, I restrict the no-involvement group to those campaigns during which the activist unsuccessfully demanded board seats prior to the CEO appointment. Using this restricted no-involvement group as the benchmark allows me to hold constant the activist's desire to influence board decision making through board representation. I find that the difference in average market reactions between this control group and the involvement sample is 2.3 percentage points. Collectively, the findings in Table 5 indicate that the stock market values activist involvement in the CEO search process.

#### 4.4.2. Long run share price performance and profitability

The initial market reaction to CEO appointment announcements does not fully capture the value of CEOs to shareholders because learning about CEO ability or firm-CEO match quality happens gradually over time (Pan, Wang, and Weisbach 2015). Therefore, in Table 6 I examine whether stock return performance following CEO appointments is higher if activists were involved in the CEO recruiting process. In Panel A, the sample includes all CEO appointments and Panel B excludes CEO appointments that were not influenced by the activist and prior to which the activist did not demand board representation. Across both panels, the results show consistently that activist involvement in CEO hiring is associated with better future stock return performance when measured over two or three years following the CEO appointment announcement. For the first year following the appointment, I find significant associations only with the restricted control group in Panel B. By the third year following CEO appointment announcements, buy-and-hold market adjusted returns are about 15% higher in the full sample if the activist is involved in recruiting. The magnitude doubles in the restricted sample in Panel B.

To examine whether the stock price performance results are supported by operating performance improvements, I test for changes in profitability around CEO appointments in Table 7. Specifically, I estimate the change in industry-adjusted return on assets (ROA) from the year before to one, two, and three years following CEO appointment announcements. This design differences out time-invariant firm characteristics and industry-year effects. Across the same two samples as in the stock returns analysis (Table 6), I find that profitability increases more strongly by the second and third year following CEO appointments if activists are involved in CEO search. Depending on the sample and specification, the effect size ranges between 2.3 (3.5) and 4.9 (5.1) percentage points by the end of the second (third) year. Taken together, the findings in Tables 6 and 7 suggest that activist involvement in CEO appointment is associated with future performance improvements. Importantly, the analyses using the restricted control group indicate that the results are not driven by the underlying reasons for activists demanding board representation.

#### 4.4.3. Activist involvement and myopic management

In Table 8, I examine whether activist involvement in CEO recruiting is related to the criticism that hedge fund activism campaigns destabilize target companies through increases in payout and debt, which result in excessive leverage. Specifically, I estimate changes in debt-to-asset around CEO appointments. Inconsistent with activists selecting CEOs to impose myopic objectives on the firm, I find no evidence that leverage increases more strongly following CEO appointments if the activist is involved in CEO recruiting. To the contrary, in the full sample, I find activist involvement associated with a relative decrease in leverage ratios by the end of the first and second year following CEO appointment.

#### 4.4.4. Activist involvement and the likelihood of being acquired

In Table 9, I examine whether activists get involved in CEO recruiting because they believe that the characteristics of the next CEO are important to sell the firm. In that case, the probability of target firms being acquired should be higher following CEO turnover if the activist influences CEO hiring. I find no evidence in support of this claim. Rather, in six out of twelve specifications, I find that activist involvement is associated with a significantly lower acquisition probability. Specifically, the cumulative acquisition likelihood within three years of CEO appointment is between 6.3 and 7.7 percentage points lower if the activist participated in the CEO search. These findings suggest that activists get involved in CEO recruiting because they believe that the firm should remain independent but requires new leadership, for example to formulate and execute a new strategy.

### 4.5. Is activist involvement in CEO recruiting special?

Lastly, I examine whether activist involvement in CEO recruiting has implications for future target firm performance that are distinct from the effects of activist board representation more generally. I test this prediction in the full sample of activism campaigns, irrespective of whether they result in CEO turnover, but I exclude the eleven cases in which activists influence CEO recruiting without having board representation. For each campaign, I track target firm share price performance and profitability over up to five years following activism campaign launch. Using this sample, I test whether activist board representation is more strongly associated with performance if a new CEO is hired within two years of campaign launch, that is, if board representation results in activist involvement in CEO recruiting.

In Panel A of Table 10, the negative and significant coefficient on *CEO turnover* implies that CEO turnover without activist involvement in CEO hiring is associated with poorer share price performance following campaign launch, in line with CEO turnover more likely occurring among struggling target firms. More importantly, activist involvement in CEO recruiting is associated with better stock return performance, as documented by the positive and statistically significant coefficients on the *CEO turnover · Activist board representation* interaction. The insignificant coefficient on *Activist board representation* shows that in the absence of involvement in CEO recruiting, activists gaining board seats is not associated with share price performance. Lastly, the negative and significant coefficient on the *CEO turnover · Demand board representation* interaction suggests that performance is worse if activists demand board seats unsuccessfully prior to CEO recruiting and therefore fail to influence CEO selection.

In Panel B, I test the same prediction for changes in industry-adjusted ROA from the year before to five years after activism campaign launch. While the coefficients on *CEO turnover · Activist board representation* are all positive and range between 2.8 and 7 percentage points, they are not statistically significant, likely due to the significant reduction in sample size (t-statistics between 0.77 and 1.59). Collectively, the findings in Table 10 provide some evidence that activist involvement in CEO recruiting has performance implications that are distinct from those of activist involvement in other board decisions.

## 5. Conclusion

This study provides initial evidence of shareholder involvement in CEO recruiting and examines whether such involvement affects characteristics and outcomes of the CEO search process. Hedge fund activist influence on CEO hiring is more likely when boards' uncertainty about desirable CEO characteristics is more severe, when boards are less likely to identify suitable CEO candidates through their own networks, and when activists have greater bargaining power. Activist involvement is associated with a more resource-intensive and time-consuming CEO search process, with a higher propensity to hire CEOs externally, more favorable market reactions to CEO appointment announcements and greater share price performance and profitability improvements afterwards. These findings contribute to the CEO turnover literature, which has so far mainly focused on the decision to fire the incumbent CEO. The results also add to the hedge fund activism literature by showing that activist involvement in CEO recruiting may be one channel through which activism campaigns affect firm outcomes.

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## Appendix A

### Examples of activism campaigns with activist influence on CEO recruiting

Activist: Sherborne Investors | Target: Nautilus | New CEO: Edward Bramson | CEO Appointment: 3/26/2008

Synopsis: In December 2007, Sherborne Investors, which held an ownership stake of 25% in fitness equipment manufacturer Nautilus, won a proxy fight against the company, resulting in the appointment of four Sherborne director nominees to the Nautilus board. Two of the new directors were Sherborne affiliates, among them Sherborne founder Edward Bramson, and two new directors were independent of the fund. In March 2018, Nautilus announced that Bramson would replace Nautilus CEO Robert Falcone.

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Activist: Citadel Advisors | Target: E*Trade Financial | New CEO: Donald Layton | CEO Appointment: 3/2/2008

Synopsis: Donald Layton joined the E*Trade board as Chairman of the Board in November 2007 as part of an agreement between the company and Citadel. During the negotiation of the agreement, Layton had served as an advisor to the company's board. In addition to Layton's appointment as director and Chairman of the Board, the agreement stipulated Citadel's cash infusion into the company of $2.5 billion. In exchange for the cash, Citadel received the company's entire portfolio of asset-backed securities and ten-year bonds, paying 12.5% in annual interest. As part of the agreement, Citadel also became E*Trade's largest shareholder, with a 20% ownership stake. In addition, Citadel was granted the right to nominate one representative to the company's board of directors. Layton became E*Trade's CEO in March 2008. Citadel executed its right to appoint a director only in June 2009 when Citadel founder Kenneth Griffin joined E*Trade's board.

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Activist: Ramius | Target: SeaChange International | New CEO: Raghavendra Rau | CEO Appointment: 5/1/2012

Synopsis: In June 2010, Raghavendra Rau joined the SeaChange board, together with Edward Terino, as part of a settlement agreement between the company and Ramius. Neither Rau nor Terino were affiliated with the activist fund. In November 2011, Rau took the role of interim CEO and he was formally appointed permanent CEO in May 2012. Ramius worked together with Rau on other occasions when the fund successfully nominated him as a director to the boards of Microtune and Aviat Networks in May 2010 and September 2010, respectively.

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Activist: Pershing Square | Target: Canadian Pacific | New CEO: Hunter Harrison | CEO Appointment: 6/29/2012

Synopsis: Following the start of Pershing Square's campaign against Canadian Pacific Railway (CP), Pershing founder William Ackman publicly pressured CP's board to replace CEO Fred Green with Hunter Harrison. Ackman retained Harrison as a consultant on the campaign and both appeared together at investor conferences to present their case for leadership change at CP. Pershing Square won the ensuing proxy fight, CEO Green resigned, Ackman and other Pershing Square director nominees joined the board, and Harrison joined the company as CEO.

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Activist: Pershing Square | Target: Air Products & Chemicals | New CEO: Seifi Ghasemi | CEO Appointment: 7/1/2014

Synopsis: Following the campaign launch, Pershing Square Capital founder William Ackman privately suggested to the Air Products Board that it should replace CEO John McGlade. Pursuant to a settlement agreement, McGlade resigned and the company appointed three new directors to the issuer's board. Two of them, Matthew Paull and Seifi Ghasemi were proposed by Pershing Square with the former being a member of Pershing's advisory board. Both of these new directors would join a newly formed CEO Search Committee. The settlement also stipulated that "prior to the Search Committee recommending [a CEO] candidate to the Board of Directors, three Representatives of the Pershing Square Group, including William A. Ackman, will be permitted to, and may, meet with the candidate for the New CEO at a time and in a manner to be determined by the Search Committee". Seifi Ghasemi, the new director proposed by Pershing Square, became Air Products CEO in July 2014.

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Activist: Third Point Capital | Target: Sotheby's | New CEO: Tad Smith | CEO Appointment: 3/31/2015

Synopsis: After Third Point Capital disclosed a significant stake in the auction house, Third Point founder Daniel Loeb publicly called for the ouster of the company’s CEO William Ruprecht. Following the settlement of a bitter proxy fight, Sotheby’s agreed to appoint three Third Point director candidates, including Loeb. Following the settlement, Sotheby's CEO resigned and the board picked Tad Smith from Madison Square Garden as the successor.

**Appendix A (continued)**

| | | | |
|---|---|---|---|
| Activist: Starboard Value | Target: Darden Restaurants | New CEO: Eugene Lee Jr | CEO Appointment: 2/23/2015 |
| Synopsis: In September 2014, Starboard Value published a 294-page criticism of Darden Restaurant's business practices, board, and top management. A month later, Darden shareholders voted out the entire Darden board and replaced it with Starboard's director nominees, including Starboard founder Jeffrey Smith. The new board appointed then-COO Eugene Lee as interim CEO and started the CEO search process. In February 2015, Lee was named permanent CEO. | | | |
| Activist: Elliott Management | Target: Arconic | New CEO: Chip Blankenship | CEO Appointment: 1/15/2018 |
| Synopsis: During its campaign against Arconic, Elliott Management published a 26-page slide deck titled "New Leadership Is Needed at Arconic" in which the fund publicly demanded the ouster of CEO Klaus Kleinfeld and proposed Larry Lawson as a successor. Elliott had retained Lawson as a consultant on its Arconic campaign. Kleinfeld ultimately resigned and after Elliott portfolio manager Dave Miller joined the board in December 2017, the board selected Chip Blankenship as Kleinfeld's replacement in January 2018. Following Blankenship's appointment, Miller was cited saying "[a]fter meeting with Chip and putting extensive time and resources into understanding both his background and Arconic's current opportunities and challenges, we enthusiastically recommended his appointment". | | | |
| Activist: Icahn Partners | Target: Xerox | New CEO: John Visentin | CEO Appointment: 5/17/2018 |
| Synopsis: During his campaign against Xerox, Car Icahn hired John Visentin as a campaign consultant. In May 15, Icahn reached a settlement agreement with the company, which stipulated that Visentin would join Xerox as CEO and Vice Chairman of the Board. While the settlement also provided for Icahn-affiliated individuals to be appointed to the Xerox board, these board appointments happened concurrently with the Visentin CEO-appointment, meaning that Icahn effected the recruiting of his favorite CEO candidate without board representation. | | | |
| Activist: Mantle Ridge Capital | Target: CSX Corporation | New CEO: Hunter Harrison | CEO Appointment: 3/7/2017 |
| Synopsis: When Mantle Ridge founder Paul Hilal still worked for Bill Ackman's Pershing Square Capital in 2012, he was involved in recruiting Hunter Harrison to become the new CEO of Canadian Pacific Railway (CPR). In January 2017, Hilal paid Harrison $84 million to resign as CEO of CPR and to be available to take the CEO position at CSX Corporation. Subsequently, Hilal publicly demanded that CSX replace its incumbent CEO with Harrison. In March 2017, Hilal reached a settlement agreement with CSX, which stipulated that Hunter Harrison would become the new CSX CEO. While the settlement also provided for the appointment of Hilal to the CSX board, this board appointment happened concurrently with the CEO-appointment, meaning that Mantle Ridge effected the recruiting of the new CEO without board representation. In June 2017, CSX shareholders approved that the company would fully compensate Mantle Ridge for the $84 million payment it had made to Harrison to entice him to leave CPR. | | | |

This table presents 10 representative examples of activism campaigns during which principals or employees of the activist fund were directly involved in the selection of a new CEO. "Activist" is the name of the activist fund. "Target" is the name of the target company. "New CEO" is the name of the CEO who is hired during the activism campaign. "CEO Appointment" lists the date when the CEO appointment became effective, if this information was publicly available, or the date on which the appointment was publicly announced for the first time. The information in this Appendix is collected from activist disclosures, target disclosures, press releases, and news reports.

## Appendix B
## Activists with influence on CEO recruiting

| Activist | Total number of campaigns during sample period | Number of campaigns with CEO turnover | Number of campaigns with activist involvement in CEO recruiting |
|---|---|---|---|
| Icahn Enterprises | 40 | 27 | 11 |
| Starboard Value | 29 | 19 | 10 |
| ValueAct Capital | 43 | 19 | 7 |
| Ramius Capital Group | 22 | 15 | 6 |
| Relational Investors | 28 | 15 | 6 |
| Crescendo Advisors | 7 | 5 | 5 |
| Pershing Square Capital | 11 | 8 | 4 |
| Third Point Capital | 24 | 8 | 4 |
| Barington Capital | 17 | 5 | 3 |
| Becker Drapkin | 11 | 5 | 3 |
| Wynnefield Capital | 16 | 5 | 3 |
| Clinton Group | 20 | 11 | 3 |
| JANA Partners | 24 | 12 | 2 |
| Blum Capital | 20 | 9 | 2 |
| Jewelcor Management | 8 | 2 | 2 |
| Elliott Management | 17 | 8 | 2 |
| Maoz Everest Fund | 4 | 2 | 2 |
| Harbinger Capital Partners | 13 | 6 | 2 |
| Meson Capital | 2 | 2 | 2 |
| MMI Investors | 9 | 3 | 2 |
| Paulson & Co | 5 | 4 | 2 |
| Vintage Capital | 2 | 2 | 2 |

This table presents a list of activists who were involved in selecting CEOs in at least two activism campaigns. The sample includes 1,584 activism campaigns launched between 1994 and 2016 for which I can determine whether a new CEO is appointed within two years of campaign launch.

**Appendix C**
**Variable definitions in alphabetical order**

| | |
|---|---|
| % Non-executive directors | The fraction of a company's total number of board directors who are not executives of the firm. |
| % Past campaign successes | The fraction of an activist's past campaigns during which the activist achieved its campaign objectives. |
| % Past proxy fights | The fraction of an activist's past campaigns that lead to a proxy fight. |
| Δ Debt-to-assets $_{t-1,t+1}$; Δ Debt-to-assets $_{t-1,t+2}$; Δ Debt-to-assets $_{t-1,t+3}$ | The change in the debt-to-assets ratio measured from the last full fiscal year prior to CEO appointment announcements to the first (second, third) full fiscal year after the CEO appointment announcement year. |
| Δ Industry-adjusted ROA around campaign launch $_{t-1,t+5}$ | The change in industry-adjusted ROA measured from the last full fiscal year prior to activism campaign launch to the fifth full fiscal year after the campaign launch year. |
| Δ Industry-adjusted ROA $_{t-1,t+1}$; Δ Industry-adjusted ROA $_{t-1,t+2}$; Δ Industry-adjusted ROA $_{t-1,t+3}$ | The change in industry-adjusted ROA measured from the last full fiscal year prior to CEO appointment announcements to the first (second, third) full fiscal year after the CEO appointment announcement year. |
| Acquired $_{t+1}$; Acquired $_{t+1,t+2}$; Acquired $_{t+1,t+3}$ | The cumulative probability that a target firm is acquired within 365 (730, 1095) calendar days following CEO appointment announcements. |
| Activist board representation | Indicator variable equal to 1 if an activist fund employee joins the target company's board of directors during the activism campaign. |
| Activist involved in CEO hiring | Indicator variable equal to 1 if corporate websites, activists' websites, news stories, press releases, or other publicly available information indicate that the hedge fund activist was directly involved in the recruitment of a new CEO. |
| Assets | The firm's total assets measured either in the last full fiscal year prior to activism campaign launch or in the last full fiscal year prior to the CEO turnover date. |
| Board connectedness | Decile rank of the number of individuals who are connected to the target firm's board directors through directorships at other companies, executive positions at other companies, and nonprofit organizations. I assume that connections last for three years after they formally end, for example after two individuals no longer sit on the same board. I create deciles because the distribution of the raw number of connections is highly skewed to the right. |
| Board size | The number of directors sitting on the company's board. |
| Campaign start to new CEO announcement | The number of days between activism campaign launch and new CEO appointment announcement. |
| Campaign start to new CEO start | The number of days between activism campaign launch and the date on which the new CEO takes office. |
| CEO search committee | Indicator variable equal to 1 if the firm discloses information about a CEO Search Committee around the time of the new CEO's appointment. |
| CEO tenure | The tenure (in years) of the CEO who was in office in the prior year measured as of the end of the prior year. |
| CEO turnover | Indicator variable equal to 1 if a new CEO is appointed within 2 years of activism campaign launch. |
| Debt-to-assets pre CEO turnover | The sum of short- and long-term debt scaled by total assets. |
| Demand board representation | Indicator variable equal to 1 if the activist demands, but not necessarily gain, board representation. |
| Departing CEO age > 62 | Indicator variable equal to 1 if the departing CEO is 63 years of age or older. |
| Executive search firm | Indicator variable equal to 1 if the firm discloses information about engaging an executive search firm around the time of the new CEO's appointment. |
| Industry-adjusted ROA pre CEO turnover | The firm's EBITDA divided by lagged total assets adjusted for the average ROA in the firm's three-digit SIC industry measured in the last fiscal year prior to CEO appointment announcements. |
| Interim CEO | Indicator variable equal to 1 if the new CEO is identified in the CEO appointment announcement as interim CEO or acting CEO. |
| Interim CEO becomes permanent CEO | Indicator variable equal to 1 if a new CEO who is identified in the CEO appointment announcement as interim CEO or acting CEO subsequently becomes the permanent CEO of the company. |

**Appendix C (continued)**

| | |
|---|---|
| Interim CEO who is not converted | Indicator variable equal to 1 if a target firm names an interim CEO or acting CEO and subsequently replaces this person with a permanent CEO. |
| Market-adjusted return $_{s-1, s+5}$ | The market-adjusted buy-and-hold stock return measured from the day before to five trading days after CEO appointment announcement days. |
| Market-adjusted return post campaign launch $_{t+1,t+5}$ | The market-adjusted buy-and-hold stock return measured over up to five years following activism campaign launch. |
| Market-adjusted return pre campaign | The market-adjusted buy-and-hold stock return measured over the year leading up to activism campaign launch. |
| Market-adjusted return pre CEO turnover | The market-adjusted buy-and-hold stock return measured over the year leading up to CEO appointment announcements. |
| Market-adjusted return $_{t+1}$; Market-adjusted return $_{t+1,t+2}$; Market-adjusted return $_{t+1,t+3}$ | The market-adjusted buy-and-hold stock return measured over up to one (two, three) years following CEO appointment announcements. |
| Multiple share classes | Indicator variable equal to 1 if a firm has multiple share classes. |
| New CEO is turnaround expert | Indicator variable equal to 1 if a CEO has restructuring experience or turnaround experience based on her bio, corporate website, press releases, or news articles. |
| New CEO sold firm as CEO before | Indicator variable equal to 1 if a new CEO sold a firm as that firm's CEO. |
| New CEO was CEO before | Indicator variable equal to 1 if a new CEO ever was the CEO of another company before taking the current CEO position. |
| New CEO was listed firm CEO before | Indicator variable equal to 1 if a new CEO ever was the CEO of a listed company before taking the current CEO position. |
| New CEO's connections | The number of individuals who are connected to the CEO through directorships at other companies, executive positions at other companies, and nonprofit organizations. I assume that connections last for three years after they formally end, for example after the CEO and another individual no longer sit on the same board. |
| Non-executive director trading returns | The average trading performance of the insider transactions that non-executive directors execute during the last full calendar year prior to the activism campaign launch. Trading performance of each transaction is measured as the buy-and-hold stock return in the twelve months following the transaction. The buy-and-hold returns following insider sale transactions are multiplied by -1. |
| Outside CEO hire | Indicator variable equal to 1 if the new CEO is recruited from outside the firm. |
| Predecessor departure to new CEO announcement | The number of days between the date on which the predecessor CEO left office and the date on which the new CEO is announced. |
| Predecessor departure to new CEO start | The number of days between the date on which the predecessor CEO left office and the date on which the new CEO takes office. |
| ROA pre campaign | EBITDA divided by lagged total assets measured in the last fiscal year prior to activism campaign launch. |
| ROA pre CEO turnover | EBITDA divided by lagged total assets measured in the last fiscal year prior to CEO appointment announcements. |
| Stock return post campaign launch $_{t+1,t+5}$ | The buy-and-hold stock return measured over up to five years following activism campaign launch. |
| Stock return pre campaign | The buy-and-hold stock return measured over the year leading up to activism campaign launch. |
| Stock return pre CEO turnover | The buy-and-hold stock return measured over the year leading up to CEO appointment announcements. |
| Stock return $_{t+1}$; Stock return $_{t+1,t+2}$; Stock return $_{t+1,t+3}$ | The buy-and-hold stock return measured over up to one (two, three) years following CEO appointment announcements. |
| Strategy demand | Indicator variable equal to 1 if activist demands include issues such as lack of business focus, excess diversification, business restructuring including spinning off business segments, intention to block (or change the terms of) a pending M&A deal involving the company, or the firm's growth strategy. |
| Succession planning pre campaign | Indicator variable equal to 1 if the firm discloses information about succession planning in each of the three years prior to activism campaign launch. |
| Target firm resistance | Indicator variable equal to 1 if the campaign leads to a proxy fight and/or target firm tactics include activating a poison pill, suing the activist, or sending an aggressive letter to the activist. |

**Table 1**
**The determinants of CEO turnover during activism campaigns**

*Panel A: Univariate analysis*

| | All campaigns | | | | | Without CEO turnover | With CEO turnover | Difference in means | |
|---|---|---|---|---|---|---|---|---|---|
| | Mean | SD | 25 | Median | 75 | Mean | Mean | Δ | t-stat |
| CEO tenure | 6.69 | 7.45 | 1.00 | 4.00 | 9.00 | 7.21 | 6.02 | 1.19 | 3.12 |
| Strategy demand | 0.22 | 0.41 | 0.00 | 0.00 | 0.00 | 0.19 | 0.26 | -0.07 | -3.35 |
| Non-executive director trading returns | 0.08 | 0.57 | -0.08 | 0.00 | 0.19 | 0.08 | 0.07 | 0.01 | 0.19 |
| % Past proxy fights | 0.13 | 0.21 | 0.00 | 0.05 | 0.20 | 0.12 | 0.15 | -0.03 | -2.57 |
| % Past campaign successes | 0.36 | 0.31 | 0.08 | 0.33 | 0.53 | 0.35 | 0.38 | -0.04 | -2.31 |
| Activist board representation | 0.18 | 0.39 | 0.00 | 0.00 | 0.00 | 0.15 | 0.22 | -0.07 | -3.64 |
| Multiple share classes | 0.08 | 0.28 | 0.00 | 0.00 | 0.00 | 0.11 | 0.05 | 0.06 | 4.41 |
| Target firm resistance | 0.22 | 0.42 | 0.00 | 0.00 | 0.00 | 0.17 | 0.28 | -0.11 | -5.39 |
| ROA pre campaign | 0.08 | 0.17 | 0.03 | 0.09 | 0.16 | 0.09 | 0.07 | 0.01 | 1.64 |
| Stock return pre campaign | -0.03 | 0.56 | -0.33 | -0.09 | 0.15 | 0.01 | -0.08 | 0.09 | 3.32 |

**Table 1 (continued)**

*Panel B: Regression analysis*

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|---|---|---|---|---|---|---|---|---|
| | CEO turnover | | | | | | | |
| Ln (CEO tenure) | -0.032** | | | | | | | |
| | (-2.09) | | | | | | | |
| Strategy demand | | 0.086*** | | | | | | |
| | | (2.71) | | | | | | |
| Non-executive director trading returns | | | 0.049 | | | | | |
| | | | (1.46) | | | | | |
| % Past proxy fights | | | | 0.185** | | | | |
| | | | | (2.45) | | | | |
| % Past campaign successes | | | | | 0.061 | | | |
| | | | | | (1.20) | | | |
| Activist board representation | | | | | | 0.114*** | | |
| | | | | | | (3.19) | | |
| Multiple share classes | | | | | | | -0.237*** | |
| | | | | | | | (-4.41) | |
| Target firm resistance | | | | | | | | 0.149*** |
| | | | | | | | | (4.62) |
| Departing CEO age > 62 | 0.223*** | 0.193*** | 0.205*** | 0.232*** | 0.237*** | 0.205*** | 0.213*** | 0.192*** |
| | (4.91) | (4.23) | (4.28) | (4.69) | (4.78) | (4.30) | (4.39) | (4.21) |
| Ln (assets) pre campaign | 0.017* | 0.012 | 0.014 | 0.015 | 0.014 | 0.010 | 0.022** | 0.012 |
| | (1.81) | (1.25) | (1.41) | (1.48) | (1.43) | (0.98) | (2.31) | (1.35) |
| ROA pre campaign | -0.226** | -0.224** | -0.240** | -0.284** | -0.283** | -0.204* | -0.219** | -0.216** |
| | (-2.16) | (-2.14) | (-2.12) | (-2.46) | (-2.45) | (-1.89) | (-2.07) | (-2.04) |
| Stock return pre campaign | -0.093** | -0.097*** | -0.106*** | -0.081** | -0.078** | -0.083** | -0.072* | -0.091** |
| | (-2.48) | (-2.61) | (-3.32) | (-2.13) | (-2.10) | (-2.16) | (-1.83) | (-2.42) |
| Industry and Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1,419 | 1,434 | 1,264 | 1,219 | 1,219 | 1,342 | 1,386 | 1,434 |
| R-squared | 0.139 | 0.139 | 0.155 | 0.166 | 0.162 | 0.150 | 0.157 | 0.148 |
| Adjusted R-squared | 0.079 | 0.079 | 0.089 | 0.097 | 0.092 | 0.087 | 0.097 | 0.089 |

This table presents analyses of CEO turnover during activism campaigns. Panel A shows descriptive statistics for all activism campaigns in this sample and separately for campaigns with and without CEO turnover. Panel B presents the results for Linear Probability Model regression analyses examining the determinants of CEO turnover. The sample includes all activism campaigns between 1994 and 2016 for which I can determine whether a new CEO is appointed within two years of activism campaign start. Since two new CEOs can be appointed during the same campaign, the unit of analysis is not the campaign but the campaign-CEO combination. Therefore, and because a unique firm can be targeted several times during the sample period, standard errors are clustered by firm. T-statistics appear below the coefficients. *, **, *** indicate statistical significance at the 10, 5, 1% level, respectively (two-tailed). All variables are defined in Appendix C.

**Table 2**
**The determinants of activist involvement in CEO recruitment**

*Panel A: Univariate analysis*

| | All campaigns with CEO turnover within two years | | | | | Without activist involvement | With activist involvement | Difference in means | |
|---|---|---|---|---|---|---|---|---|---|
| | Mean | SD | 25 | Median | 75 | Mean | Mean | Δ | t-stat |
| Strategy demand | 0.26 | 0.44 | 0.00 | 0.00 | 1.00 | 0.24 | 0.33 | -0.10 | -2.52 |
| Non-executive director trading returns | 0.07 | 0.65 | -0.07 | 0.00 | 0.17 | 0.09 | 0.02 | 0.07 | 1.15 |
| Board connectedness | 5.34 | 2.92 | 3.00 | 5.00 | 8.00 | 5.27 | 5.58 | -0.31 | -1.15 |
| Succession planning pre campaign | 0.17 | 0.37 | 0.00 | 0.00 | 0.00 | 0.15 | 0.22 | -0.07 | -2.01 |
| % Past proxy fights | 0.15 | 0.23 | 0.00 | 0.05 | 0.23 | 0.13 | 0.21 | -0.08 | -3.57 |
| % Past campaign successes | 0.38 | 0.31 | 0.09 | 0.36 | 0.56 | 0.35 | 0.49 | -0.14 | -4.95 |
| Multiple share classes | 0.05 | 0.21 | 0.00 | 0.00 | 0.00 | 0.05 | 0.03 | 0.02 | 1.06 |
| Target firm resistance | 0.28 | 0.45 | 0.00 | 0.00 | 1.00 | 0.23 | 0.46 | -0.23 | -5.88 |
| ROA pre CEO turnover | 0.05 | 0.18 | 0.00 | 0.07 | 0.13 | 0.05 | 0.05 | 0.00 | -0.18 |
| Stock return pre CEO turnover | -0.09 | 0.50 | -0.41 | -0.11 | 0.12 | -0.08 | -0.10 | 0.01 | 0.23 |

**Table 2 (continued)**

*Panel B: Regression analysis*

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|---|---|---|---|---|---|---|---|---|
| | Activist involved in CEO hiring | | | | | | | |
| Strategy demand | 0.078* | | | | | | | |
| | (1.67) | | | | | | | |
| Non-executive director trading returns | | -0.042** | | | | | | |
| | | (-2.20) | | | | | | |
| Board connectedness | | | -0.022* | | | | | |
| | | | (-1.94) | | | | | |
| Board size | | | -0.000 | | | | | |
| | | | (-0.01) | | | | | |
| % Non-executive directors | | | 0.304 | | | | | |
| | | | (1.13) | | | | | |
| Succession planning pre campaign | | | | 0.031 | | | | |
| | | | | (0.50) | | | | |
| % Past proxy fights | | | | | 0.269*** | | | |
| | | | | | (2.76) | | | |
| % Past campaign successes | | | | | | 0.235*** | | |
| | | | | | | (3.17) | | |
| Multiple share classes | | | | | | | -0.094 | |
| | | | | | | | (-0.94) | |
| Target firm resistance | | | | | | | | 0.201*** |
| | | | | | | | | (4.31) |
| Ln (assets) pre CEO turnover | 0.017 | 0.018 | 0.048** | 0.019 | 0.035** | 0.031* | 0.019 | 0.013 |
| | (1.14) | (1.12) | (2.45) | (1.33) | (2.23) | (1.96) | (1.24) | (0.95) |
| ROA pre CEO turnover | -0.119 | -0.076 | -0.128 | -0.110 | -0.158 | -0.148 | -0.119 | -0.089 |
| | (-0.98) | (-0.57) | (-1.00) | (-0.91) | (-1.28) | (-1.20) | (-0.97) | (-0.76) |
| Stock return pre CEO turnover | 0.016 | -0.003 | 0.016 | 0.019 | 0.021 | 0.021 | 0.007 | 0.003 |
| | (0.41) | (-0.06) | (0.33) | (0.48) | (0.47) | (0.48) | (0.16) | (0.07) |
| Industry and Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 614 | 530 | 548 | 614 | 514 | 514 | 580 | 614 |
| Adjusted R-squared | -0.009 | -0.022 | -0.021 | -0.015 | 0.026 | 0.031 | -0.021 | 0.026 |

This table presents analyses of activist involvement in CEO recruitment. Panel A shows descriptive statistics for all campaigns with CEO turnover and for campaigns with and without activist involvement in CEO recruitment. Panel B presents results for Linear Probability Model regression analyses examining the determinants of activist involvement in CEO recruitment. The sample includes all activism campaigns between 1994 and 2016 that result in CEO turnover within two years of campaign start. Since two new CEOs can be appointed during the same campaign, the unit of analysis is not the campaign but the campaign-CEO combination. Therefore, and because a unique firm can be targeted several times during the sample period, standard errors are clustered by firm. T-statistics appear below the coefficients. *, **, *** indicate statistical significance at the 10, 5, 1% level, respectively (two-tailed). All variables are defined in Appendix C.

**Table 3**
**Analysis of the CEO recruiting process**

*Panel A: Univariate analysis*

| | All campaigns with CEO turnover within two years | | | | | Without activist involvement | With activist involvement | Difference in means | |
|---|---|---|---|---|---|---|---|---|---|
| | Mean | SD | 25 | Median | 75 | Mean | Mean | Δ | t-stat |
| CEO search committee | 0.19 | 0.39 | 0.00 | 0.00 | 0.00 | 0.17 | 0.27 | -0.10 | -2.82 |
| Executive search firm | 0.36 | 0.48 | 0.00 | 0.00 | 1.00 | 0.33 | 0.45 | -0.11 | -2.58 |
| Succession planning post | 0.31 | 0.46 | 0.00 | 0.00 | 1.00 | 0.30 | 0.33 | -0.03 | -0.75 |
| Campaign start to new CEO announcement | 324.51 | 209.94 | 150.00 | 302.50 | 484.00 | 311.14 | 364.29 | -53.15 | -2.78 |
| Campaign start to new CEO start | 326.96 | 206.11 | 153.00 | 312.00 | 490.00 | 314.16 | 368.46 | -54.30 | -2.97 |
| Predecessor departure to new CEO announcement | 44.76 | 126.75 | -4.00 | 2.00 | 66.00 | 37.97 | 64.77 | -26.80 | -2.18 |
| Predecessor departure to new CEO start | 52.26 | 114.97 | 0.00 | 1.00 | 77.00 | 45.75 | 73.68 | -27.94 | -2.46 |
| Outside CEO hire | 0.61 | 0.49 | 0.00 | 1.00 | 1.00 | 0.57 | 0.73 | -0.17 | -3.83 |
| Interim CEO | 0.17 | 0.38 | 0.00 | 0.00 | 0.00 | 0.16 | 0.21 | -0.05 | -1.41 |
| Interim CEO becomes permanent CEO | 0.40 | 0.49 | 0.00 | 0.00 | 1.00 | 0.41 | 0.38 | 0.03 | 0.29 |

**Table 3 (continued)**

*Panel B: Regression analysis*

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|---|---|---|---|---|---|---|---|---|---|
| | CEO search committee | Executive search firm | Campaign start to new CEO announcement | Campaign start to new CEO start | Predecessor departure to new CEO announcement | Predecessor departure to new CEO start | Outside CEO hire | Interim CEO | Interim CEO becomes permanent CEO |
| Activist involved in CEO hiring | 0.071* | 0.128** | 80.827*** | 84.143*** | 27.842* | 29.059* | 0.162*** | 0.053 | 0.065 |
| | (1.66) | (2.43) | (4.10) | (4.60) | (1.73) | (1.90) | (3.41) | (1.42) | (0.42) |
| Ln(assets) pre campaign | 0.022 | 0.042*** | -1.504 | 0.603 | 3.082 | 3.214 | -0.035** | -0.035*** | -0.008 |
| | (1.63) | (2.72) | (-0.24) | (0.10) | (0.99) | (1.05) | (-2.23) | (-2.99) | (-0.14) |
| ROA pre campaign | 0.041 | -0.072 | 48.828 | 76.878 | -37.089 | -19.502 | -0.273* | 0.011 | 0.766*** |
| | (0.28) | (-0.49) | (0.67) | (1.15) | (-1.22) | (-0.69) | (-1.94) | (0.09) | (3.29) |
| Stock return pre campaign | 0.029 | 0.062 | 40.844** | 34.183** | -10.661 | -15.865 | 0.048 | 0.026 | 0.011 |
| | (0.96) | (1.54) | (2.31) | (2.25) | (-1.23) | (-1.55) | (1.65) | (0.85) | (0.11) |
| Industry and Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 643 | 582 | 583 | 643 | 518 | 518 | 643 | 643 | 107 |
| R-squared | 0.164 | 0.250 | 0.192 | 0.189 | 0.13 | 0.119 | 0.179 | 0.16 | 0.605 |
| Adjusted R-squared | 0.034 | 0.120 | 0.052 | 0.062 | -0.0382 | -0.0563 | 0.050 | 0.0279 | 0.178 |

This table presents analyses of different CEO recruiting process characteristics. Panel A provides descriptive statistics on these characteristics for the sample of all campaigns that result in CEO turnover and for campaigns with and without activist involvement in CEO recruiting. Panel B presents results for OLS and Linear Probability Model regression analyses examining the relation between activist involvement in CEO recruiting and the different characteristics of the CEO recruiting process. The sample includes all activism campaigns between 1994 and 2016 that result in CEO turnover within two years of campaign start for which I find information on CEO recruiting process characteristics. Since two new CEOs can be appointed during the same campaign, the unit of analysis is not the campaign but the campaign-CEO combination. Therefore, and because a unique firm can be targeted several times during the sample period, standard errors are clustered by firm. T-statistics appear below the coefficients. *, **, *** indicate statistical significance at the 10, 5, 1% level, respectively (two-tailed). All variables are defined in Appendix C.

**Table 4**
**New target firm CEOs' characteristics**

*Panel A. Last position of new CEOs who were recruited with activist involvement*

| | # | % |
|---|---|---|
| CEO | 60 | 36.36 |
| President | 12 | 7.27 |
| CFO | 13 | 7.88 |
| COO | 22 | 13.33 |
| Other C-suite officer | 5 | 3.03 |
| BU manager | 22 | 13.33 |
| EVP/SVP/VP | 18 | 10.91 |
| Consultant | 5 | 3.03 |
| Other | 8 | 4.85 |

*Panel B. New target firm CEOs' career experiences*

| | Activist involvement in CEO hiring? | | t-statistic for difference |
|---|---|---|---|
| | No | Yes | |
| New CEO was CEO before | | | |
| % of all new CEOs | 47.7% | 53.9% | -1.41 |
| % of all new internally promoted CEOs | 26.4% | 15.9% | 1.48 |
| % of all new externally recruited CEOs | 63.8% | 67.8% | -0.77 |
| New CEO was listed firm CEO before | | | |
| % of all new CEOs | 28.6% | 32.7% | -1.02 |
| % of all new internally promoted CEOs | 13.4% | 2.3% | 2.12 |
| % of all new externally recruited CEOs | 40.1% | 43.8% | -0.69 |
| New CEO sold firm as CEO before | | | |
| % of all new CEOs who were CEO before | 30.6% | 31.5% | -0.15 |
| % of all new internally promoted CEOs who were CEO before | 24.6% | 57.1% | -1.84 |
| % of all new externally recruited CEOs who were CEO before | 32.5% | 29.3% | 0.52 |
| New CEO is turnaround expert | | | |
| % of all new CEOs | 20.4% | 25.6% | -1.22 |
| % of all new internally promoted CEOs | 13.8% | 16.1% | -0.33 |
| % of all new externally recruited CEOs | 25.1% | 28.7% | -0.66 |
| New CEO's connections | | | |
| Average across all new CEOs | 200.68 | 184.48 | 0.42 |
| Average across all new internally promoted CEOs | 229.01 | 92.19 | 1.42 |
| Average across all new externally recruited CEOs | 184.76 | 210.02 | -0.65 |

This table presents information on new CEOs' past positions, experience, and networks. In Panel A, I restrict the sample to new CEO appointments that occur within two years of activism campaign launch and in which the activist is involved. This panel displays information on the most recent positions of new CEOs who were recruited with activist influence. In Panel B, the sample includes all new CEOs who come into office within two years of campaign start. This panel provides summary statistics on new CEOs' careers up to the time of starting the CEO position at the target company. All variables are defined in Appendix C.

**Table 5**
**Market reaction to CEO appointment announcements**

*Panel A: Univariate analysis of market-adjusted returns around CEO appointment announcements (s-1, s+5)*

| | All target firm CEO appointments | CEO appointments with activist involvement | Permanent CEO appointments with activist involvement | CEO appointments without activist involvement |
|---|---|---|---|---|
| Mean | 1.06% | 2.09% | 3.00% | 0.73% |
| Observations | 639 | 157 | 127 | 482 |
| Standard error | 0.49% | 1.01% | 1.21% | 0.56% |
| T-statistic for mean = 0 | 2.16 | 2.06 | 2.47 | 1.299 |

*Panel B: Regression analysis*

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Full sample | | Permanent CEOs | | Activist demands board representation | |
| | Market-adjusted returns $_{s-1, s+5}$ | | Market-adjusted returns $_{s-1, s+5}$ | | Market-adjusted returns $_{s-1, s+5}$ | |
| Activist involved in CEO hiring | 0.014* | 0.014* | 0.021** | 0.021* | 0.023** | 0.023** |
| | (1.71) | (1.67) | (2.06) | (1.96) | (2.28) | (2.29) |
| Ln(assets) pre CEO turnover | 0.000 | 0.001 | 0.001 | 0.001 | 0.003 | 0.003 |
| | (0.13) | (0.22) | (0.24) | (0.39) | (0.69) | (0.70) |
| Stock return pre CEO turnover | | -0.008 | | -0.012 | | -0.009 |
| | | (-0.71) | | (-0.91) | | (-0.50) |
| Observations | 629 | 629 | 533 | 533 | 289 | 289 |
| R-squared | 0.003 | 0.003 | 0.005 | 0.007 | 0.014 | 0.015 |
| Adjusted R-squared | -0.001 | -0.002 | 0.002 | 0.002 | 0.007 | 0.004 |

This table presents results for analyses examining whether the stock market reacts favorably to CEO appointment announcements during activism campaigns. The sample includes new CEOs who are appointed into office within two years of activism campaign launch and for whom I can determine the initial CEO appointment announcement date. Panel A reports average abnormal (market-adjusted) stock returns in a seven-day window around target firm CEO appointment announcements. I distinguish between cases for which publicly available information do or do not indicate activist involvement in CEO recruiting. I also separate interim/acting CEOs firm CEOs who are appointed permanently. Panel B reports OLS regression analyses of the market-adjusted stock price reactions to CEO appointment announcements. In the first two columns in Panel B, the sample includes all activism campaigns with CEO appointment announcements. In columns 4 and 5, I exclude new CEOs who are designated "interim" or "acting" CEOs in their appointment announcements. Since in most cases activist influence on CEO recruiting stems from activists sitting on target firm boards, in columns 5 and 6, I restrict the sample to activism campaigns during which the activist demands (but does not necessarily achieve) board representation. Standard errors are clustered by firm and year because a unique firm can be targeted several times during the sample period and to account for cross-sectional correlation in stock returns. T-statistics appear below the coefficients. *, **, *** indicate statistical significance at the 10, 5, 1% level, respectively (two-tailed). All variables are defined in Appendix C.

**Table 6**
**Long-run stock return performance following CEO appointment announcements**

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Panel A: All new CEO appointments* | | | | | | | | | | | | |
| | Stock return $_{t+1}$ | | Market-adjusted return $_{t+1}$ | | Stock return $_{t+1,t+2}$ | | Market-adjusted return $_{t+1,t+2}$ | | Stock return $_{t+1,t+3}$ | | Market-adjusted return $_{t+1,t+3}$ | |
| Activist involved in CEO hiring | 0.126 | 0.120 | 0.114 | 0.112 | 0.184* | 0.174** | 0.165* | 0.162* | 0.184* | 0.181* | 0.153* | 0.156* |
| | (1.46) | (1.57) | (1.35) | (1.35) | (1.89) | (1.99) | (1.80) | (1.81) | (1.92) | (1.94) | (1.73) | (1.76) |
| Ln (assets) pre CEO turnover | -0.028 | -0.017 | -0.027 | -0.024 | -0.030 | -0.014 | -0.033 | -0.028 | -0.035 | -0.030 | -0.038 | -0.043 |
| | (-1.36) | (-1.03) | (-1.59) | (-1.51) | (-0.95) | (-0.49) | (-1.19) | (-1.04) | (-0.82) | (-0.73) | (-1.03) | (-1.12) |
| Stock return pre CEO turnover | | -0.243* | | | | -0.368** | | | | -0.112 | | |
| | | (-1.70) | | | | (-2.07) | | | | (-0.74) | | |
| Market-adjusted return pre CEO turnover | | | | -0.084 | | | | -0.118 | | | | 0.114 |
| | | | | (-1.11) | | | | (-1.24) | | | | (1.14) |
| Observations | 629 | 629 | 629 | 629 | 629 | 629 | 629 | 629 | 629 | 629 | 629 | 629 |
| R-squared | 0.008 | 0.029 | 0.008 | 0.010 | 0.006 | 0.030 | 0.007 | 0.009 | 0.007 | 0.009 | 0.007 | 0.009 |
| Adjusted R-squared | 0.005 | 0.024 | 0.005 | 0.006 | 0.003 | 0.025 | 0.004 | 0.004 | 0.003 | 0.004 | 0.004 | 0.004 |
| *Panel B: New CEO appointments and activist demanded board representation* | | | | | | | | | | | | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| | Stock returns $_{t+1}$ | | Market-adjusted returns $_{t+1}$ | | Stock returns $_{t+1,t+2}$ | | Market-adjusted return $_{t+1,t+2}$ | | Stock return $_{t+1,t+3}$ | | Market-adjusted return $_{t+1,t+3}$ | |
| Activist involved in CEO hiring | 0.219** | 0.210** | 0.196* | 0.195** | 0.399*** | 0.388*** | 0.344*** | 0.342*** | 0.383*** | 0.372*** | 0.311*** | 0.308*** |
| | (1.98) | (2.28) | (1.96) | (2.02) | (3.23) | (3.78) | (3.41) | (3.58) | (2.86) | (3.05) | (2.75) | (2.83) |
| Ln (assets) pre CEO turnover | -0.028 | -0.025 | -0.022 | -0.021 | -0.041 | -0.037 | -0.037 | -0.036 | -0.016 | -0.012 | -0.018 | -0.016 |
| | (-1.29) | (-1.19) | (-1.24) | (-1.20) | (-1.25) | (-1.19) | (-1.26) | (-1.22) | (-0.40) | (-0.30) | (-0.52) | (-0.45) |
| Stock return pre CEO turnover | | -0.160 | | | | -0.205 | | | | -0.196 | | |
| | | (-0.55) | | | | (-0.72) | | | | (-0.83) | | |
| Market-adjusted return pre CEO turnover | | | | -0.051 | | | | -0.094 | | | | -0.140 |
| | | | | (-0.33) | | | | (-0.55) | | | | (-0.77) |
| Observations | 289 | 289 | 289 | 289 | 289 | 289 | 289 | 289 | 289 | 289 | 289 | 289 |
| R-squared | 0.022 | 0.030 | 0.020 | 0.021 | 0.042 | 0.050 | 0.037 | 0.039 | 0.028 | 0.033 | 0.021 | 0.024 |
| Adjusted R-squared | 0.015 | 0.020 | 0.013 | 0.010 | 0.035 | 0.040 | 0.030 | 0.029 | 0.021 | 0.023 | 0.014 | 0.014 |

This table presents results for OLS regression analyses examining target firms' share price performance in the first three years following CEO appointment announcements. The sample in Panel A includes all activism campaigns with CEO appointment announcements within two years of activism campaign launch. In Panel B, I restrict the sample to activism campaigns during which the activist demands (but does not necessarily achieve) board representation. Standard errors are clustered by firm and year because a unique firm can be targeted several times during the sample period and to account for cross-sectional correlation in stock returns. T-statistics appear below the coefficients. *, **, *** indicate statistical significance at the 10, 5, 1% level, respectively (two-tailed). All variables are defined in Appendix C.

**Table 7**
**Profitability changes following new CEO appointments**

*Panel A: All new CEO appointments*

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Δ Industry-adjusted ROA $_{t-1,t+1}$ | | Δ Industry-adjusted ROA $_{t-1,t+2}$ | | Δ Industry-adjusted ROA $_{t-1,t+3}$ | |
| Activist involved in CEO hiring | 0.005 | 0.001 | 0.029* | 0.023 | 0.044** | 0.035* |
| | (0.33) | (0.07) | (1.68) | (1.41) | (2.14) | (1.90) |
| Ln (assets) pre CEO turnover | 0.003 | 0.008* | -0.007 | -0.000 | -0.003 | 0.003 |
| | (0.72) | (1.95) | (-1.16) | (-0.09) | (-0.52) | (0.55) |
| Industry-adjusted ROA pre CEO turnover | | -0.275*** | | -0.396*** | | -0.434*** |
| | | (-3.52) | | (-4.33) | | (-3.75) |
| Observations | 586 | 586 | 510 | 510 | 436 | 436 |
| R-squared | 0.001 | 0.087 | 0.009 | 0.157 | 0.009 | 0.157 |
| Adjusted R-squared | -0.002 | 0.082 | 0.006 | 0.152 | 0.005 | 0.151 |

*Panel B: New CEO appointments and activist demanded board representation*

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Δ Industry-adjusted ROA $_{t-1,t+1}$ | | Δ Industry-adjusted ROA $_{t-1,t+2}$ | | Δ Industry-adjusted ROA $_{t-1,t+3}$ | |
| Activist involved in CEO hiring | 0.010 | 0.005 | 0.049** | 0.041* | 0.051** | 0.040* |
| | (0.51) | (0.29) | (2.07) | (1.86) | (2.02) | (1.82) |
| Ln (assets) pre CEO turnover | 0.005 | 0.008 | -0.008 | -0.004 | -0.008 | -0.004 |
| | (0.90) | (1.52) | (-0.87) | (-0.46) | (-0.68) | (-0.31) |
| Industry-adjusted ROA pre CEO turnover | | -0.199** | | -0.324*** | | -0.410*** |
| | | (-2.28) | | (-2.75) | | (-3.14) |
| Observations | 270 | 270 | 230 | 230 | 188 | 188 |
| R-squared | 0.005 | 0.067 | 0.024 | 0.121 | 0.020 | 0.154 |
| Adjusted R-squared | -0.002 | 0.056 | 0.015 | 0.109 | 0.009 | 0.140 |

This table presents results for OLS regression analyses examining changes in target firm profitability around CEO appointment announcements. The sample in Panel A includes all activism campaigns with CEO appointment announcements within two years of activism campaign launch. In Panel B, I restrict the sample to activism campaigns during which the activist demands (but does not necessarily achieve) board representation. Standard errors are clustered by firm because a unique firm can be targeted several times during the sample period. T-statistics appear below the coefficients. *, **, *** indicate statistical significance at the 10, 5, 1% level, respectively (two-tailed). All variables are defined in Appendix C.

**Table 8**
**Changes in leverage following CEO appointment announcements**

*Panel A: All new CEO appointments*

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Δ Debt-to-assets $_{t-1,t+1}$ | | Δ Debt-to-assets $_{t-1,t+2}$ | | Δ Debt-to-assets $_{t-1,t+3}$ | |
| Activist involved in CEO hiring | -0.036** | -0.036** | -0.039* | -0.037* | -0.025 | -0.019 |
| | (-2.15) | (-2.23) | (-1.90) | (-1.90) | (-1.02) | (-0.83) |
| Ln (assets) pre CEO turnover | 0.001 | 0.009** | 0.006 | 0.016*** | 0.000 | 0.014** |
| | (0.27) | (2.50) | (1.20) | (2.86) | (0.00) | (2.11) |
| Debt-to-assets pre CEO turnover | | -0.183*** | | -0.239*** | | -0.352*** |
| | | (-3.94) | | (-3.62) | | (-4.49) |
| Observations | 600 | 600 | 523 | 523 | 450 | 450 |
| R-squared | 0.009 | 0.069 | 0.011 | 0.091 | 0.003 | 0.136 |
| Adjusted R-squared | 0.006 | 0.064 | 0.007 | 0.086 | -0.002 | 0.130 |

*Panel B: New CEO appointments and activist demanded board representation*

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Δ Debt-to-assets $_{t-1,t+1}$ | | Δ Debt-to-assets $_{t-1,t+2}$ | | Δ Debt-to-assets $_{t-1,t+3}$ | |
| Activist involved in CEO hiring | -0.028 | -0.022 | -0.023 | -0.017 | 0.000 | 0.013 |
| | (-1.15) | (-0.98) | (-0.88) | (-0.70) | (0.01) | (0.46) |
| Ln (assets) pre CEO turnover | 0.001 | 0.013** | 0.006 | 0.019** | 0.001 | 0.017 |
| | (0.25) | (2.42) | (0.73) | (2.10) | (0.13) | (1.60) |
| Debt-to-assets pre CEO turnover | | -0.280*** | | -0.348*** | | -0.469*** |
| | | (-3.83) | | (-3.23) | | (-3.65) |
| Observations | 276 | 276 | 234 | 234 | 194 | 194 |
| R-squared | 0.006 | 0.119 | 0.006 | 0.154 | 0.000 | 0.212 |
| Adjusted R-squared | -0.001 | 0.109 | -0.003 | 0.143 | -0.010 | 0.200 |

This table presents results for OLS regression analyses examining changes in leverage around CEO appointment announcements. The sample in Panel A includes all activism campaigns with CEO appointment announcements within two years of activism campaign launch. In Panel B, I restrict the sample to activism campaigns during which the activist demands (but does not necessarily achieve) board representation. Standard errors are clustered by firm because a unique firm can be targeted several times during the sample period. T-statistics appear below the coefficients. *, **, *** indicate statistical significance at the 10, 5, 1% level, respectively (two-tailed). All variables are defined in Appendix C.

**Table 9**
**The probability of target firms being acquired following CEO appointment announcements**

*Panel A: All new CEO appointments*

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Acquired $_{t+1}$ | | Acquired $_{t+1,t+2}$ | | Acquired $_{t+1,t+3}$ | |
| Activist involved in CEO hiring | -0.019* | -0.020* | -0.033 | -0.033 | -0.065** | -0.063** |
| | (-1.84) | (-1.90) | (-1.40) | (-1.37) | (-2.36) | (-2.28) |
| Ln (assets) pre CEO turnover | -0.000 | 0.002 | -0.010* | -0.008 | -0.016** | -0.016** |
| | (-0.02) | (0.40) | (-1.78) | (-1.36) | (-2.10) | (-2.01) |
| Industry-adjusted ROA pre CEO turnover | | -0.070 | | -0.109 | | -0.051 |
| | | (-0.81) | | (-1.16) | | (-0.49) |
| Observations | 681 | 662 | 681 | 662 | 681 | 662 |
| R-squared | 0.003 | 0.012 | 0.009 | 0.015 | 0.019 | 0.020 |
| Adjusted R-squared | 0.000 | 0.007 | 0.006 | 0.011 | 0.016 | 0.016 |

*Panel B: New CEO appointments and activist demanded board representation*

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Acquired $_{t+1}$ | | Acquired $_{t+1,t+2}$ | | Acquired $_{t+1,t+3}$ | |
| Activist involved in CEO hiring | -0.015 | -0.015 | -0.014 | -0.017 | -0.074* | -0.077* |
| | (-1.02) | (-1.03) | (-0.48) | (-0.57) | (-1.76) | (-1.78) |
| Ln (assets) pre CEO turnover | -0.001 | -0.001 | -0.016* | -0.015* | -0.012 | -0.013 |
| | (-0.11) | (-0.13) | (-1.89) | (-1.82) | (-1.02) | (-1.08) |
| Industry-adjusted ROA pre CEO turnover | | 0.010 | | -0.048 | | 0.064 |
| | | (0.50) | | (-1.06) | | (0.69) |
| Observations | 305 | 299 | 305 | 299 | 305 | 299 |
| R-squared | 0.004 | 0.005 | 0.020 | 0.022 | 0.024 | 0.028 |
| Adjusted R-squared | -0.002 | -0.005 | 0.014 | 0.012 | 0.018 | 0.018 |

This table presents results for Linear Probability Model regression analyses examining the cumulative probability of the target firm being acquired following CEO appointment announcements. The sample in Panel A includes all activism campaigns with CEO appointment announcements within two years of activism campaign launch. In Panel B, I restrict the sample to activism campaigns during which the activist demands (but does not necessarily achieve) board representation. Standard errors are clustered by firm because a unique firm can be targeted several times during the sample period. T-statistics appear below the coefficients. *, **, *** indicate statistical significance at the 10, 5, 1% level, respectively (two-tailed). All variables are defined in Appendix C.

**Table 10**
**Target firm performance following activism campaign launch**

*Panel A: Long-run stock return performance following activism campaign launch*

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|---|---|---|---|---|---|---|---|---|
| | Stock return post campaign launch $_{t+1,t+5}$ | | | | Market-adjusted return post campaign launch $_{t+1,t+5}$ | | | |
| CEO turnover | -0.482*** | -0.519*** | -0.465*** | -0.503*** | -0.412*** | -0.435*** | -0.405*** | -0.429*** |
| | (-3.43) | (-3.52) | (-3.23) | (-3.36) | (-3.11) | (-3.13) | (-3.06) | (-3.08) |
| Activist board representation | -0.172 | -0.187 | -0.172 | -0.187 | -0.200 | -0.209 | -0.200 | -0.209 |
| | (-0.67) | (-0.73) | (-0.67) | (-0.73) | (-0.84) | (-0.86) | (-0.84) | (-0.86) |
| CEO turnover · Activist board representation | 0.460* | 0.427* | 0.464* | 0.430* | 0.458* | 0.449* | 0.459* | 0.450* |
| | (1.71) | (1.69) | (1.72) | (1.70) | (1.96) | (1.96) | (1.95) | (1.96) |
| Demand board representation | -0.001 | -0.019 | -0.001 | -0.019 | 0.050 | 0.037 | 0.050 | 0.037 |
| | (-0.01) | (-0.13) | (-0.00) | (-0.13) | (0.37) | (0.28) | (0.37) | (0.28) |
| CEO turnover · Demand board representation | -0.340* | -0.306* | -0.332* | -0.299* | -0.355* | -0.343* | -0.352* | -0.340* |
| | (-1.77) | (-1.70) | (-1.75) | (-1.69) | (-1.85) | (-1.82) | (-1.85) | (-1.82) |
| Ln(assets) pre campaign | -0.030 | -0.025 | -0.031 | -0.026 | -0.041 | -0.040 | -0.041 | -0.040 |
| | (-0.88) | (-0.75) | (-0.93) | (-0.80) | (-1.42) | (-1.38) | (-1.46) | (-1.42) |
| Stock return pre campaign | | -0.392* | | -0.391* | | | | |
| | | (-1.84) | | (-1.84) | | | | |
| Market-adjusted return pre campaign | | | | | | -0.182 | | -0.181 |
| | | | | | | (-1.40) | | (-1.40) |
| Interim CEO who is not converted | | | -0.205 | -0.194 | | | -0.082 | -0.073 |
| | | | (-0.90) | (-0.87) | | | (-0.41) | (-0.37) |
| Observations | 1,436 | 1,436 | 1,436 | 1,436 | 1,436 | 1,436 | 1,436 | 1,436 |
| R-squared | 0.021 | 0.033 | 0.021 | 0.033 | 0.019 | 0.021 | 0.019 | 0.021 |
| Adjusted R-squared | 0.017 | 0.028 | 0.017 | 0.028 | 0.015 | 0.016 | 0.014 | 0.016 |

**Table 10 (continued)**

*Panel B: Profitability changes following activism campaign launch*

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| | Δ Industry-adjusted ROA around campaign launch $_{t-1,t+5}$ | | | |
| CEO turnover | 0.009 | 0.008 | 0.010 | 0.008 |
| | (0.48) | (0.53) | (0.53) | (0.51) |
| Activist board representation | -0.045 | -0.018 | -0.045 | -0.018 |
| | (-1.52) | (-0.84) | (-1.51) | (-0.84) |
| CEO turnover · Activist board representation | 0.070 | 0.028 | 0.070 | 0.028 |
| | (1.59) | (0.77) | (1.57) | (0.77) |
| Demand board representation | 0.044 | 0.009 | 0.044 | 0.009 |
| | (1.57) | (0.48) | (1.57) | (0.48) |
| CEO turnover · Demand board representation | -0.036 | -0.003 | -0.035 | -0.004 |
| | (-0.88) | (-0.10) | (-0.85) | (-0.11) |
| Ln(assets) pre campaign | -0.002 | 0.009*** | -0.002 | 0.009*** |
| | (-0.52) | (2.77) | (-0.53) | (2.76) |
| Industry-adjusted ROA pre campaign | | -0.695*** | | -0.695*** |
| | | (-10.22) | | (-10.21) |
| Interim CEO who is not converted | | | -0.020 | 0.003 |
| | | | (-0.72) | (0.13) |
| Observations | 813 | 813 | 813 | 813 |
| R-squared | 0.007 | 0.378 | 0.008 | 0.378 |
| Adjusted R-squared | 0.000 | 0.373 | -0.001 | 0.372 |

This table presents results for OLS regression analyses examining target firms' share price performance and profitability changes in the five years following activism campaign launch. In Panel A, the sample includes all activism campaigns for which I can determine whether CEO turnover takes place within two years of activism campaign launch. In Panel B, this sample is further restricted to those target firms that are still publicly listed five years following activism campaign launch. In Panel A, standard errors are clustered by firm and year because a unique firm can be targeted several times during the sample period and to account for cross-sectional correlation in stock returns. In Panel B, standard errors are clustered by firm. T-statistics appear below the coefficients. *, **, *** indicate statistical significance at the 10, 5, 1% level, respectively (two-tailed). All variables are defined in Appendix C.